BONDING INFORMATION FOR FEDERAL OIL AND GAS LEASES

This is an information sheet on a Certificate of Deposit (CD), a sample of an acceptable Letter of Credit (LOC), and a negotiable Treasury Security.

Operation of a Federal oil and gas lease may be done under a $10,000.00 Individual lease bond, a $25,000.00 Statewide bond, or a $150,000.00 Nationwide bond. Whichever you choose; depends on the extent of your operating plans.

Whichever type of bond you choose, Bond Form 3000-4 must accompany your bond.

Bonds may be furnished by one of the following methods per Title 43 Code of Federal Regulations (CFR) 3104.1:

1. Surety Bond issued by qualified surety company approved by the Department of the Treasury.
2. Personal bond accompanied by:
   a. Cashier’s Check;
   b. Certified Check;
   c. Certificate of Deposit issued by a Federally insured financial institution;
   d. Irrevocable LOC issued by a Federally insured financial institution; and
   e. Negotiable Treasury Securities of the United States.

If you need further information, please contact us at one of the following phone numbers:

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<tr>
<th>Information Access Center</th>
<th>Julie Serrano</th>
<th>Margie Dupre</th>
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<td>(505) 954-2098</td>
<td>(505) 954-2149</td>
<td>(505) 954-2142</td>
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6 Enclosures
CERTIFICATE OF DEPOSIT

The following will make Certificates of Deposit (CD's) acceptable:

- The financial institution issuing the CD must be Federally insured.

- The CD must explicitly indicate on the face of the certificates that the Secretary of the Interior must approve the redemption of the CD by any party.

- The CD should be made payable to the Department of the Interior-BLM, or proof must indicate the right to payment of the obligor under the CD has been assigned to the BLM, Together with proof that the bank has changed its records to show that only the BLM may collect the amount of the CD. Also, indicate that interest is to be payable to the principal (fill in the blank).

- The CD must be executed on or after the June 17, 1988, effective date of regulation 43 CFR 3104.1; however, the CD may have been issued earlier if the right to the payment of the CD has been properly assigned to the BLM.

- The CD has immediate redemption. NOTE: A statement must accompany the CD stating that if there are any penalties for early redemption, such penalties will be paid out of the obligor's interest earned, not out of the principal amount of the CD.

- There should be no expiration date for the CD which would restrict the right of the BLM to collect the principal.

- The original CD should be sent to the appropriate BLM for safekeeping.
SAMPLE ACCEPTABLE LETTER OF CREDIT (LOC) FOR FEDERAL OIL AND GAS LEASING

IRREVOCABLE LETTER OF CREDIT

Issuing Financial Institution: No. : (filled in by bank)
Telephone No. :
Address : Amount :
City : O&G Lease No.: (If $10,000.00)
Date Issued :
State, Zip : Date Filed : (completed by BLM)

On behalf of (Name and Address of Party Requesting Financial Institution to Issue the Letter of Credit), as Obligor, we (name of Financial Institution, hereafter referred to as "bank"), hereby establish an irrevocable Letter of Credit (LOC) in favor of the Bureau of Land Management (BLM) and agree to immediately pay upon demand by and to the Department of the Interior--BLM, the full amount of (Amount--written out) Dollars ($ (figures)), upon receipt of a written demand therefor by the Authorized Officer (AO) of the BLM retaining the personal bond of the obligor whose bond this letter serves as security pursuant to Title 43 CFR Section 3104.1.

This LOC is effective the date filed with BLM and will expire exactly one year from the date filed. This credit will automatically be extended for periods of (one year or such longer periods as may be determined by the bank) from any such scheduled expiration date as originally scheduled or as automatically extended by this provision.

In the absence of a notice from the bank to the AO from at least 90 days prior to the stated or any extended expiration date, not to renew the credit represented by the LOC, the LOC will be automatically renewed in full force and effect for an additional one year period. Non-renewal notification will be sent to the AO by Certified Mail-Return Receipt Requested.

Upon receipt by the AO of a non-renewal notice from us, the AO may draw on us for up to the amount of this LOC, prior to the expiration thereof, provided that such draft is accompanied by a statement signed by the AO to the effect that no satisfactory replacement bond has been provided by the Obligor prior to 30 days before this LOC expires, pursuant to 43 CFR 3104.1(c)(5)(ii).

It is also understood that, at any time this LOC is in effect, the AO may draw on this LOC for any amount, up to the full amount to cover any default in obligations covered by the bond, including but not limited to, rentals, royalties, and appropriate reclamation of lands associated with development of oil and gas in any lease(s) to which the bond applies.
Such drawing shall be accompanied by a statement signed by the AO to the effect that the obligor has been determined to be in default and the amount drawn represents the reasonable amount, as determined by BLM, of such default.

It shall not be required for the AO, in order to draw on this LOC to furnish the original letter; however, it is understood, as a condition of any payment thereunder that the face amount of the letter shall automatically be reduced by any payment made by the bank and that the AO will promptly surrender the original letter when and if the bank shall tender to the AO the full amount of funds represented by this letter; such surrender to occur as soon as reasonably practical after full payment is made. The original letter shall also be surrendered promptly following its expiration provided that no drawing on such letter was made prior to such expiration.

We assure that the amount of credit herein established will not be reduced for any reason during the effectiveness of this letter without the prior written approval of the AO.

In the event that we, the bank, become unable to fulfill our obligations under this LOC for any reason, notice shall be given immediately to the Obligor and the AO.

We certify that we have received a copy of the personal bond which the Obligor will file with the AO and we understand that this LOC may be used, until it expires as a result of notice we give to the AO, for all matters to which the bond applies. We also certify that the deposits of this bank are Federally Insured under (specify the plan, e.g., FDIC or FSLIC). As used above, AO refers to Land Law Examiner, BLM, New Mexico State Office, P.O. Box 27115, Santa Fe, NM 87502-0115.

NAME OF FINANCIAL INSTITUTION

ATTEST: (SEAL)  
BY:  
Typed Name and Title of Officer

Title:

The Letter of Credit should bear the Seal of Issuing Bank. If the laws of the State under which the bank is chartered do not require a seal for the bank, there may be substituted therefor the statement that the bank has no seal and is not required to have one by virtue of (Statutory Citation).

If desired, the bank may complete any acknowledgement appropriate for the State in which the Letter is issued; although, acknowledgement is not required.
New Procedures for Treasury Securities
Held for Bonding Purposes

Department of the Interior (DOI), Bureau of Land Management (BLM), holds Treasury Securities in book-entry form through the Federal Reserve Bank (FRB) of Kansas City, Denver Branch, for bonding purposes in various programs including oil and gas. The FRB has been responsible for sending out the semi-annual interest check payments for Treasury Bonds and Notes and the annual 1099-INT form to report the previous year's interest payments. Effective January 1, 1991, the FRB will no longer do so. As a result, new procedures for accepting Treasury Securities submitted for bond coverage are required.

Instead of being transferred to BLM's book-entry account, securities will be held in a Circular 154, U.S. Government Account Number 11 under the obligor's depository financial institution's American Bankers Association (ABA) Number with the FRB. Once the security is transferred to the Circular 154 Account Number 11, neither the obligor nor the depository financial institution will be able to access the security without BLM giving permission to the FRB to do so.

Once the obligor acquires a Treasury Security through a depository financial institution, the obligor or the obligor's financial institution must contact the BLM office that has responsibility for administering the lease(s), and provide the following information:

1. Name and address of obligor;
2. Serial number of the lease(s);
3. The type of security purchased (Bill, Bond, or Note);
4. The par amount of the security;
5. The stated interest rate of the security (Bonds & Notes only);
6. The maturity date of the security;
7. The Committee on Uniform Securities Identification Procedures (CUSIP) number of the security;
8. The name of the depository financial institution;
9. The mailing address of the depository financial institution;
10. The depository financial institution's nine digit ABA number;
11. Name of the contact person at the financial institution;
12. Telephone number (including area code) of contact person;
13. Name of the FRB or Branch servicing the depository financial institution.

If the depository financial institution uses a correspondent financial institution to hold Treasury Securities, which is often the case with smaller financial institutions, the information requested in 8 through 13 above must be provided for the correspondent financial institution.

The BLM office must contact Dorothy Butler the Negotiable Securities Manager in the National Business Center (BC-610) at commercial (303) 236-6332 and provide the above information.
The Negotiable Securities Manager will contact both the servicing FRB or Branch and the obligor's depository financial institution or correspondent depository financial institution to authorize the transfer of the security to the Circular 154 Account Number 11. The obligor's financial institution (or correspondent financial institution) must not transfer the security to the Circular 154 Account Number 11 until authorization is given by the Negotiable Securities Manager. When the Security is transferred to the Circular 154 Account Number 11, the Financial Institution must include the following information in the electronic transfer message: "Security pledged to DOI-BLM (name of office) by (name of obligor) for (lease(s) serial number, etc.)." The following is an example of an acceptable transfer message: "Security pledged to DOI-BLM, New Mexico State Office by Alpha Corp., for Oil and Gas Lease NMNM 37854."

The obligor should send the following to the BLM office as soon as possible:

1. All required bond forms (Form 3000-4, June 1988);
2. A copy of the "Acknowledgement of Book Entry Deposit, Release of Account Transfer," which the FRB will send to the obligor's financial institution or correspondent financial institution. This will constitute proof that the security is in the Circular 154 Account Number 11;
3. A transaction document from the obligor's financial institution to verify the amount the obligor paid for the security, which, excluding any commission fee and accrued interest, must equal or exceed the bonding requirement amount.

The BLM must mail a copy of the bond acceptance decision and the "Acknowledgement of Book-Entry Deposit, Release of Account Transfer" to the Negotiable Securities Manager (BC-610).

The FRB will no longer charge BLM the $14 fee for incoming or outgoing security transfers. The fee will be charged to the depository financial institution, which will settle with the obligor. Therefore, BLM will no longer collect this fee from the obligor.

Semiannual interest on Treasury Notes and Bonds will be transferred by the FRB to the obligor's financial institution, which will transfer the interest to the obligor in accordance with an agreement between the obligor and the financial institution (e.g., deposit the interest to a checking account or savings account, etc.). Beginning in 1992 the obligor's financial institution will be responsible for sending a 1099-INT form to the obligor (not to BLM) in January for interest paid the previous calendar year.

When a security matures, the FRB will hold the proceeds in the Circular 154 Account Number 11 until contacted by the Negotiable Securities Manager. Neither the obligor nor the obligor's financial institution will have access to the proceeds without BLM's authorization to the FRB. After the maturity date, the BLM Office will need to write a memo to the Negotiable Securities Manager (BC-610) requesting that the proceeds be transferred to the obligor's financial institution if bond coverage is no longer required or if substitute bond coverage has been provided (normally in the form of another Treasury Security). If the BLM office advises that the obligor is in default, the Negotiable Securities Manager will direct the FRB to transfer the proceeds to BLM. The proceeds will then be deposited to the BLM office's suspense account.
If a security is no longer required prior to the maturity date, the BLM office will need to send a memo with this information to the Negotiable Securities Manager (BC-610). The Negotiable Securities Manager will direct the FRB to transfer the security from the Circular 154 Account Number 11.

The Negotiable Securities Manager will continue to notify the BLM Office about a maturing security approximately 90 days before the maturity date. The BLM should send a letter to the obligor if continued bond coverage is required after the maturity date.

The National Business Center has notified each of the existing obligors about the change in procedures and requested information to transfer the securities to a Circular 154 Account Number 11 under the obligor's depository financial institution's ABA number.

In addition, if the obligor's financial institution has any questions, they may be directed to the servicing FRB or Branch.