



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

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

FEB 10 2011

Dear Payor:

The Office of Natural Resources Revenue (ONRR) and states and tribes with cooperative and delegated 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 the ONRR and the calculation of royalties owed on mineral production.

The ONRR has targeted information your company reports and will be conducting compliance reviews. As necessary, ONRR, states, or tribes may contact your company with questions and requests to provide additional information about your reports and payments. Your company will be contacted about any potential royalty underpayments or reporting problems.

The ONRR is also specifically reviewing instances where companies are:

- Not using the index prices as published on the ONRR website for Indian gas leases within a 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 audit);
- Repeating previously corrected errors; and
- Not using adjustment reason code 17 when paying additional royalties due as the result of an order.

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.

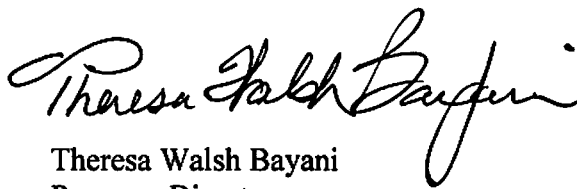
The failure to make timely or proper payments of any monies due pursuant to lease terms and regulations will result in the collection of the full amount past due plus a late payment interest charge calculated in accordance with 30 CFR part 1218 (2010). Late payment interest will be assessed and billed on any payment from the date that the payment was due until the date that the payment is received at ONRR.

The ONRR 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 1218.40 (2010). 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 the ONRR considers the violation knowing and willful, the penalty is up to \$25,000 per day for each violation. In addition, in certain circumstances, the ONRR will work with the Bureau of Land Management to issue a notice of noncompliance. This action may affect the lessee's ability to obtain future leases.

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

Sincerely,

A handwritten signature in black ink, reading "Theresa Walsh Bayani". The signature is written in a cursive style with a large, looping initial "T".

Theresa Walsh Bayani
Program Director
Audit and Compliance Management