ANCHOR POINT ENERGY, LLC

April 7, 2014

Ben Hagedorn
Alaska Department of Natural Resources
State Pipeline Coordinator's Office
411 West 4th Avenue, Suite 2C
Anchorage, Alaska 99501

Re: 2013 North Fork Pipeline Lessee Annual Report
State of Alaska ROW Lease 230928

Dear Mr. Hagedorn:

This letter provides Anchor Point Energy, LLC's (APE) annual report for our pipeline lease for the North Fork Pipeline Project. The information provided is arranged in the following categories:

1. Project overview and summary.
2. Summary of surveillance and monitoring efforts performed by APE. These are outlined in the Surveillance and Monitoring Plan approved by the SPCO for the project.
3. Discussion of APE's performance under the Quality Programs approved by the SPCO for the project.

Should you have any questions, you can call either me at 303-623-1821 or Bob Britch at 907-240-5830.

Sincerely,

Ed Teng
Vice President-Engineering

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1.0 Project Overview

1.1 Background

The North Fork Gas Pipeline Project provides a transportation system to ship natural gas reserves from the Armstrong Cook Inlet, LLC (ACI) production pad for the North Fork Unit (NFU) to the Enstar Natural Gas Company (Enstar) gas transmission line in Anchor Point, Alaska. The Enstar line transports and distributes natural gas throughout the Kenai Peninsula and other locations, including Anchorage, Alaska. ACI formed a limited liability corporation to construct the North Fork Pipeline. The corporation, identified as Anchor Point Energy, LLC, is authorized by ACI to be their agent for the project.

The scope of this project includes the construction and operation of a natural gas transportation system, including metering, with pig launching and receiving facilities at both ends of the pipeline. The natural gas pipeline consists of 7.4 miles of dual buried pipe each with a nominal diameter of 4.5 inches or less.

There are two segments within the 7.4 mile long pipeline system (see Figure 1). The eastern segment consists of dual 4.5 inch Fiberspar LinePipe that is approximately 33,090 feet (6.3 miles) in length. The western segment includes is a dual 4 inch steel pipeline approximately 5,910 feet (1.1 mile) in length. Use of the Fiberspar LinePipe pipe) segment requires the Special Permit from the USDOT/PHMSA; use of the steel pipeline segment does not. The use of the Fiberspar LinePipe was approved for use by PHMSA Special Permit to the eastern segment where the density of residential and business structures was 10 or fewer buildings intended for human occupancy per mile of pipeline. The Fiberspar LinePipe is a three layered pipe consisting of a HDPE pressure barrier, glass fiber reinforced laminate, and a HDPE wear resistant layer. The entire pipeline system is permitted for a maximum allowable operating pressure (MAOP) of 1,328 psi.

1.2 Project Timeline

The North Fork Gas Pipeline Project initiated design and permitting activities in late 2009 and commenced operation on April 1, 2011. Key timeline events in this process are summarized below:

- September 28, 2010-The SPCO ROW Lease (No. 230928) was signed.
- September 29, 2010-The fall construction activities associated with the western segment of the pipeline were approved construction activities were initiated.
- October 8, 2010-PHMSA issued their Special Permit (PMHSA-2010-0063).
- January 15, 2011-Construction under the PHMSA Special Permit commenced.
- April 1, 2011-North Fork Gas Pipeline construction was completed and pipeline commenced operations.

The facilities have been in continuous operation since the pipelines came into production in 2011.

