Minerals Management Service
Summary of Amendments to Unrestricted Royalty-In-Kind Crude Oil Sale
IFO No: 1435-02-01-RP-40350 revision dated July 31, 2001

- Language change in "Quality" section of the IFO. For the added bid package identified as belonging to crude type HLS, successful offerors will not adjust payments to MMS for quality bank debits and credits received. For this package, offers should reflect estimates of quality credits and/or debits.

- Added three new bid packages (# 4, 5 and 6) offering two additional Eugene Island crude types and one HLS crude type to IFO (see Exhibits A and B).

- Amended the pipeline information on bid package #3.

- Amended MMS Royalty Volume (bbls/day) on bid package #3.

OMB Control Number 1010-0129
Expiration Date: June 30, 2003

INVITATION FOR OFFER – UNRESTRICTED ROYALTY-IN-KIND CRUDE OIL
IFO NO: 1435-02-01-RP-40350
October 2001 – March 2002
(July 31, 2001 Revision)

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting written offers (bids) from prequalified companies to purchase royalty oil and condensate produced from certain Federal offshore leases in the Gulf of Mexico (GOM).

This sale is for a six-month term beginning October 1, 2001. Successful offerors will take custody of the royalty oil at offshore delivery points, and will be responsible for all movement of royalty oil downstream of these points.

Offers must be made in writing and submitted via facsimile (fax number 303-275-7136) or email (stacy.leyshon@mms.gov) **by 10:00 a.m. Mountain Time on August 8, 2001**. MMS will confirm receipt of all offers. Royalty oil sales packages will be awarded by 2:00 p.m. Mountain Time on August 13, 2001. Technical questions should be addressed to Stacy Leyshon at 303-275-7469. Contracting questions should be addressed to Todd Leneau at 303-275-7385.

Offers[1]

Exhibit A identifies 6 packages of royalty oil offered for bid. Exhibit B provides further detail on properties, operators, pipelines, delivery points, and other information pertinent to this IFO. The royalty volumes shown for each package represent MMS' most recent production data for properties behind the indicated delivery points. These volumes are only estimates of royalty oil available to successful offerors, and are not warranted volumes. You may call MMS at the above technical point of contact for a one-year production history for royalty volumes associated with the delivery points in Exhibit A. Exhibit C shows the leases comprising all unit agreements identified in Exhibit A.

Exhibit A is the bid sheet to be completed and faxed or emailed to the contact indicated above as the official bid. Offerors must bid on the full royalty volume to be delivered by the operators of properties behind the indicated delivery points. Tiered bids that offer different prices based on levels of volumes delivered will not be acceptable. There will be no more than one award of royalty oil for each royalty oil package. By submission of a bid, the offeror agrees to be bound by the terms of its signed MMS RIK Crude Oil General Terms and Conditions and this solicitation. MMS reserves the right to reject any bid received.

[1] ***Offerors must be prequalified to submit bids.*** The prequalification process is described in our website at http://www.mrm.mms.gov/rikweb/prequal.htm. Successful offerors must have a signed RIK Crude Oil General Terms and Conditions on file with MMS.

Successful offerors are granted the rights to purchase royalty oil delivered by operators at the delivery points indicated in Exhibit A, not the actual entitlement due the Federal government. Imbalances between these two volumes will be resolved between MMS and producers. Royalty oil from the properties listed in Exhibit A that originates from new wells added during the term of this IFO will be automatically added to the volumes purchased under this IFO. Royalty oil from new properties behind the delivery points in Exhibit A that commence production during the term of this IFO will be added to the volumes purchased under this IFO on a case by case basis pursuant to mutual consent of MMS and successful offerors.

Pricing Mechanism. Offerors must submit bids as an increment or decrement from either or both of the following pricing formulas:

1. (Koch Posting + Platt's P+) – (Platt's WTI - Platt's Crude Type Price)

Where:

Koch Posting: Koch Oil Company's posting for West Texas/New Mexico Intermediate (WTI), deemed 40 degrees, for the Physical Month of Delivery

Physical Month of Delivery: The calendar month during which delivery of crude oil occurs

Platt's P+: Arithmetic average of the daily high and low price quotes for "P-Plus WTI" for the Platt's Month of Delivery

Platt's Month of Delivery: Refers to quotes in Platt's Oilgram Price Report for the period of time from the twenty-sixth day of the month two months prior to the physical month of delivery through the twenty-fifth day of the month one month prior to the Physical Month of Delivery (excluding weekends and holidays)

