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SG INTERESTS I, LTD

909 Fannin, Suite 2600

Houston, Texas 77010

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May 24, 2006

Mr. Ryan Taylor
USDA Forest Service
403 N. Rio Grande
Paonia CO 81428



Subject: Reclamation Performance Bond

Dear Ryan:

Attached is originally executed Bond RLB0009289 in the amount of \$56,142 covering four wells in the Gunnison National Forest.

As discussed on the telephone today, once I receive the revised Remarks language from you, I will instruct the Surety to amend the Bond to reflect the cancellation and address items we discussed.

I will be on vacation next week, but we should have the amended Bond to you the following week. In the mean time, please call me if you have questions.

Yours very truly,

Thomas R. Speck
Vice President, Gordy Oil Company
General Partner, SG Interests I, Ltd.

cc: R. Guinn

rtaylor052406

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U.S. DEPARTMENT OF AGRICULTURE
 Forest Service

BOND NO. RLB0009289

RECLAMATION PERFORMANCE BOND
 (Minerals Operating Plan and/or Exploration Permit, Including Geothermal)
 (Reference FSM 6506)

INSTRUCTIONS: (1) This form is authorized for use whenever a Performance Bond is required in connection with National Forest Reclamation Activity. (2) The full legal name and business address of the Principal shall be inserted in the space designated "Principal" on the face of this form. The bond shall be signed by an authorized person. Where such Person is signing in a representative capacity (e.g., an attorney-in-fact), but is not a member of the firm, partnership, or joint venture, or an officer of the corporation involved, evidence of his authority must be furnished. (3) Corporations executing the bond as sureties must be among those appearing on the Treasury Department's list of approved sureties and must be acting within the limitations set forth therein. (4) corporations executing the bond shall affix their corporate seals. Individuals shall execute the bond opposite the work "Seal," and, if executed in Maine or New Hampshire, shall also affix an adhesive seal. (5) The name of each person signing this bond should be typed in the space provided.



Principal (Legal name and business address) SG Interests I, Ltd. 909 Fannin, Suite 2600 Houston, TX 77010	Date Bond Executed May, 23, 2006		
	Type of Organization (X Appropriate Box) <input type="checkbox"/> Individual <input checked="" type="checkbox"/> Partnership <input type="checkbox"/> Joint Venture <input type="checkbox"/> Corporation		
Surety(ies) (Name(s) and business address(es)) RLI Insurance Company 8 Greenway Plaza, Suite 400 Houston, TX 77046	State of Incorporation Texas		
	PENAL SUM OF BOND		
	Million(s) \$	Thousand(s) \$	Hundred(s) \$
	56	142	

KNOW ALL MEN BY THESE PRESENTS, That we, the Principal and Surety(ies) hereto, are firmly bound to the United States of America (hereinafter called the Government) in the above penal sum for the payment of which we bind ourselves, and each of our heirs, executors, administrators, and successors, jointly and severally: Provided, That, where the Sureties are corporations acting as co-sureties, we, the Sureties, bind ourselves in such sum "jointly and severally" as well as "severally" only for the purpose of allowing a joint action or actions against any or all of us, and for all other purposes each Surety binds itself, jointly and severally with the Principal, for the payment of such sum only as is set forth opposite the name of such Surety, but if no limit of liability is indicated, the limit of liability shall be the full amount of the penal sum.

SCHEDULE OF OPERATING PLANS – REGION 2						
Name of National Forest	Operating Plan Number	Date	Amount Allocated to Operating Plan (\$)	Amount of Allocated Restored (\$)	Date Restored	Unallocated Balance (\$)
Gunnison	APD Federal 1-25-10-91R	04/28/2006	\$15,590			
Gunnison	APD Federal 1-26R	04/28/2006	\$22,313			
Gunnison	APD Federal 10-8-11-90-R	04/28/2006	\$10,027			
Gunnison	APD Henderson #1R	pending	\$8,212			

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THE CONDITION OF THIS OBLIGATION IS SUCH, That whereas the Principal has an interest in the Operating Plans Identified in Schedule of Operating Plans above; and WHEREAS, the Principal and Surety agree that, without notice of the surety, the coverage of this bond, in addition to the present operating plans of the Principal, shall extend to and include:

1. Any operating plan approved by the Forest Service and issued to the Principal in the Region or Forests named above, or later named in a rider, the coverage to become effective immediately upon approval by the Forest Service.
2. Any operating plan hereafter approved by the Forest Service in the Region or Forests named above, to become effective immediately upon approval by the Forest Service.
3. Any extension of the operating plan, such coverage to continue without interruption due to expiration of the operating plan.
4. Any modification of an operating plan, include obligations thereunder, whether made by agreement, suspension of operations, or otherwise; and

WHEREAS, the Principal and Surety hereby agree that notwithstanding the termination of any operating plan covered by this bond, the bond shall remain in full force and effect as to all remaining operating plans covered by this bond.

