United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

P.O. Box 25165
Denver, Colorado 80225-0165

JAN 30 2012

Dear Payor:

The Office of Natural Resources Revenue (ONRR) and states and tribes with delegated and cooperative agreements conduct ongoing compliance activities, including compliance reviews, on royalties reported and paid on mineral production from Federal and Indian mineral leases. These compliance activities analyze the information reported to ONRR and the calculation of royalties owed on mineral production.

ONRR targeted information reported by your company and will conduct compliance reviews of that information. As necessary, ONRR, states, or tribes may contact your company with questions and requests to provide additional information about your reports and payments. ONRR will contact your company concerning any potential royalty underpayments or reporting problems.

ONRR is also specifically reviewing instances where companies are:

- Not using the index prices as published on the ONRR website for Indian leases within an index zone;
- Not providing requested documents (because we may refer any compliance review for audit, we may consider failure to provide documents a knowing or willful prevention of an audit);
- Repeating previously corrected errors; and
- Not using adjustment reason code 17 when paying additional royalties due as the result of an order or demand.

However, compliance reviews are not limited to these instances and may include any aspect of misreporting or payment. The review of your company's royalty and production reports and payments is an initial analysis and is not an audit. If ONRR, a state, or a tribe determines that an audit is necessary, your company will receive an engagement letter containing specific information about the audit.

The failure to make timely or proper payments of any monies due pursuant to lease terms and regulations will result in the collection of the full amount past due plus a late payment interest charge in accordance with 30 CFR 1218.54 (2011). We will assess late payment interest on any late payment or underpayment from the date that the payment was due until the date we receive the payment at ONRR.

We may refer issues of incorrect or late reports and failure to report to the Office of Enforcement for further action as authorized by 30 CFR 1241 (2011). In certain cases, ONRR is authorized to assess civil penalties of up to $5,000 per day for violations of the Federal Oil and Gas Royalty Management Act of 1982 or any related statute, regulation, rule, order, or permit. If ONRR considers the violation knowing or willful, the penalty is up to $25,000 per day for each violation.

ONRR looks forward to working with your company in our ongoing compliance activities and asks for your full cooperation in these matters.

Sincerely,

Theresa Walsh Bayani

Theresa Walsh Bayani
Program Director
Audit and Compliance Management