

**STATE OF WYOMING – OFFICE OF STATE
LANDS & INVESTMENTS – MINERAL LEASING &
ROYALTY COMPLIANCE DIVISION – ROYALTY
COMPLIANCE SECTION – MINERAL ROYALTY
SYSTEM (M.R.S.) REPORTING & ACCOUNTING
REQUIREMENTS. Effective July 1, 2005**

As the State of Wyoming – Office of State Lands & Investment’s mineral royalty accounting reporting system has experienced major changes pursuant to offering a more interactive accounting interface with royalty payers, the following information is intended to augment currently published information on royalty reporting and payment, and answer those questions we have most frequently received over the past 18 months of operations. If you find your question is unanswered by the below provided explanations, please call us in Cheyenne at (307) 777-6643, or e-mail to hkemp@state.wy.us Thanking you in advance for your cooperation and commitment to these reporting requirements, we remain respectfully yours in providing the following:

Effective July 1, 2005, and changed by specific date identification noted thereafter within the currently effective document on the website;

● First and foremost in the new reporting schema, and, as of calendar month July, 2005, the State of Wyoming will not accept any ASCII, eRMA or “paper” filing of amended report lines for prior period royalty adjustments on/in any current month’s royalty report being filed. Any such reporting rendered in this manner will be returned as rejected, the submitting party immediately notified of rejection by e-mail and a \$100 per lease, per report penalty as allowed by W.S. 30-5-303, will be assessed against the filer with the caveat that a return filing, without the additional penalty lines and amount added, will result in further rejection and place the lease into cancellation proceedings status for improper filing and failure to report royalties correctly. The State cannot accommodate exceptions.

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

● All current month and amended reporting resulting in a payment obligation to the State, (check/EFT/ACH, etc.) no matter what filing method used, requires an identification of the ASCII file or eRMA envelope by name or number, respectively, on the remittance advice (check or other) such that there is no question as to the intent of the submitting party, for either document. As a matter of payer convenience, one check may be used to pay (account for) both a current month and an amended period so long as the above reporting protocol is followed. In this latter case, two separate envelope numbers or file names must be reflected on the check or other remittance advice corresponding to the filings. Finally, prior period adjustments for multiple periods can be reported in one ASCII or eRMA file, again honoring the requirements set out above herein. (We must have the envelope number from your eRMA submitted envelopes clearly visible in ink or type on the check memo line and/or the check “stub”, for each check submitted for an envelope and the dollar amount of the check must match that for payment due in the MR envelope and/or this information must be conveyed as “required receipt information” to the State banking facility receiving the wire or ACH payment. The State should receive a facsimile of your completed electronic transmittal sheet. Further, for ASCII filings, we will need to have the ASCII file name on the check, check apron, wire, ACH and the like, just as an envelope number. When our system batches and runs ASCII files at night, it will assign an envelope number unique to a single ASCII file, and we will then get a matching report which provides ASCII file name tied to the generated envelope, and thus be able to link the payments with the envelopes more expeditiously.)

● Our MR10 and MR 20 series reports are the required royalty accounting remittance forms for reporting oil and gas, with additional MR series reports required for operator reporting for hydrocarbons; and, also for our solid mineral lease reporting. These are the superseding document number designations for those royalty reports described in Chapter 18, Section 15. Royalty Reporting, of the Rules of the Board of Land Commissioners. Our accounting forms reporting requirements have been in place for many years, as has the trailing language of paragraphs (a) and (b) of that Section 15, regarding the supplying of support media, which requirement remains unchanged. In terms of a check having the detail described by W.S. 30-5-305 (b), receipt by us in the statutorily-prescribed manner is perfectly acceptable in addition to the MR’s, but the MR is our remittance accounting document, and must be filed as required. It should also be clear that the support media filing requirement regarding sales is not waived by submission of the remittance advices and reports above described, as it is not. W.S. 36-6-101(o) addresses the requirement for all documentation required of lessees pursuant to establishment of the veracity of State land production sales disposition. This type information is also cited in our oil and gas lease at Section 1, sub-sections (f), (g), and (i).