NOW, THEREFORE, If the Principal shall: Perform and fulfill all the reclamation provisions of all operating plans referred to in the Schedule of Operating Plans and shall also perform and fulfill all the reclamation provisions of any and all duly authorized modification of said operating plans that may hereafter be made, then the above obligations are to be void; otherwise to remain in full force and effect.

IN WITNESS WHEREOF, the Principal and Surety(ies) have executed this reclamation bond and have affixed their seals on the date set forth above.

PRINCIPAL

Signature(s)	1. <i>Thomas R. Specik</i> (Seal)	2. _____ (Seal)	Corporate Seal
Name(s) Titles (Typed)	1. THOMAS R. SPECIK VICE PRESIDENT, GARDY OIL COMPANY GENERAL MANAGER, SUBINTERESTS I, LTD.		

SURETY(IES)

Name and Address	RLI Insurance Company 8 Greenway Plaza, #400 Houston, TX 77046	State of Inc. IL	Liability Limit \$56,142	Corporate Seal
Signature(s)	1. <i>P. M. O'Sullivan</i>	2. _____		
Name(s) Titles (Typed)	1. Paul M. O'Sullivan, Attorney-in-Fact			

Bond Premium	Rate Per Thousand \$	Total \$
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Remarks
"Operating Plan" in this document refers to the approved "Surface Use Plan of Operations" of each individual Application for Permit to Drill. Each APD's allocated bond amount will be held until the individual well is plugged and reclaimed as indicated in the respective Surface Use Plan of Operations for each well.



RLI Insurance Company | 9025 North Lindbergh Dr.
Peoria, IL 61615-1499 | Ph. (309) 692-1000

RLB0009289

POWER OF ATTORNEY
RLI Insurance Company

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Know All Men by These Presents:

That the RLI INSURANCE COMPANY, a corporation organized and existing under the laws of the State of Illinois, and authorized and licensed to do business in all states and the District of Columbia does hereby make, constitute and appoint: PAUL M. O'SULLIVAN in the City of HOUSTON, State of TEXAS, as Attorney-in-Fact, with full power and authority hereby conferred upon him to sign, execute, acknowledge and deliver for and on its behalf as Surety and as its act and deed, all of the following classes of documents to-wit:

\$56,142.00

Indemnity, Surety and Undertakings that may be desired by contract, or may be given in any action or proceeding in any court of law or equity, policies indemnifying employers against loss or damage caused by the misconduct of their employees, official, bail and surety and fidelity bonds. Indemnity in all cases where indemnity may be lawfully given; and with full power and authority to execute consents and waivers to modify or change or extend any bond or document executed for this Company and to compromise and settle any and all claims or demands made or existing against said Company

The RLI INSURANCE COMPANY further certifies that the following is a true and exact copy of a Resolution adopted by the Board of Directors of RLI Insurance Company, and now in force to-wit:

All bonds, policies, undertakings, Powers of Attorney, or other obligations of the corporation shall be executed in the corporate name of the Company by the President, Secretary, any Assistant Secretary, Treasurer, or any Vice President, or by such other officers as the Board of Directors may authorize. The President, any Vice President, Secretary, any Assistant Secretary, or the Treasurer may appoint Attorneys-in-Fact or Agents who shall have authority to issue bonds, policies, or undertakings in the name of the Company. The corporate seal is not necessary for the validity of any bonds, policies, undertakings, Powers of Attorney, or other obligations of the corporation. The signature of any such officer and the corporate seal may be printed by facsimile.

(Blue shaded areas above indicate authenticity)

IN WITNESS WHEREOF, the RLI Insurance Company has caused these presents to be executed by its PRESIDENT, CEO with its corporate seal affixed this

ATTEST:

Camille J. Hensey
Corporate Secretary



By: Michael J. Stone
President, CEO

State of Illinois)
County of Peoria) SS

On this 23 day of May, 2006 before me, a Notary Public, personally appeared Michael J. Stone and Camille J. Hensey, who being by me duly sworn, acknowledged that they signed the above Power of Attorney as President, CEO and Corporate Secretary, respectively, of the said RLI INSURANCE COMPANY, and acknowledged said instrument to be the voluntary act and deed of said corporation.

Cherie L. Montgomery
Notary Public