Platt's WTI: The arithmetic average of the daily high and low price quotes for WTI for the Platt's Month of Delivery

Platt's Crude Type Price: The arithmetic average of the daily high and low price quotes for the crude type that is the subject of the bid (i.e., Mars, Eugene Island, or HLS) for the Platt's Month of Delivery

2. (Calendar NYMEX + Daily Roll) - (Platt's WTI - Platt's Crude Type Price)

Where:

Calendar NYMEX: Arithmetic average of the daily settlement price for the "Light Sweet Crude Oil" front month futures contract reported by the New York Mercantile Exchange (NYMEX) during the Physical Month of Delivery (excluding weekends and holidays).

Daily Roll: (X – Y).6667 + (X – Z).3333, where:
X = Average of the daily NYMEX settlement price for the prompt month, trading days only, when the Physical Month of Delivery is the prompt month trading on NYMEX
Y = Average of the daily NYMEX settlement price for the second month during the same period, trading days only
Z = Average of the daily NYMEX settlement price for the third month during the same period, trading days only

Physical Month of Delivery: The calendar month during which delivery of crude oil occurs

Platt's WTI: The arithmetic average of the daily high and low price quotes for WTI for the Platt's Month of Delivery

Platt's Crude Type Price: The arithmetic average of the daily high and low price quotes for the Crude Type that is the subject of the bid (i.e., Mars, Eugene Island, or HLS) for the Platt's Month of Delivery

Platt's Month of Delivery: Refers to quotes in Platt's Oilgram Price Report for the period of time from the twenty-sixth day of the month two months prior to the Physical Month of Delivery through the twenty-fifth day of the month one month prior to the physical month of delivery (excluding weekends and holidays)

Term

Deliveries of royalty oil to successful offerors will commence October 1, 2001, and will end on March 31, 2002.

Transportation and Scheduling of Royalty Oil

Successful offerors are responsible for transporting all royalty oil volumes downstream of the delivery points specified in Exhibit A. Successful offerors must nominate and schedule all volumes purchased through this IFO separately from all other volumes owned or controlled at each of the delivery points where royalty oil is received. Correspondingly, within 10 days of execution of a Transaction Confirmation relative to this IFO, successful offerors must request in writing to all pipeline companies that will move royalty oil that MMS royalty volumes be separately itemized on pipeline statements and/or invoices.

The operators of properties offered in this IFO will use reasonable efforts, consistent with industry practice, to inform MMS and/or successful offerors regarding significant changes in royalty oil production levels and production shut-ins. Successful offerors, through customary industry practice, will communicate directly with MMS and the operator, and will make arrangements for the delivery and transfer of royalty oil from the identified properties. Successful offerors, at their expense, will make all necessary arrangements to receive delivery of royalty oil at the delivery point(s). Successful offerors are not responsible for costs of transportation upstream of the delivery point(s).

No later than 5 calendar days before the first day of each month, the MMS will notify successful offerors of the daily royalty oil volumes anticipated for the following month of production. Successful offerors understand that any such estimates are not warranties of actual deliveries to be made but are provided to facilitate planning of delivery of royalty oil. This will continue for each month of the term of this IFO.

Imbalances between delivery volumes and entitled volumes will be monitored jointly by MMS and the operator. Routine imbalances will be resolved by adjustments in the volume of royalty oil delivered to successful offerors in subsequent months. These adjustments will be reflected in communications from MMS to the successful offeror regarding the first of month availability of royalty oil. Imbalances not remedied within 90 days of the production month will be resolved by mutual agreement between MMS and the operator. MMS will consult with successful offerors in this process. The price received from awards under this IFO may form the basis of resolution of certain extraordinary imbalances between MMS and operators. The rights and responsibilities of operators under RIK oil situations are outlined in MMS' "Dear Operator" letter included as Exhibit D.

Quality

For bid packages identified as belonging to crude types Mars and Eugene Island, successful offerors will adjust payments to MMS for actual receipt point quality bank(s) debits and credits received from the quality bank administrator. Delivery point quality banks will not be included. Such adjusted payments must be made to MMS by the 20th of the month after you receive the quality bank debits and credits, and must be accompanied by supporting documentation. For the bid package identified as belonging to crude type HLS, successful offerors will not adjust payments to MMS for quality bank debits and credits received. For this package, offers should reflect estimates of quality credits and/or debits. All quality information in Exhibit B represents MMS' most recent data for the delivery points in the packages offered. Actual sulfur and gravity during the term of this IFO may be different.

Consideration of Offers

MMS may award a contract on the basis of initial offer(s) received without discussions. Accordingly, each initial offer should be submitted on the most favorable terms that the offeror can submit. However, MMS may negotiate with offerors in the event bids of similar or unanticipated values are received. All information about the origin and value of bids received will remain confidential, except as noted above under Transportation and Scheduling of Royalty Oil with respect to resolution of extraordinary imbalances.

In the event that any small refiner is the high bidder for packages whose volumes comprise more than 60% of the capacity of its refineries, MMS reserves the right to negotiate with both that small refiner and other offerors to result in awards most advantageous to the Federal Government.

The MMS shall award a contract resulting from this solicitation to the offeror whose bid, in MMS' judgement, is most advantageous to the Federal Government. MMS will award to successful offerors by means of the MMS Crude Oil Transaction Confirmation.

Letter of Credit or Bond

For awards exceeding the amount of unsecured credit issued by MMS, successful offerors will be required to provide secured financial assurance in the form of an Irrevocable Letter of Credit (ILOC) or Bond five business days prior to first delivery of oil under the contract. The ILOC must be effective for a period beginning on the date of first delivery under the contract and ending two months after the contract expires. If applicable, a bond must be issued for the same period.

The financial assurance amount shall be sufficient to cover the value of 60 days of deliveries of the estimated production of all royalty oil awarded, less the amount of unsecured credit issued by the MMS as previously notified. The value of the financial assurance should be calculated as the price/barrel using the bid amount applied to August 2001 market pricing, multiplied by the daily production (estimated in Exhibit A), multiplied by 60 days, less the amount of unsecured credit issued by MMS.

Please submit the calculated amount of financial assurance to Lawrence Cobb (Lawrence.Cobb@mms.gov) of the RIK Office for verification before application is made for an ILOC or bond. Failure to provide adequate financial assurance when required will result in a loss of award unless the date is extended by the Contracting Officer for the MMS.

Significant increases in the value of crude oil during the term of the contract may result in a requirement to increase the amount of financial assurance.

A sample of the ILOC is found at http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf. Use Contract Surety Bond Form MMS 4072 http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf for bonds. The financial institution issuing the ILOC or surety company issuing the Bond must meet MMS requirements under 30 CFR Part 208.11.

Parent Guarantee

If the corporate entity submitting the bid is different than the parent or partner entity that MMS has pre-qualified, (e.g. a subsidiary, a joint venture partner, a limited partnership partner), the bidder must provide a parent guaranty with the bid to be considered pre-qualified. That is, pre-qualification for participation in the sale is extended only to that corporate entity supported by the financial statements submitted, unless a parent guaranty is provided. A sample format of the parent guaranty can be found at http://www.mrm.mms.gov/rikweb/PDFDocs/guaranty.pdf. Please contact Lawrence Cobb at 303-275-7294 if you have any questions regarding the parent guaranty.

Governing Contract
This transaction is governed by the MMS RIK Crude Oil General Terms and Conditions, previously signed by the offeror and MMS. Only companies who have prequalified and signed the MMS RIK Crude Oil General Terms and Conditions may submit valid offers.

Documentation
As stipulated in the MMS RIK Crude Oil General Terms and Conditions, successful offerors must provide pipeline statements, invoices, quality bank data, and any other information necessary to support payments to MMS Crude Oil RIK Accounting by the 20^{th} of the month following the month of production. The Crude Oil Transaction Confirmation provides points of contact for submission of this information.

PAPERWORK REDUCTION ACT STATEMENT: The Paperwork Reduction Act of 1995 requires us to inform you that the information being collected under this solicitation is necessary to document fulfillment of royalty obligations and sales of minerals from leases on Federal lands. We will use this information to evaluate bids on sales of royalty production. The estimated burden to report is approximately one hour each for a bid document, letter of credit or bond, or financial statement or pre-qualification document. Suggestions on reducing this burden should be directed to the Information Collection Clearance Officer, MS 4230, MMS, 1849 C Street, N.W., Washington, D.C. 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and the Departmental Regulations (43 CFR 2). Storage of such information and access to it are controlled by strict security measures. An agency may not conduct or sponsor and a person is not required to respond to, a collection of information unless it displays a currently valid OMB number.

4 Exhibits

Exhibit A – Bid Sheet
Exhibit B – RIK Property Profile Detail
Exhibit C – Listing of Leases Within Unit Agreements
Exhibit D – Sample Dear Operator Letter

Exhibit A
July 31, 2001 Revision

Minerals Management Service
Unrestricted GOM RIK Crude Oil Sale
IFO: 1435-02-01-RP-40350
Term: October 1, 2001 to March 31, 2002

Bid Package	Crude Type	Delivery Point	MMS Royalty Volume (bbls/d)	**Bid 1/** Koch WTI & P-Plus basis	**Bid 1/** NYMEX & Daily Roll basis
#1	Mars	MC 809A	12,500		
#2	Mars	MC 807A	20,680		
#3	EIS	GC 65A	11,300		
#4*	EIS	GC 18A	1,550		
#5*	EIS	GC 19A	70		
#6*	HLS	MP281A	1,520		

1/ See "Pricing Mechanism" from IFO: Increment or Decrement from either or both:
• (Koch Posting + Platt's P-Plus) - (Platt's WTI - Platt's Crude Type Price)
• (Calendar NYMEX + Daily Roll) - (Platt's WTI - Platt's Crude Type Price)

* Bid package added July, 31, 2001

Your Name ______________________ Phone No. ______________

Company Name ______________________ Fax No. ______________

MMS Contacts:
Stacy Leyshon: 303-275-7469
Crystel Tobar: 303-275-7282
Fax No.: 303-275-7136

RIK Property Profile Detail

Exhibit B
July 31, 2001 Revision

Minerals Management Service
Unrestricted GOM RIK Crude Oil Sale
IFO: 1435-02-01-RP-40350
Term: October 1, 2001 to March 31, 2002

Bid Package	Crude Type	Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. **(see note 1)**	Area	Block	Operator	MMS Royalty Volume (bbls/day) **(see note 2)**	Sulfur	Gravity	Pipeline Information	Common Carrier(s)
# 1	Mars	MC 809A	20608173651	Ursa	754-393012-A	MC	854	Shell	12,500	1.98%	31.1	Ursa Oil Pipeline into Mars Oil Pipeline	yes
#2	Mars	MC 807A	20608173650	Mars	754-393002-0	MC	807	Shell	17,500	2.24%	28.0	Mars Oil Pipeline	yes
				Europa	754-395016-A	MC	935	Shell	2,600	2.24%	28.0		
				King	054-008852-0	MC	764	Shell	580	2.24%	28.0		
									20,680				
#3	EIS	GC 65A	20608117000	Troika	754-393016-A	GC	244	BP Amoco	8,750	1.06%	35.1	Amberjack Pipeline or;	yes
				Bullwinkle	754-399006-A	GC	65	Shell	550	1.06%	35.1	Amberjack P/L into Boxer P/L into EIPL or;	yes
				Rocky	054-014023-0	GC	110	Shell	100	1.06%	35.1	Shell 12" Pipeline into;	no
				Angus	054-015545-0	GC	112	Shell	200	1.06%	35.1	Equlion 12" Pipeline into;	no
				Angus	054-015546-0	GC	113	Shell	1,700	1.06%	35.1	Poseidon Pipeline	no
									11,300			(contact Shell, Equilon, and Poseidon for buy/sell rates)	
												• Shell: Mike Faulise at (713)-241-2780	
												• Equilon: Mike Wallace at (713)-241-7099	
												• Poseidon: James Hostetler at (303)-628-3495	
#4*	EIS	GC 18A	20608112950		054-004940-0	GC	18	ExxonMobil	800	1.50%	30.2	ExxonMobil Pipeline into;	no
		(see note 3)			054-005809-0	EW	944	ExxonMobil	700	1.50%	30.2	Boxer Pipeline into;	yes
					054-014021-0	GC	60	ExxonMobil	50	1.50%	30.2	Eugene Island Pipeline System	yes
									1,550				
#5*	EIS	GC 19A	20608112953	Boxer	054-004131-0	GC	19	Shell	50	1.20%	33.9	Boxer P/L into Eugene Island P/L	yes
					054-015531-0	GC	20	Enterprise Oil	20	1.20%	45.5		
									70				
#6*	HLS	MP 281A	2017724511G		054-010910-0	MP	281	Dominion E&P	670	n/a	45.9	Main Pass Oil&Gas (MPOG) System into;	no
					054-014585-0	MP	264	Vastar	420	n/a	46.7	Delta Pipeline or Cypress Pipeline	yes
				(see note 4)	054-015395-0	MP	275	Vastar	250	n/a	46.7		
					054-016514-0	MP	279	Dominion E&P	10	n/a	45.9	• MPOG Contact - Steve Chrien	
					054-016515-0	MP	280	Dominion E&P	170	n/a	45.9	(281) 966-4746	
									1,520				
			Total MMS Royalty bbls/day for all 6 bid packages						**47,620**				

Note 1: See Exhibit C for listing of leases and blocks within a Unit Agreement
Note 2: Production estimates provided by operators and generally represent projected average July-Sept. 2001 production
Note 3: Volume measured at GC 18A but purchaser takes custody at the inlet to the Boxer Pipeline (ExxonMobil contact: Clint Todd (703)-846-2688)
Note 4: Lease producing as of June 2001 with production expected to vary

***** Bid package added July 31, 2001

Minerals Management Service
Unrestricted GOM RIK Crude Oil Sale
IFO: 1435-02-01-RP-40350
Term: October 1, 2001 to March 31, 2002

Bid Package	Unit Agreement	Leases within Unit Agreement	Area	Block
#1	754-393012-A	054-005868-0	MC	809
		054-005871-0	MC	853
#2	754-393002-0	054-007958-0	MC	763
		054-007962-0	MC	806
		054-007963-0	MC	807
#2	754-395016-A	054-007969-0	MC	890
		054-007975-0	MC	934
#3	754-393016-A	054-011043-0	GC	244
		054-012209-0	GC	200
		054-012210-0	GC	201
#3	754-399006-A	054-005889-0	GC	65
		054-005900-0	GC	109

Exhibit D

Sample Dear Operator Letter

MMS/MRM/RIK
Mail Stop 330G5

Dear Operator:

The Minerals Management Service (MMS) has selected one or more offshore Federal leases in the Gulf of Mexico (GOM) that you operate to be included in a Royalty-in-Kind (RIK) program in which we will take crude oil royalties in kind beginning October 1, 2001.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in kind. Our authority is under the Outer Continental Shelf Lands Act of 1953 (43 U.S.C. § 1353) and the royalty provisions contained in your Federal lease. For the purposes of this letter, Royalty Oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of crude oil taken in kind by Lessor will reflect and be consistent with all grants of royalty relief.

Term

The Lessor will take all Royalty Oil from the properties listed in the enclosure beginning October 1, 2001 and continuing until notified by the Lessor of termination. The Lessor will provide Lessees and Operators with at least a 45-day prior written notice of termination of in kind status.

Royalty Oil Delivery

You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases. In addition, you will make best efforts to notify Lessor’s designated point of contact of leases that, during this period of in kind status, begin producing crude oil that flows to the facility measurement points identified in the enclosure. Royalty oil from such new properties will be added to the RIK volumes at the existing delivery point(s) only upon mutual consent of the Purchaser and Lessor.

Royalty Oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor’s points of contact identified below.

The delivery point for Royalty Oil produced from the properties in the enclosure is at the facility measurement point or first interconnect into a main pipeline, as identified in the enclosure. The Lessor will take custody and responsibility for Royalty Oil beyond the delivery point.

You can be reimbursed for transportation of Royalty Oil to any delivery points identified in the enclosure that are downstream of FMP, as allowed in applicable MMS regulations, by taking a transportation deduction on your Form MMS-2014.

Fulfillment of Royalty Obligations

Delivery of the accurate volume of Royalty Oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor.

For properties where the Lessee has applied for deepwater royalty rate relief, you may use the proposed royalty rate in the interim before MMS' Offshore Minerals Management (OMM) approves the reduction. If OMM does not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances")

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor Obligation to Take

We agree to take 100 percent of the Royalty Oil delivered for the account of the Lessor at the delivery point. Using reasonable and customary industry practices, we will try to minimize imbalances with Operators and Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, the Lessor will communicate with you regarding arrangements for the transfer of Royalty Oil from the delivery point. The Lessee will not incur royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Communication with Lessor

No later than 10 calendar days before the first day of each month, you must notify the Lessor in writing via facsimile (303-275-7136) or email to the rik.project@mms.gov mailbox identifying the daily Royalty Oil volumes ("Avails") anticipated to be produced for the following month of production, for each of the delivery points identified in the enclosure. On this same schedule, you will also provide any volume adjustments you anticipate making in deliveries at each of the delivery points to resolve previous months' imbalances. The same schedule must indicate the total volumes anticipated to be delivered to MMS' purchaser at each of the delivery points as a volume net of anticipated production plus or minus any adjustments. The Lessor understands that any such estimates are not warranties of actual deliveries, but are provided to facilitate planning.

You must also use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in the enclosure; e.g., oil production levels, oil type and/or royalty rates for the RIK contract properties.

Volume Reconciliation

You must send all volume allocation schedules provided to pipeline companies that address crude oil volumes at the delivery points in the enclosure within 5 days of their submittal to the pipeline companies. You, as the Operator, must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. MMS will monitor and reconcile royalty entitlements with Royalty Oil deliveries you make. Reconciliation will involve communication between you and the Lessor. Upon project termination, you, as the Operator, must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

Imbalances between delivered and entitled volumes of royalty oil will be jointly monitored by you and MMS. You will take timely action to remedy such imbalances through adjustments to royalty oil volumes delivered to MMS. Such volume adjustments will be identified in your communication of royalty oil volumes anticipated before the month of production (see above under "Communication with Lessor").

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- mutually agreed upon make-up delivery schedule, or
- A cash out payment based on the contract price (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months that the imbalance occurred**.** Interest will accrue from 60 days after notification that cash out payment is due.

Imbalances that exist when the lease is no longer taken in kind, or after cessation of production from a lease, will be cashed out based on the MMS contract price (at the delivery point) for the last month the lease is taken in kind. Interest will accrue from 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in the enclosure, will be settled in compliance with your Purchase and Sale Agreement assignments. Imbalance provisions will be reviewed six months from initial contract date.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR) under requirements/frequencies as specified in MMS regulations and the MMS *Reporter Handbook* http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf. You will not be required to report Royalty Oil for the RIK properties listed in the enclosure on the Form MMS-2014 for the term during which the Lessor takes royalty in kind. Reporting does not change for non-RIK leases.

Lessor's Designee

At times, Lessor may act by or through a duly authorized designee. In such event, we will provide prior written notification of a designee, including the person to contact. Notification will include specific duties that will be handled by the designee on our behalf. Lessor also will provide written notification when the designee is no longer authorized to act on Lessor's behalf for the purposes of this letter. You are authorized to communicate with the designee as specified in the notification. You will not be required to direct communications to both the Lessor and our designee. For purposes of this letter, if Lessor notifies you that it will use a designee in the contract, references to the Lessor shall refer to such designee. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, measured, delivered, and, if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph for a period of 7 years from the day on which the relevant transaction occurred unless we notify the record holder of an audit or investigation. If you are notified that an audit or investigation is planned, records must be maintained until the record holder is released in writing from the obligation to maintain the records.

Lessor Point of Contact

Copies of all correspondence between Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

Volume Avails (Anticipated Volumes) & Operator Imbalance Statements:

Mr. Larry Barker
Telephone: 303-275-7296; Fax: 303-275-7136;
E-mail: Larry.Barker@mms.gov

Or

Mr. Ted Drescher
Telephone: 303-275-7297; Fax: 303-275-7136;
E-mail: Theodore.Drescher@mms.gov

New Lease Production:

Ms. Crystel Tobar
Telephone: 303-275-7282; Fax: 303-275-7136;
E-mail: Crystel.Tobar@mms.gov

Or

Ms. Stacy Leyshon
Telephone: 303-275-7469; Fax: 303-275-7137;
E-mail: Stacy.Leyshon@mms.gov

Reporting Issues:
Mr. Andy Sandoval
Telephone: 303-231-3777; Fax: 303-231-3700
E-mail: Alfonso.Sandoval@mms.gov

Electronic Funds Transfer:
Mr. Joe Romero
Telephone: 303-231-3123; Fax: 303-231-3501;
E-mail: Joseph.Romero@mms.gov

The Lessor acknowledges that Operators and Lessees have given proper notice when using the telephone number or fax number provided to communicate with the Lessor. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than one business day after telephone communication occurs. The Lessor further agrees to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. Operators and Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. We estimate the burden for reporting electronically is 10 minutes per property per month. Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1,) (4)), and the Departmental Regulations (43 CFR 2). An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

Sincerely,

Milton K. Dial
Assistant Program Director,
Royalty In Kind