● Checks and royalty reports required monthly, which clearly do not match in terms of royalties due for the same production month, will be, and are considered as delinquent, and will be rejected, including amended reporting. Our eRMA envelope system has been

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

set on a pre-filing basis, such that it calculates a royalty due based on the submitting parties' volume and value data for the particular lease for the particular sales period ,i.e., accounts for royalty rate, tract allocations and the like, and that is the amount that should be reflected on the check as paid for the corresponding royalty due. This requirement is no different for ASCII filings as the royalty for the ASCII file, which the submitting party completes, is known, as should be the amount of the check sent related to cover such ASCII file and noted on the check/check apron. If your royalty calculation and check result in anything other than the described amount as calculated as noted above, then PLEASE CONTACT YOUR ACCOUNT REPRESENTATIVE prior to submitting your media. Otherwise, this will be dealt with as a delinquent report since the initial instructions on filing were not followed. If there is truly an error in our data, then it is intuitive that the party responsible for paying royalties would contact us if they did not have a match between the royalty due on the report and the royalty remitted via the check or remittance advice, such that the given incorrect information could be changed.

● Once your lease requires royalty reporting, then the required reports must be filed monthly until the lease is permanently abandoned, whether in any given month while on operational status, the lease actually produced or not.

● If there are multiple lease "operators" on an individual State lease, and one is not filing for the entire operated State property as a whole, then each are required to report via operator MR reports as applicable, on sales volumes which are attributable to that/those parties' accountable interests. If a single operator is reporting for the property in toto, then it is a matter of volume reported as paramount, not value, since most operators are not going to know more than their own values. Thus volume going R-I-K for a particular lessee, would not necessarily in itself, require multiple operator reports from that party as well as the property operator, if they are not operating "separately" and segregating production on the lease. The single operator report, if applicable in the case of volumes going R-I-K to certain of the working interest lessees, needs only to have the submitting operator's value, but must contain all volumes leaving the property for sales. The filing and information requirement is the same for unitized area, participating area and communitized area operations, as a "gross value" field exists on the MR 40, 41, 50 and 51; however, again, it is likely only to be of importance as it relates to the specific operator/reporter, and as a "general benchmark" as to what values are possible from a given property.

● The reporting attendant to State of Wyoming royalty submission is required pursuant to the terms of the State's oil and gas lease, Rules of the Board of Land Commissioners, Chapter 18, and Wyoming Statutes, Title 36, all requiring an accounting to the State for production sold from State lease interests. These reports present the minimal requirement related to capturing the data needed to assure our fiduciary accountability for the State's non-renewable assets; and, as such, also serve to protect our lessee's filing history. These reports cover operations related to oil and gas separately, as these are reported on separate (extended beyond lease term requirements) reporting date schedules. These

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

reports are beneficial in assuring volumetric veracity and will provide the benefit of a greater reporting base.

