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POLICY

Effective Date
March 1, 2014

Policy for Reporting and Paying State of Wyoming Royalties for Leases Embraced by Unit/Unit Participation Area/Communitization Agreement/Pooling Arrangement Participation

In order to ensure the state trust land beneficiaries are kept whole in the royalty reporting and payments they receive with regard to leases embraced by Unit, Unit Participating Area (PA), Communitization Agreements (CA) and other pooling arrangements, which overlap another Unit, PA or CA, and to aid in audit procedures, OSLI requests that all royalty reporters report in accordance with this policy. This guidance should be used in reporting of all royalties for any scenario similar to the example provided below.

For each lease involved in this type of scenario, an operator report (MR41 and MR51) should be filed reporting 100% of the volume and value produced from the CA area. Additionally, a royalty payer report (MR10 and MR20) should be filed using an aggregated tract allocation. As in the attached example, for the Bruff Unit Frontier PA A (WYW109442B) and Donley NCT-1 CA (WYW110292) the aggregated tract allocation would be the PA tract allocation multiplied by the CA tract allocation ($0.0925926 * 0.05882353 = 0.0054466$). The payer would report 100% of the volume and value at this tract allocation, which would constitute the amount due for the lease in question.

Royalty Reporting

A working interest owner burdened by state royalty reporting responsibilities for CAs that overlap (have acreage within) another Unit or CA – whatever the reason — should be allowed to apply to report/pay in the same way as any other lease/PSA, regardless if they are the lessee, operator, or neither.

When a royalty reporter requests eRMA2 setup, the reporter will send the particulars of the well(s), CA(s), PA(s) to their contact at the Wyoming Office of State Lands. The information to be provided should include the following:

- CA name, Serial Number, if applicable
- CA operator
- CA tract factor(s)
- Unit name, PA name, Serial number, if applicable
- Unit operator
- Unit tract factor(s)
- Well name(s)
- API #(s)
- Well location
- State lease(s)
- State ownership factor (where the mineral rights are split between the State and other(s))
- Royalty rate(s)
- CA effective date
- Unit PA and unit revision effective date(s)
- Products (WY product codes)

Operator Reporting

CA Operator reports will be reported on the same form as Unit Operator reports.

MR4I and MR51 reports would be submitted by the CA operator(s), regardless of the operator's royalty reporting responsibility.

Discrepancy Resolution:

If the State identifies a reporting anomaly between operator and royalty reporting, the following communication hierarchy will be followed:

1. Operator reporter — should be able to supply information on those working interest owners with state royalty reporting responsibility and gross production data
2. Royalty reporter — should be able to report all of the data included on the “Royalty Reporting” section of this document as it relates to their burdens
3. Lessee — contact as last resort if not operator or royalty reporter

The above methodology should provide accurate operator and royalty information to the state by aligning reporting responsibility with the entities that have the most complete information required for the specific reports.

Implementation Timeline

OSLI would like to complete the required system setup as soon as possible to allow for the new reporting scenarios. In order to accomplish the setup, OSLI requests that all operators and royalty reporters submit the requested information using the attached spreadsheet, as agreed to in the proposal by July 1, 2013. This will aid in the system setup and will only need to be submitted once or when a change to reporting requirements occurs. Please send this information to Billie Hunter at billie.hunter@wyo.gov. OSLI requests that all operators and royalty reporters begin reporting under the guidance set for in this Memorandum for those reports that are due July 31, 2014 and after.

<u>Effective Date:</u> March 1, 2014	<u>Review Date:</u> March 1, 2019
<u>Summary of Revision/Review:</u> To be completed in 2019	<u>Supersedes Existing Policy:</u> Any policy and/or documentation prior to March 1, 2014