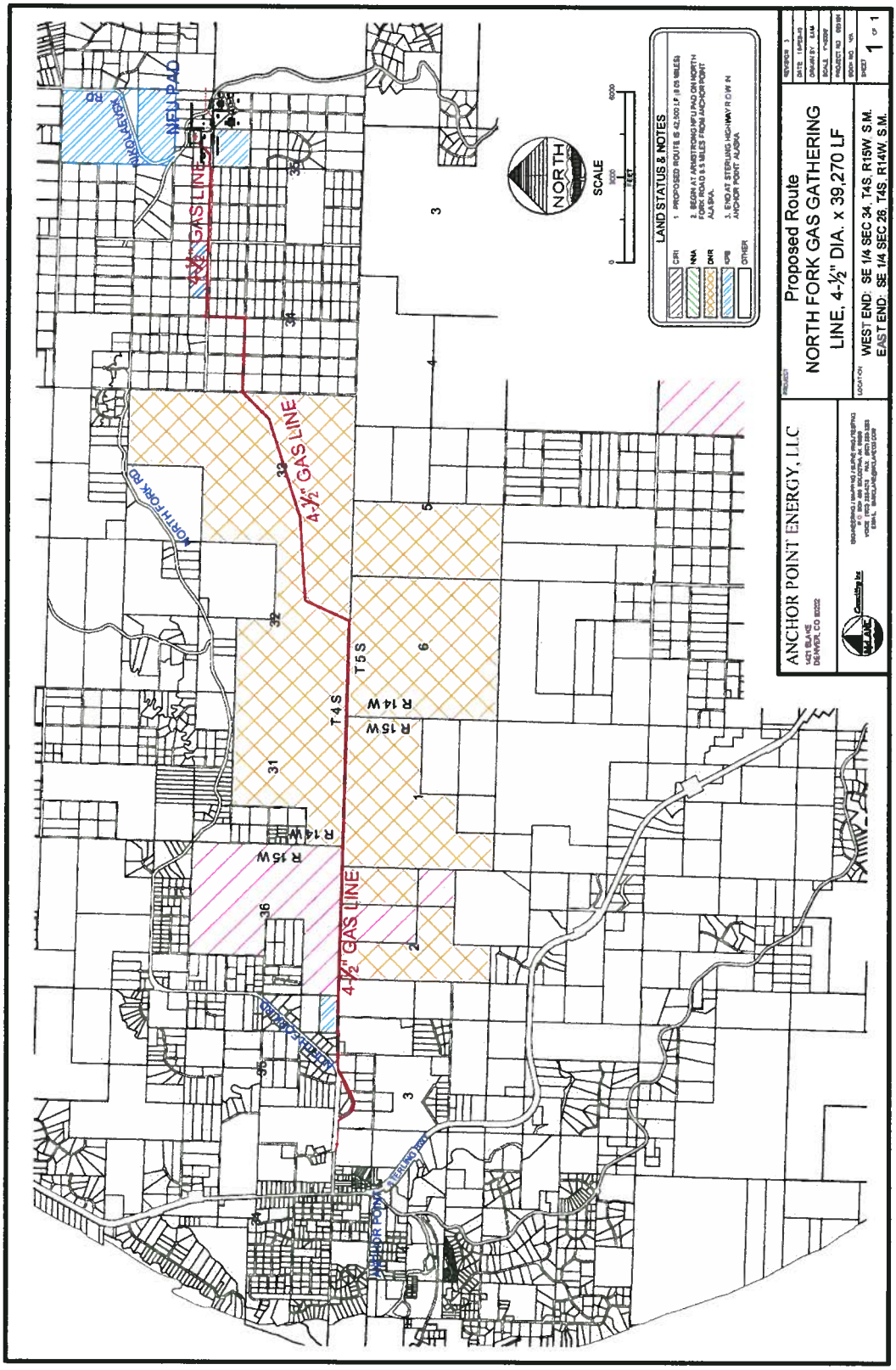

Figure 1. Project Location Map

1.3 Pipeline Throughput

The pipeline was in operation during all of 2013 and has transported a total of 3,440 mmscf of natural gas through the end of 2013. Daily production varies typically from about 1.5 to just about 15 mmscf per day. The daily production was 9.4 mmscf. Figure 2 shows the production through the North Fork Gas Pipeline during 2013.

All natural gas was delivered to the Enstar Natural Gas Company (Enstar) gas transmission line in Anchor Point, Alaska for distribution in Southcentral Alaska.

