

**INFORMATION ON PROCEDURES
FOR OBTAINING SURETY AND PERSONAL BONDS**

Regulations at 43 CFR 3104.2 require bonding coverage for the operator on the ground prior to commencement of surface disturbing activities related to drilling operations on a Federal oil and gas lease. The lessee, sublessee, (owner of operating rights) or operator may post a surety or personal bond. We are providing the following information to assist you in obtaining the appropriate bonding coverage.

It is mandatory that you use the June 1988 or later editions of Bond Form 3000-4, Oil and Gas or Geothermal Lease Bond. A lessee, sublessee, or operator can complete Bond Form 3000-4 and apply it in the following ways to provide coverage for the operator on the ground.

1. Individual Bond - The minimum bond amount is \$10,000. It provides coverage for one lease.
2. Statewide Bond - The minimum bond amount is \$25,000. It covers one or more leases and operations in one State. You must file it in the BLM state office having jurisdiction over the affected lands, i.e., the Colorado State office.
3. Nationwide Bond - The minimum bond amount is \$150,000. It covers one or more leases and operations nationwide. You may file it in any BLM State Office.

A lessee/sublessee may file a rider to modify their individual, statewide or nationwide bond to cover operations conducted by an operator. You may condition statewide and nationwide bonds accepted on bond forms in use prior to Form 3000-4 with a rider to cover an operator where he holds no record title or operating rights interest in a lease.

An operator may conduct operations under their own bond by furnishing the appropriate Field Office an operator change, their bond number, and a statement agreeing to be responsible under the terms and conditions of the lease for the operations conducted on the lease or portion of the lease.

Surety Bond

The Department of Treasury must approve surety companies as acceptable sureties before they can issue Federal bonds. A list of acceptable sureties, Treasury Circular 570, is available through the Internet at http://www.fms.treas.gov/c570/c570_a-z.html. You must file the original copy of the bond (Form 3000-4) in the proper BLM State Office along with a Power of Attorney for the person signing on behalf of the surety. We have included a list of addresses for all BLM State Offices including their area of jurisdiction.

Personal Bonds

Guarantees for Personal bonds are:

1. Cashier's check:

We deposit monies submitted by cashier's check in a suspense account. Cash bonds provide no interest to the bonded principal.

2. Certificate of Deposit (CD):

Only a financial institution with deposits insured through Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC) can issue a CD.

Make the CD payable to the Department of Interior (DOI) – Bureau of Land Management (BLM).

Indicate on the face of the CD the following:

- The name, street address and phone number for the financial institution.
- The statement of "The Secretary of the Department of the Interior or his duly authorized representative is granted full authority to demand immediate payment in case of default. Approval by the Secretary of the Department of the Interior or his duly authorized representative is required prior to redemption of the Certificate of Deposit by any party"
- The statement "No early release penalty"
- The statement "The Bank agrees that it shall not exercise, and it does hereby waive and relinquish the right of setoff or recoupment, whether existing by express contract or under applicable law, that it might now or hereafter have against any funds compromising all or any part of the deposit"

There should be no expiration of time for the Bureau to collect the CD.

The CD must be automatically renewable.

Interest on the CD should be payable to the CD purchaser, not the Department of Interior, Bureau of Land Management. The tax ID number should be applicable to the party receiving the interest. CD interest statements should be sent to the CD purchaser as well, not the BLM.

3. Irrevocable Letter of Credit (LOC)

Only a financial institution with deposits insured through Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC) can issue a LOC.

Identify the Secretary of the Interior as sole payee with full authority to demand payment in case of default.

The LOC must be issued for a specific term, and must be irrevocable during its term. The initial expiration date shall be at least one year following the date it is filed in the proper BLM office and the LOC contain a provision for automatic renewal of not less than one year.

We are including a sample acceptable letter of credit for your review.