- When a report is received in which any line should be rejected, the report being submitted will be rejected in toto and, the Office will inform the report originator upon the date of rejection. Such notification will be by e-mail and/or telephone call to the appropriate party responsible for the document from the staff in the Agency making the rejection decision; and, will provide detail of the reason/problem.
- Industry reporters and payers will not be charged a penalty or interest in a situation where money is simply moved from one property reported through an amended filing, to another property previously reported in an original filing, as the result of a change in a unit participating area re-structuring or initiation of a communitization. No additional or special charges will be made for unit revision situations where the unit change is effectively accounted by no later than thirty (30) days after the date of change/revision approval. This could mean a unit revision would be effective retroactive back two years or a year, with the approval date being noticed a date two years after the effective date to which it was “retroactive”. As long as those revisions were reflected in reporting and attendant payment or credit request within thirty days of the approval, no penalties or interest would be due.
- When we notify a reporting entity that the reporting has been returned as rejected and subject to re-filing, we will give ten working days from the noticed date of rejection to return the corrected envelope/ASCII without penalty or interest.
- The agency is accepting of “non-submission” of supporting documentation as generally required, for amended report filings, excepting, on an “ad hoc”/ as specifically called for basis, for all amendments of less than \$500 per lease, per month, i.e. \$499 or a lesser amount related specifically to a single lease number (not envelope nor property identification number, per lease).
- Report supporting documentation not previously submitted, will not be required under the new system prior to the July, 2004, production/sales month. All prior period support must be submitted, along with “current detail” support for amending lines for any amendment expected to be processed for any period in which an amendment is sought. Any amendment report affecting data submitted for any period prior to July, 2003 should be provided to this office prior to submitting the amendment into the eRMA or ASCII filing process; and, no amendment prior to January, 2000 production month will be accepted into the MRS without special authorization from this office through audit or company request for extraordinary occurrences.
- Penalization for reporting non-compliance is set by Rule, and all penalties are per report/per month; not by line (it is by-lease report).

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

● The State's royalty accounting system will not, and was not designed from the outset, to accept negative numbers/negative royalties. When amendments are submitted, these must be in a replacement line format, i.e., the amending line must accomplish the amendment by completely extinguishing the prior and last line in the system for the particular amendment period and replacing same with a new line for the correct information in toto. Additionally, the system is not designed to account for/accept duplicate entry lines for the same lease or sub-lease, property I.D., product code and production month/year. The last line entry in such a reporting schema would be the only line used in this replacement system accounting application and as such, would lose the reporter's intent where same was to pay for separate working interest ownerships under the same lease or to pay for split connection gas price differentials, etc. The filing needs to account for the lease in toto, not split out, unless an additional property I.D. number is approved by this office to accommodate such situations when such handling is the only feasible choice option. Again, such amendments can be submitted for multiple periods in the same amending file; and, where royalty payment additions are due the State for the amended period, the check or remittance advice must contain the amending file envelope number or ASCII file name.

● Supporting documentation is a requirement of the terms of the State lease form, of the Rules of the Board of Land Commissioners, Chapter 18, Section 15 and of W.S. 36-6-101(o). It must be filed every month with every MR40, MR 41, MR 50 and MR 51 filed by the operators of units and CA's; and, if the lease is a non-unitized/non-pooled (CA) property, support media must be filed with your MR 10 and MR 20. Supporting documentation assists in our verifying the complete delivery and sales mix from a lease or unit or pool. It assists the operators and lessees in that since we have the information, it is much easier to timely find reporting and payment problems, and, these can be taken care of without audit. Additionally, the DOA is availed of this documentation such that they likely do not need the volume of information otherwise required upon that Agency's arrival for conduct of an audit.

● Supporting documentation is required for every report submitted from an operator of unitized/communitized lands containing State lease participation regarding said participation, as well as by operators of non-unitized/communitized State leases, and, since this documentation will generally be "hard-copy", we are allowing a maximum of ten (10) calendar days for receipt in our office, from the due date of the envelope/report to which it is matched and thirty (30) calendar days for support of amended reporting. Again, like the payment, the support media must have some designation thereupon or through a cover sheet/cross reference document, as to the particular envelope or ASCII file name it supports. This must be broken out by supported property as a header at each break in multiple lease/unit support documents. This is an allowance of ten calendar days, not working days, and includes Saturdays, Sundays and Holidays, wherein currently, these items have been required at the time of the report. If the State's lease is not embraced in a unit or CA, then the lease operator/lessee will be required to file the support documentation for the particular lease property.

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

● The Board of Land Commissioner's Rules at Chapter 18, Section 15, are explicit as to what is required of lessees and operators in terms of reporting, as is the lease form document at Section 1, (f), (g) and (i); such requirement being a "base document" requirement from which to work. We understand the externalities facing industry in terms of information gathering from de-centralized operations and marketing activities and source locations. However, we will not abandon our statutory charge to assure timely and accurate collection of all royalties (total consideration, regardless of time and place of receipt) and operating rentals due for the retention of lease rights. With the advent of FERC Order 636, issues have steadily plagued the royalty owner, including the State, in regard to segregated accountability among affiliated entities, in whatever legal status or structure that affiliation comes. And, we all know what has happened in the market place when it was allowed to operate basically without any meaningful guidelines in terms of value established in pooled or other transactions spun differently after, than before, under Order 636. We will work to accommodate industry as a whole, as much as is possible while still fulfilling our duty, in terms of valuation accountability referencing.

Where there are no first purchaser arms-length non-affiliated purchase statements supporting volume and value attributable to State's interest production sold at a point where no further consideration inures (i.e, no, reciprocity agreements between buyer and seller under buy-sells, volume exchanges, etc., affecting value), we will accept documents that trace the production from State leases to the sales point, be that a plant tailgate, market pipeline interconnect or other arrangement such as production marketing pools. We need to know the journey if we are going to be "charged" for any of that journey in the form of deductions, and then we need to know the sales value. Sales statements for the month for the entire pooled sales at each such transaction location must be provided, or internally generated like reports from computer screen dumps, etc. (we can examine and respond to you on the adequacy of such documentation). This information must reflect the entire sales pool value identified as to purchaser base such that a weighted average sales price, in final non-affiliated arms-length status, is available as shown, pursuant to calculation of the price reported for royalty purposes. Again, sales to affiliates, most certainly means any party with which the seller has any vested interest, no matter the legal form of business, in the transfer or sale of the production in the pool.

● An "internal document" replacing an arms-length first purchase statement is allowed where no other first purchaser documentation exists; however, not until the reporter provides this office with a notarized statement of such fact; and, said replacement document must reflect the third party sales location, where sales are out of affiliate and pool sales transactions. The sale to an affiliate should reflect the affiliate's name and price received in an arms-length, non-reciprocal sale to a bonafied third party purchaser. Volume and value sold, should also be shown for all similar sales in the same month to all purchasers of volumes attributable to that affiliate's sales portfolio. This would be the same for pooled sales, the need being to assure that the volume sold and values used for

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

said volumes are reflective of market value and that sales are apportioned such that a weighted average is always the true weighted average for all sales from the affiliate or pool. Documents supporting the above can be in any form as long as it is accepted knowledge that a determination that there is insufficient data will bring additional industry effort to bear to cover the State's need or question.

- If you are providing pipeline run statements or gas plant settlement statements, the Lease numbers can be written in on the face of the documents by the aforementioned meter and/or well numbers. Since they are your documentation as lessee, we must presume you either receive and retain these statements in electronic or hard-copy format. These statements are a part of the basic requirements of our oil and gas lease. The volumes have meaning to our system and are thus integral to our verification processes.
- If the State lease goes directly into a company operated system/pipeline for which there are no third party pipeline statements, the volume statements provided can be the affiliate or "company" statement, value may be present on this document or provided elsewhere, the volumetric data being the important number when sales are attributable to several parties under the run.
- When the supporting documentation provided represents the total well production or volumes sold and the state's volume is only a piece, the operator's report should reflect the full product volume(s) leaving the lease or unit or pooled area boundary. Where the operator does not, and likely will not, without "Favored Nation" clauses, have any real basis for knowing any other sharing working interests' sales prices, unless selling for that working interest, then the operator provides its pricing/valuation information and information related to the deductions taken. The royalty reports will then be compared to this information such that we assure ourselves that we have accounted for all volumes and pricing and deductions for the entire package. Any cross-referencing on the documentation provided will likely be helpful, if answers to potential questions are not intuitively apparent.
- Third party support media should be provided if it exists; however, if all transactions are represented in an electronic format from your purchasers and marketers, then internal documents generated as a result of the aforementioned electronic base, may be used as long as there is some notation thereon of what is being reported in terms of units or lease volumes and deductions and resultant values.
- Support is required for the monthly (current month) reporting routine and for all prior period adjustments of \$500.00 or greater per lease. Once you are outside the period for which we require records kept, as a concession to industry, no external prior period adjustments will be accepted into the system, nor will we honor any alleged credit or

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

refund related to out of rule period record keeping. If an audit initiated by the State reflects amounts due the State or the lessee, then documentation had to have existed to make this discovery finding and we will honor such findings whichever way they cut.

● Acceptable support of transportation and/or processing deductions can be copies of gas plant or pipeline transportation statements or invoices related thereto, showing the volumes of gas processed and sold as products and/or gas moved, the deduction amount(s) therefor, and the value due the service provider, in terms of what the lessee may be allowed to “take” as a deduction . These documents must reflect the State lease numbers involved and this information can be as presented by the specific service provider, or as noted on the face of the forms sent in support of the gas processing or gas movement. If the facility for which specific deductions are being taken is owned by the producer or a producer affiliate, internal documents reflecting the reasonable actual costs of processing and/or transportation, including tariff verification and any rebates or reimbursements related to the initial charges, should be provided.

● As long as the remitter is providing the backup information to establish the weighted average cost, i.e., a schedule that can be audited on demand, for the same gas on which a weighted average price is acceptable, reflecting movement of only those volumes in the pool weighted average price, cases of multiple connection deliveries can be accommodated. For example, your internally generated document could reflect the sales point and volume/value for each sale from the pool where State gas can physically be sold, by purchasers with transportation costs related to this pool reflected in the same manner for the same volumes sold.

● If services are being charged you reflecting “bundled fee” services which may contain elements that are deductible for royalty purposes as well as those that are not, it will be incumbent on the reporter to have the service provider parse out the charges on a unit of charge basis, and then the reporter can provide this information as a one time number (until same is changed for whatever reason),to us. The allowed deduction amount will be confirmed with the party wishing the deduction and the amount deducted can only be that amount as approved by this office.

● All information received by this agency as the mineral owner/lessor and used by it and/or its State auditors, to verify the accuracy and appropriateness of royalty payments, i.e., reports and supporting media, is, and will be held confidential. Generally, volumetrics also cannot be viewed because there is a value and/or a value of deductions reflected in our reports, all on the same reporting form. Royalty volumes and royalties paid are public information and can only be accessed by a request to this agency or a review of our annual reporting.

● Royalty reporting support information has always been a requirement under the lease, under our rules and under the statutes; and, as such, this requirement can't be waived. As

State of Wyoming Royalty Reporting and Payment System Requirements @ 07/01/2005

such, support from production month July, 2004, forward is required of all reporting entities holding interest in or operating State of Wyoming oil and gas leases. Once we are reviewing report support documents, we may be able to provide some relief from the overall support document requirement based on what we see coming in. This is a dynamic requirement in terms of what is sufficient, which cuts both ways as we don't want any more documentation than is necessary for us to fulfill our Trust responsibility, but obviously, no less.

● NOTE: As a result of a number of errors and file/envelope rejections, it is incumbent to note that when filing your MR royalty statements with the Office, that the calculated royalty and paid royalty should jibe, which is many times not the case due to what we believe is generally a "carry-over" of previous reporting requirements which are deeply ingrained with many of our royalty payers. Specifically, that is: if filing and paying for your particular ownership interest in the lease, or that of others, and said ownership is less than the whole (100%), lessee/payers formerly providing a "grossed up" interest to equate to the whole and relying on factors established here, were able to pay less than the whole and be royalty compliant in terms of due amounts. Now, with our new system, these gross-up calculations and consequent reports which equate to 100% of production sold do not match the royalty checks submitted paying for those shares of less than 100% and as such, the system "flags" such royalty submissions as deficient. As such, filers and payers will need to remember that on the MR royalty reports, only the volumes being paid should be used in the volume field when extending value, such that the computer characterization of royalty due meets the check amount provided.