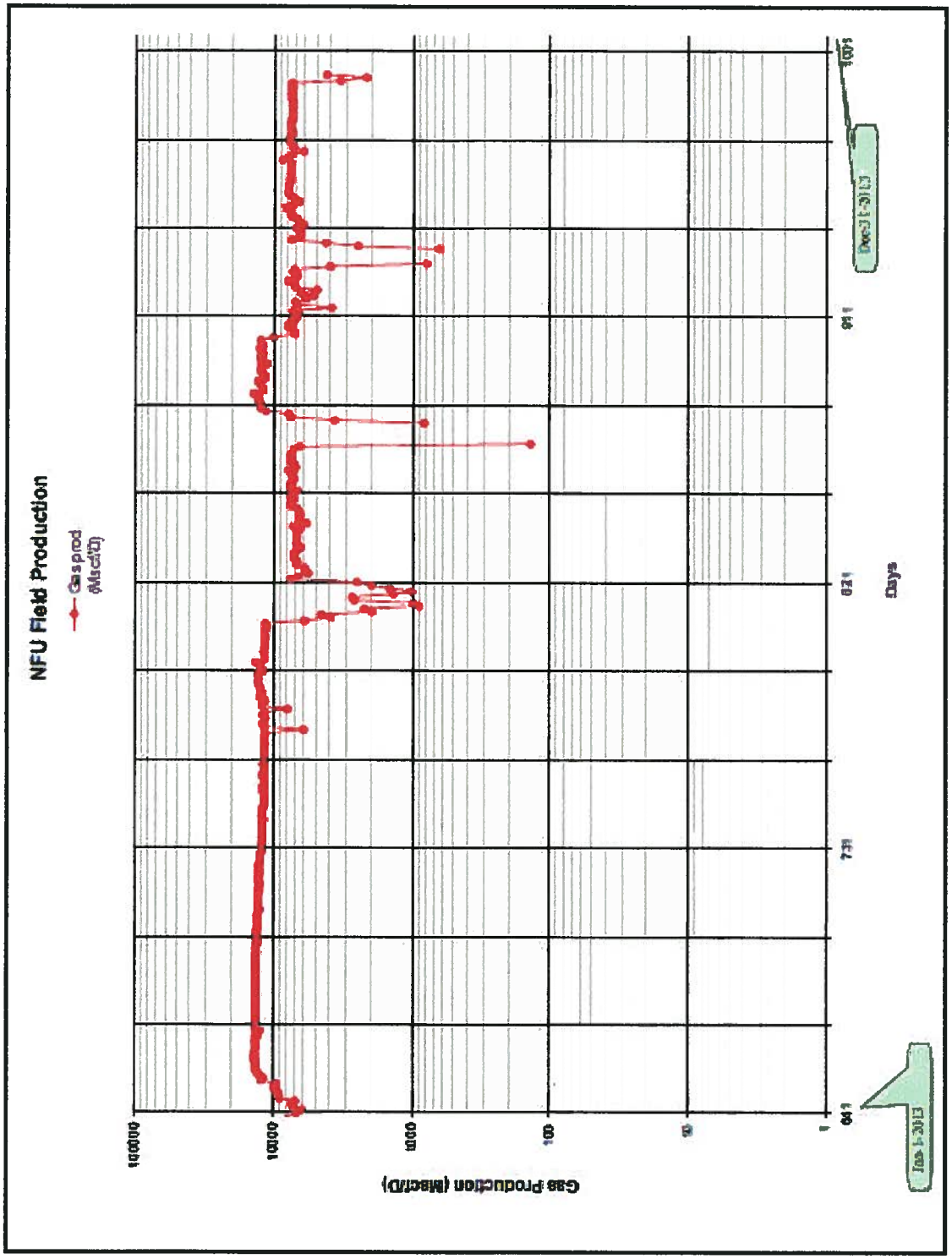

Figure 2. Pipeline Throughput for 2013.

2.0 Surveillance and Monitoring Program

2.1 Background

This section addresses the state of, changes to and results 2013 of APE's Quality Program (as defined in the Surveillance and Monitoring Program dated March 7, 2011). Specific topics to be covered are addressed in the following sections.

2.2 Routine Patrolling

A surveillance and monitoring program was initiated in April 2011 and includes monthly patrols of the pipeline. Separate checklists are used to evaluate the following parameters:

1. General condition along the ROW
2. Frost heave or thaw settlement
3. Public access and safety
4. Restoration and revegetation
5. Fish and wildlife
6. River, stream, shoreline and floodplain crossings
7. Continuing surveillance
8. Valves and valve pads

Table 1 provides a summary of the first seven items listed above during 2013; the last item is discussed in Section 2.5. In 2013 erosion, frost heave and thaw settlement was observed, restoration efforts were initiated to correct the problems. While there has been ongoing evidence of third parties traveling along or across the ROW, there has not been any substantial concern from these activities.

2.3 ROW Leakage Surveys

Survey methods and results were provided to PHMSA on March 25, 2011. Detailed leak surveys were conducted on January 15, 2013 and August 22, 2013 of all above ground and belowground piping at the North Fork Unit Pad and along the APE pipeline ROW.

One minor leak was observed with a stainless steel tap on the bottom of a valve In the January 15, 2014 survey. This leak was immediately stopped by tightening the tap. There were not leaks observed during the August 22, 2014 survey.

2.4 Frost Heave or Thaw Settlement

Within the context of this section, frost heave and thaw settlement is primarily associated with pipeline operation rather than construction. The pipeline is located entirely in non permafrost areas that does not freeze during winter. To date no issues have been associated from frost heave or thaw settle of the pipeline.

Thaw settlement issues associated with the project are primarily surface issues associated with construction activities that involved placement of frozen materials into a partially frozen trench and subsequent thawing and settlement of frozen materials during summer; these are addressed later in Section 2.7.

Table 1. Summary of General ROW Surveys in 2013.

Date	Specific Observations	Comments
1/25/13	Light ATV tracks in area and trash in area	Monitor and pick trash when detected
	No evidence of other issues	Continue to monitor
2/11/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	Small areas of depressions with snow cover	Continue to monitor
	No evidence of other issues	Continue to monitor
3/13/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	No evidence of other issues	Continue to monitor
4/3/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	Small areas of depressions with snow cover	Continue to monitor
	No evidence of other issues	Continue to monitor
5/14/12	Light ATV tracks and trash in area	Monitor and pick trash when detected
	No evidence of other issues	Continue to monitor
6/5/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	Thaw subsidence and frost heaving between MP 1.25 and 4.25	Planning restoration
	No evidence of other issues	Continue to monitor
7/12/12	Light ATV tracks and trash in area	Monitor and pick trash when detected
	Visible erosion observed	Planning restoration
	Frost heaving and settlement observed	Planning restoration
	No evidence of other issues	Continue to monitor
8/21/12	Very light ATV tracks and trash in area	Monitor and pick trash when detected
	No evidence of other issues	Continue to monitor
9/14/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	No evidence of other issues	Continue to monitor
10/31/14	Very light ATV tracks and trash in area	Monitor and pick trash when detected
	No evidence of other issues	Continue to monitor
11/4/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	Much water on ground with recent rainfall	Continue to monitor
	No evidence of other issues	Continue to monitor
11/26/13	Light ATV tracks and trash in area	Monitor and pick trash when detected
	Removal of 8 fallen trees from ROW	Continue to pick when detected
	No evidence of other issues	Continue to monitor

2.5 Valves and Pads

Valves are located either on the NFU Pad at the east end of the pipelines, or at the Enstar metering pad located at the west end of the pad. The only valves along the pipeline are located at the blowdown station located about 1 mile from the west end of the pipeline. Valves and pads are inspected monthly by the Operator and are reported on a separate form. that are used for surveys as discussed in Section 2.3. Some snow removal occurred from around the valves in January 2012.

Table 2. Summary of Monthly Checks of Valves and Valve Pads in 2013.

Date	Specific Observations	Comments
1/17/13	No evidence of problems	Continue to monitor
2/21/13	No evidence of problems	Continue to monitor
3/14/13	No evidence of problems	Continue to monitor
4/20/13	No evidence of problems	Continue to monitor
5/17/13	No evidence of problems	Continue to monitor
6/11/13	No evidence of problems	Continue to monitor
7/8/13	DOT PSVs being rotated for recertification	Continue to monitor
	No evidence of other issues	Continue to monitor
8/21/13	No evidence of problems	Continue to monitor
9/21/13	No evidence of problems	Continue to monitor
10/16/13	No evidence of problems	Continue to monitor
11/7/13	No evidence of problems	Continue to monitor
12/12/13	No evidence of problems	Continue to monitor

2.6 Cathodic Protection Survey

An annual cathodic protection survey was performed on the North Fork Natural Gas Pipeline in August 13-15. The inspection covered all components of the pipeline system including:

- Steel transmission pipelines
- Fiberspar transmission pipelines couplings
- Pad 41-35 gathering line
- North Fork Unit Pad flow lines
- North Fork Unit Fiberspar test section
- New active/future well flow lines
- New Enstar tie-in

Test results for all components indicate that the existing system is providing adequate level of cathodic protection at the test station locations

2.7 Restoration and Revegetation

Restoration activities were included that required for disturbances to wetlands, stream banks, and upland cut areas. A number of specific areas were identified in depth of cover surveys in June 2013by McLane Consulting Engineering. These areas are included in Table 3 below.

Table 3. Summary of ROW Areas Recommended for Restoration.

Area	Description	Comments
1	Trench subsidence at top of hill east of Coleman Lantern Road, approximately 250 lineal feet not in wetlands. (Photo 1)	Use existing materials adjacent to pipeline trench to fill area.
2	Trench subsidence from MP 2 easterly to trail, approximately 700 lineal feet not uplands. (Photo 2)	Use existing materials adjacent to pipeline trench to fill area.
3	Water filled depression in wetland next to Wagon Road approximately ¼ mile from the NFU Pad. (Photo 3)	Fill with about 3 dump truck loads of sand and place in depression with excavator.
4	Water eroded saw-cut trench in wetlands, on Wagon Road beginning near test station approximately 400 feet to 90 degree corner in road. (Photo 4)	Place sand bags in channel at 25 foot intervals. Fill with about 3 dump truck loads of peat and place in depression either by hand or with a wide track skid steer loader.
5	Water filled depression in wetlands at end of Wagon Road and approximately 1.3 miles from North Fork Road. (Photo 5)	Fill with about 3 dump truck loads of sand and place in depression with excavator.
6	Drainage swale crossing 150 feet past end of Wagon Road on Handcart Road. (Photo 6)	Use about 2 CY of 1-6 inch cobble.
7	Drainage swale crossing 150 feet past end of Wagon Road on Handcart Road. (Photo 7)	Use about 2 CY of 1-6 inch cobble.

Photo 1. Area 1-Trench subsistence east of Coleman Lantern Road.

Photo 2. Area 2-Trench subsistence near MP 2.

Photo 3. Area 3-Water filled depression in wetland next to Wagon Road near the NFU Pad.

Photo 4. Area 4-Water eroded saw-cut trench in wetlands next to Wagon Road.

Photo 5. Area 5-Water filled depression at pipelone bend in wetland next to Wagon Road near the NFU Pad.

Photo 6. Area 6-First Drainage swale crossing on Handcar Road past the end of Wagon Road.

Photo 7. Area 7-Second drainage swale crossing on Handcart Road past the end of Wagon Road

Areas indicated above were all remediated during the summer of 2013.

2.7 Fish and Wildlife Protection

The presence or evidence of wildlife was not generally observed in any of the monthly ROW surveys. Stream channels are not normally investigated for the presence or absence of fish.

2.9 Public Access and Safety

General: Based on the monthly ground surveys, it is apparent that the ROW is routinely used by snow machines in the winter and by ATVs (4-wheelers/snow machines) during the entire year. Normally impacts from these activities is limited to minor trash along the ROW.

Damage on ROW: Minor damage was observed along the ROW. This included damage to several pipeline markers (Photos 8 and 10) and damage to a cathodic protection test station (Photo 9). The cause of damage is not entirely known, but all damage corrected soon after discovery.

Photo 8. Damage of Pipeline Marker.

Photo 9. Damage of Test Station for Cathodic Protection System.

In addition, over the course of 2013, a total of 8 trees fell across the ROW, presumeably as a result of wind damage (see examples in Photo 10 and 11). All trees were cut up and placed alongside of the ROW during November 2013.

Photo 10. Damage of pipeline marker from fallen tree.

Photo 11. Fallen tree on ROW.

Alaska Digline Notifications: One of APE is a participant in the One-Call Notification System that is operated by Alaska Digline, Inc. People wanting to excavate in the general area are encouraged to call Alaska Digline at 811 and they will collect information on your project and let you know if their activities are in the vicinity of the pipeline. They will also contact APE to let them know of the pending actions so that they can monitor activates or conducted additional pipeline locates for the excavators.

There were no Alaska Digline calls or notifications in 2013.

2.10 River and Stream Floodplain Crossings

No damage was observed around stream crossings.

2.11 Pigging

Pigging in not conducted in 2013 nor is it planned for the near future. An In-Line Inspection Manual was issue on October 7, 2011 that describes possible pigging techniques.

2.12 Investigations of Any Significant Events

There were no significant events associated with the pipeline operation in 2013.

2.13 Proposed Changes to Program for 2014

Two new gas wells were drilled in late 2012 on the NFU Pad. As a result of the increased natural gas available from the two new wells, the second gas pipeline was put into operation in December 2012 and production rates were increased to about 10 mmscf per day.

There are no other modifications planned in 2014 and current operation and maintenance activities will continue during 2014.

3.0 Quality Program

3.1 Background

This section addresses the state of, changes to and results during 2013 of APE's Quality Program (as defined in the Quality Program dated March 7, 2011). Specific topics to be covered are addressed in the following sections.

3.2 Leadership and Accountability

The overall project team has performed very well since construction was completed in the late winter/early spring of 2011. Once construction and startup was completed, it was apparent that the entire operation could be handled primarily by one onsite operator. That individual (James Inman) is a local resident who was involved in the project during construction and startup and is now APE. All American Oilfield (based in Kenai and managed by Peter Dickinson) managed the facility and pipeline construction and now also obtains and manages other specialized services required onsite. This organization still reports directly to the APE Project Manager (Ed Teng).

ADNR is aware that Armstrong is in the process of transferring ownership of APE to Cook Inlet Energy and this process should be complete within the next 6 months. As a result of this transfer, JR Wilcox (with Cook Inlet Energy) will assume the role that Ed Teng holds. No other personnel changes are anticipated at this time with the existing project team.

3.3 Training and Qualifications

The project remains to be covered under the PHMSA Operator Qualification (OQ) Program which provides clear definition of training requirements and qualifications for covered tasks. In 2011 the OQ program shifted from the construction to the operations phase, and the revised Operator Qualification Plan was issued on February 1, 2012.

3.4 Design and Construction

The project design and construction manuals were updated and revised on a number of occasions during and following construction in early 2011. Current revisions for these documents are provided below:

- Design Basis and Criteria Manual (SPCO), Rev. 1 (12/13/10)
- Design Manual (PHMSA), Rev. 0 (5/13/11)
- Installation Manual, Rev. 3 (2/18/11)
- Operations and Maintenance Manual, Rev. 2 (10/8/12)
- Integrity Management Program, Rev. 5 (4/12/13)
- Emergency Response Plan, Rev.2 (10/8/12)
- Civil Drawings (1/11/11)
- Mechanical Drawings (1/21/11)

Copies of these documents are on file with the SPCO.

3.5 Operations and Maintenance

Operations, maintenance and abandonment activities for the pipeline system are covered in the following documents. These manuals were updated and revised on a number of occasions during and following construction in early 2011. Current revisions for these documents are provided below:

- Operations and Maintenance Manual, Rev. 2 (8/10/12)
- Integrity Management Program, Rev. 5 (4/12/13)
- Emergency Response Plan, Rev.2 (8/10/12)
- Operator Qualification Plan, Rev.1 (2/1/12)

Copies of these documents are on file with the SPCO.

To date there has been a few minor startup issues, and most of these have been identified and corrected. There were no emergency incidents associated the pipeline operation in 2013. All systems are new and continue to be maintained properly. There are no problems currently identified that may lead to a incident with either the pipeline design or operation.

In 2013 there were 4 system shut-downs for a total duration of 225.5 hours (see Table 4). The longest event was 208 hours and was a planned shutdown to repair afire tube at the production facility. There was only one unplanned shutdown of 2.5 hours to correct a problem with the PSD contactor

Table 4. Summary of Downtime Incidents in 2013.

Event	Date	Cause	Duration
1	1/29/13	Malfunction in level switch on glycol contactor	2.5 hrs
2	5/11/13	Scheduled compressor bypass tie-in	11 hrs
3	5/2013	Leak at Enstar side of transfer station	1 hr
4	8/16-24/13	Fire tube repair in reboiler for dehy unit	208 hrs

3.6 Safety

APE remains committed to ensuring that health and safety are at the highest level of importance for this project. Construction of the project occurred in early 2011 and the pipeline has been in operations since April 1, 2011. There were no OSHA reportable incidents associated with either construction or operations (including 2013).

3.7 Emergency Preparedness and Response

APE has established procedures for emergency response to specific incidents and these are described in the following documents:

- Operations and Maintenance Manual, Rev. 2 (10/8/12)
- Emergency Response Plan, Rev.2 (10/8/12)

There were no events requiring an emergency response related to the pipeline operation in 2013.

3.8 Environmental Protection

There have been no reportable spills or other major environmental events at any of the APE project locations. There were some issues with erosion, frost heaving, and thaw settlement in sections of the line; these were addressed in earlier sections.

3.9 Risk Management

General: The risk management program is primarily addressed in the following document

- Integrity Management Program, Rev. 5 (4/12/13)

Some of the key elements of this program are addressed in the following paragraphs.

Public Awareness Program: APE is committed to enhancement of its Public Awareness Program (PAP) Plan which is included as part of the Integrity Management Plan. The primary purpose of the PAP is to make sure that the local stakeholders are adequately informed of the project and the risks associated with the operation of the project.

One component of the PAP is APE's use of the Alaska Digline system which was previously discussed in Section 2.7.

The PAP Plan was revised on 4/12/13 as a result of minor administrative revisions.

Leakage Surveys: Leakage surveys are required to be conducted twice per year and were previously discussed in Section 2.2.

3.10 Management of Change

The North Fork Gas Pipeline is at this time has been operating for about two years. Last year, most of the efforts have been minor maintenance issues. The pipeline system seems to have been well designed and constructed and there have been no issues that have required significant changes in the pipeline operation. If they do arise, there are existing procedures in the Integrity Management Program and in the Operations and Maintenance Manual to address management of change.

3.11 Records Management

Overall records management is coordinated by Northern Consulting Group in Anchorage, Alaska. Project records are maintained primarily in an electronic form that is stored at the North Fork Unit Pad, in Anchorage, and in APE's Denver Office. Some original non-electronic documentation, primarily from construction activities, is stored in Anchorage.

Project manuals and plans are routinely updated and distributed to the various project locations and offices. Complete sets of project manuals may also be reissued periodically if deemed necessary. All major manuals and reports are normally provided to the SPCO unless it contains unique information only for PHMSA. Table 5 provides a summary of submittals for the project.

Table 5. Summary of Key Regulatory Submittals and Communications During 2013.

Date	Parties Involved	Description
1/15/13	APE	Conducted bi-annual leak detection survey for PHMSA
4/9/13	APE	Submitted 2012 Annual On-line Report to PHMSA
4/12/12	APE & SPCO	Submitted Final Revised Annual Report to SPCO
4/12/13	APE & PHMSA	Minor administrative revisions of PHMSA Integrity Management Program
6/12/13	APE	Conducted Class Survey/Review of Pipeline ROW for PHMSA
6/22/13	APE	Conducted pipeline cover survey for PHMSA
8/13-15/13	APE	Cathodic Protection annual survey for PHMSA and SPCO
8/22/13	APE	Conducted bi-annual leak detection survey for PHMSA
11/9/13	APE	Completed remedial action for depth of pipeline cover and resurvey data completed.
11/29/13	APE	Submitted Annual Special Permit Report to PHMSA

3.12 Continuous Improvement

APE's North Fork Gas Pipeline is regulated by the SPCO. It is also regulated by PHMSA, especially as most of the pipeline system operates under a Special Permit form PHMSA. The site visits provide ongoing feedback from various regulators on operational and regulatory compliance for the project.

Table 6. Summary of Site Visits and Inspections During 2013.

Date	Parties Involved	Description
6/5/13	APE & SPCO	Site visit by Ben Hagedorn and assistant from SPCO