4. Negotiable Treasury Securities

Acceptable negotiable securities are U.S. Treasury Notes or Bonds. Guaranteed lines of credit and notes or bonds issued by state or local governments are not acceptable forms of security. Personal bonds backed by negotiable securities allow principals to collect interest from the U.S. Treasury as long as there is no default in the lease obligations.

The lessee or operator requiring a bond must contact a commercial bank and tell them that they want to purchase a specific negotiable security to satisfy the BLM bonding requirements. Please note that if you are providing a negotiable security, you must purchase that security with a current market value or purchase price equal to or exceeding the required bond amount. We cannot accept a security issued for a discounted price which matures to full par value in the future. You may need to purchase more U.S. Treasury Notes or Bonds in order to have the full amount placed in the Circular 154 U.S. Government Account. (For example, if you wish to provide a \$10,000 bond, you may have to purchase \$12,000 worth of U.S. Treasury Notes or Bonds in order to have the full \$10,000 in the Circular 154 account).

Immediately after purchasing a negotiable Treasury security, you as obligor should send the following information to the BLM office administering the lease(s) requiring bonding coverage.

1. Your name and address.
2. The serial number of the oil and gas lease (or a statement that the bond is for a statewide or nationwide bond).
3. The type of security purchased (Bill, Bond or Note).

4. The par amount of the security, the interest rate and maturity date of the security.
5. The Committee on Uniform Securities Identification Procedures (CUSIP) number of the security.
6. The name and mailing address of your bank, along with the name and telephone number of a contact person, if possible.
7. The depository bank's nine digit ABA number.
8. The name of the FRB or branch servicing the depository financial institution.

Upon receipt of the information in Items 1-8 above, the BLM office will telefax a copy of the information to the Negotiable Securities Custodian at the Denver Service Center's Branch of General Accounting. The Negotiable Securities Custodian will contact both the servicing FRB or branch and the obligor's bank to authorize the transfer of the security to the Circular 154 Account Number 11.

THE OBLIGOR'S FINANCIAL INSTITUTION MUST NOT TRANSFER THE SECURITY TO THE CIRCULAR 154 ACCOUNT NUMBER 11 UNTIL THE NEGOTIABLE SECURITIES CUSTODIAN GIVES THE AUTHORIZATION.

When transferring the security 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 serial number, etc.)." The following is an example of an acceptable transfer message: "Security pledged to DOI Bureau of Land Management, Colorado State Office by Alpha Corp. for Oil and Gas Lease COC 12345."

Upon transfer of the negotiable security, the obligor should provide the following information to the BLM office:

1. A completed bond Form 3000-4. Form 3000-4 contains a Power of Attorney authorizing the Secretary of the Interior to collect the funds in case of default in the lease terms.
2. A copy of the "Acknowledgement of Book Entry Deposit, Release of Account Transfer," which the Federal Reserve Bank (FRB) sends to your bank. This constitutes proof that the security is in the Circular 154 Account 11. This document also provides the BLM with the date of the transfer.
3. A transaction document from your bank to verify the amount you paid for the security, excluding any commission fee and accrued interest, is equal to or exceeds the required bond amount.

The BLM will issue a decision advising the obligor:

- The BLM has accepted the personal bond.
- The BLM Bond Number assigned to the bond.
- The date bond coverage is effective.

The BLM office will also furnish a copy of its bond acceptance decision, along with a copy of "Acknowledgement of Book-Entry Deposit, Release of Account Transfer," to the Negotiable Securities Custodian (SC-615).

The FRB transfers the semi-annual interest on Treasury Notes and Bonds to the obligor's bank. The bank transfers 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.). The obligor's financial institution is responsible for sending a 1099-INT form to the obligor for interest paid the previous calendar year.

The Negotiable Securities Custodian will notify the BLM office of a maturing security approximately 90 days before the maturity date. The BLM office will, in turn, notify the obligor by letter that the security is maturing.

The BLM office will send a memo to the Negotiable Securities Custodian requesting them to direct the FRB to transfer the security from the Circular 154 Account Number 11 to the obligor's bank if:

- The BLM no longer requires bond coverage.
- You or another party provides replacement bond coverage.

If collection under the bond is necessary due to a default under the terms of a lease(s) covered by the bond, the BLM will send a memo requesting the Negotiable Securities Custodian to direct the FRB to transfer the proceeds to the BLM. The BLM will deposit the proceeds from the security into the BLM office's suspense account.

It is not necessary to file a new personal bond form and Power of Attorney when you file a replacement security. You still need to furnish the appropriate BLM office the information previously requested in Items 1 through 8.

If the bank has any questions about any of the information provided, it may contact the servicing FRB or branch. Any questions regarding the BLM's procedures may be directed to Esther Velasquez, Negotiable Securities Custodian, at (303) 236-6321 or FAX (303) 236-06

SAMPLE ACCEPTABLE LETTER OF CREDIT

(To be made available to potential Obligors and Financial Institutions)

IRREVOCABLE LETTER OF CREDIT

No.

Issuing Financial Institution:

Address:

City, State & Zip Code:

Contact Person & Telephone Number:

Date Issued: (To be completed by bank)

Date Filed: (To be completed by BLM)

Sir or Madam:

On behalf of (name and address of party requesting issuance of letter of credit), as Obligor, we, (name of financial institution), hereafter referred to as "Bank," hereby establish an irrevocable letter of credit in favor of the Bureau of Land Management (BLM). We agree to pay, upon demand by and to the Department of the Interior-BLM, up to an aggregate amount of Dollars (\$.00), upon receipt of a written demand therefore by the Authorized Officer (AO) of the BLM retaining the personal bond of the obligor whose bond this letter serves as security, pursuant to 43 CFR Section 3104.

This letter of credit is effective (date), and will expire at midnight (date, which must be at least 1 year from the effective date or the date the letter is filed with BLM, whichever is later); however, this credit will automatically be extended for periods of 1 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, unless 90 days prior to such date, we notify the AO originally accepting this letter or his/her successor by Certified Mail-Return Receipt Requested, that we elect not to renew this letter for such additional period.

Upon receipt by the BLM of such a notice from us not to renew this letter, the BLM may draw on us at sight for up to the amount of this letter of credit pursuant to 43 CFR 3104 unless it has been replaced by another suitable bond or letter of credit.

SAMPLE ACCEPTABLE LETTER OF CREDIT (Cont'd)

It is also understood that, at any time this letter of credit is in effect, the AO may draw on this letter of credit 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 letter of credit 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 promise that the amount of credit herein established will not be reduced for any reason during the effectiveness of this letter without prior written approval of the AO. We shall give prompt notice to the AO of any notice received or action filed alleging the insolvency or bankruptcy of us, the bank issuing this letter, or alleging any violations of the regulatory requirements which could result in suspension or revocation of our charter or license to do business as a bank. We shall also give prompt notice to the AO of any notice we receive alleging the insolvency or bankruptcy of the Obligor on whose behalf this letter is written.

In the event that we, the Bank, become unable to fulfill our obligations under this letter of credit 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 letter of credit 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 the Chief, Fluids Adjudication Section, Branch of Fluid Minerals, Colorado State Office, Bureau of Land Management, 2850 Youngfield St., Lakewood, CO 80215-7210, and his/her successors.

NAME OF FINANCIAL INSTITUTION

BY:

ATTEST: _____ (Signature)

Title: _____ (Type Name and 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 therefore 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 acknowledgment appropriate for the state in which the letter is issued; acknowledgment is not required.

Assumption of Liability Rider

It is hereby agreed by the undersigned obligor to assume any and all liabilities that may be outstanding on BLM Bond No. (Prior Bond No.), including but not limited to, the obligation to properly plug and abandon all wells existing on leases to which BLM Bond No. (Prior Bond No.) applies and any unpaid rentals or royalties heretofore accruing: provided, however, that this rider shall not act to increase the potential or cumulative liability of the bond to which this rider attaches.

Executed this _____ day of _____ 20__.

Witness:

