



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

550 W 7th Avenue, Suite 1100

Anchorage, AK 99501-3560

Main: 907.269.8800

Fax: 907.269.8939

December 26, 2017

VIA CERTIFIED MAIL

Bruce Webb
Sr. Vice President
Furie Operating Alaska, LLC
188 W. Northern Lights Blvd., Suite 620
Anchorage, AK 99503

Re: Kitchen Lights Unit – Notice of Default and Cure Demand
Failure to Fulfill Drilling Commitment

Dear Mr. Webb,

This letter serves as notice of default for the Kitchen Lights Unit (KLU) under 11 AAC 83.374(a) for failure to meet the drilling commitments initially set forth by Furie in its October 7, 2016 Plan of Development (POD). Furie, however, can fully cure default through completion of the listed work commitments described on page three of this notice of default.

The KLU is an 83,394-acre unit divided into four blocks: the Corsair, North, Southwest, and Central Blocks. Originally, the State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) approved formation of the Kitchen Unit on January 31, 2007 and later the expansion and renaming of the Kitchen Unit to the Kitchen Lights Unit on June 30, 2009.

By regulation and under the terms of the unit agreement, the operator, Furie Operating Alaska, LLC (Furie), must conduct proposed exploration or development activities in accordance with an approved Plan of Exploration (POE) or Plan of Development (POD). Failure to fulfill the commitments for a POE or POD is a default of the unit. *See* 11 AAC 83.374(a).

Operation of the KLU previously and up through the present reflects a history of committing to drilling activities, but then delaying or changing those work commitments. Among other commitments, the 2015 POE required Furie to drill two development wells in the Corsair block by November 30, 2015. Furie did not drill these wells. Instead, it submitted an August 27, 2015 POE amendment proposing removal of these drilling work commitments from its 2015 POE and deferring the drilling until November 30, 2016. The Division deferred Furie's drilling commitments to be addressed in Furie's 2016 Plan of Development (POD).

In its October 7, 2016 4th POD, approved by the Division on December 8, 2016, Furie again committed to development activities in the Corsair block, with an alternative plan to explore in the North block. Specifically, Furie committed to:

- Complete the KLU #A-1 well in the Corsair block by November 30, 2017.

- Either (a) by November 30, 2017, drill and log a development well in the Corsair Block to the Sterling flow test zone reached by the KLU #3 well and present DNR with a plan for completing the well; or (b) by December 30, 2017, drill and log the KLU #4 exploration well in the North Block.

In an amendment to Furie's 4th POD, Furie changed alternative (b), above, to state that by December 30, 2017, Furie will drill and log either KLU #4 or KLU #6-Deep Jurassic. The KLU #6-Deep Jurassic well is proposed for ADL 389198 in the Corsair Block. Furie previously labeled a prospective well in ADL 389924 as "KLU #6," but has renamed it KLU #13. The Division approved Furie's Amendment to the 4th POD on June 2, 2017.

Furie's November 8, 2017 Revised Fifth Plan of Development (5th POD) for the January 5, 2018 through January 4, 2019 period, deemed complete on November 17, 2017 and under review by the Division, commits to:

- (i) Complete the KLU #A-1 well if advisable based on logs, data, and market conditions.
- (ii) Drill and acquire all necessary logs and data to properly evaluate one new development well from the Julius R. platform to the stratigraphic equivalent of the Sterling flow tested zones in the KLU #3 well, namely the sand encountered from 6964 feet to 6998 feet measured depth in the KLU #3 well, unless interpretations from the shallower data in a well indicate that producible hydrocarbons are unlikely to be found by drilling to that equivalent horizon depth. Based on the logs and data acquired from the new development well, develop a plan for completing the well and present the plan to DNR.
- (iii) As an alternative to the development well described in (ii), Furie may conduct drilling and evaluation of an exploration well as described [as follows]:
 - Provided Furie has enough time and conditions safely permit, use commercially reasonable efforts to either (a) drill and log an exploration well; or (b) re-enter, deepen and log the KLU #4 exploration well.
 - Furie will continue to interpret and evaluate the 3-D geophysical seismic data it acquired during the summer and fall of 2015.

In short, Furie has failed to meet its drilling commitments going back to 2015. It committed to drill two wells by November 30, 2015. Furie did not drill the wells. The Division approved a POE amendment to defer those drilling commitments to November 30, 2016. Furie did not drill the wells. Furie committed to drilling two wells again in 2016. It did not drill those wells, and again seeks to defer its commitment another year.

Under Article 20.1 of the Kitchen Unit Agreement, failure to comply with any of the terms of an approved unit agreement, including plans of exploration, development, or operations that are a part of the unit agreement, is a default under the unit agreement:

The Commissioner will, in his or her discretion, determine that failure of the Unit Operator or the Working Interest Owners to comply with any of the terms of this

Agreement, including any Approved Unit Plan, is a default under this Agreement. The failure to comply because of force majeure is not a default.

Based upon the foregoing, DNR hereby provides notice of default. DNR provides Furie with the following opportunity to cure under 11 AAC 83.374(b). By December 31, 2018, Furie will:

- Complete the KLU #A-1 well; and
- Either (a) drill, evaluate, and test a new development well to the Sterling Formation; (b) drill, evaluate, and test KLU #4; or (c) drill, evaluate, and test or KLU #6-Deep Jurassic.

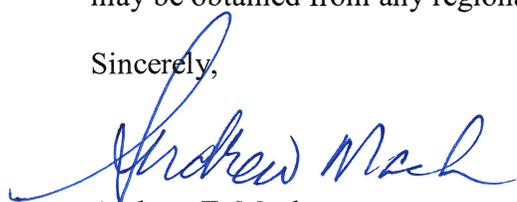
To fully cure default, Furie must satisfy the above listed work commitments set forth in this notice of default. To further ensure Furie is complying with its proposed 5th POD work commitments, Furie will submit to the Division quarterly work commitment updates beginning in January 2018, with the first quarterly work commitment update due no later than March 30, 2018.

If Furie fails to cure default, DNR may pursue either unit contraction under 11 AAC 83.356(e), or unit termination in accordance with 11 AAC 83.374.

The Division will evaluate Furie's proposed POD separately from this notice of default.

An eligible person affected by this decision may request reconsideration of it in accordance with 11 AAC 02. Any request for reconsideration must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d), and may be mailed or delivered to Andrew T. Mack, Commissioner, Department of Natural Resources, 550 West 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first request reconsideration of this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. If the Commissioner does not act on a request for reconsideration within 30 days after issuance of this decision, the request for reconsideration is considered denied and this decision becomes a final administrative order and decision on the 31st day after issuance for the purposes of an appeal to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,



Andrew T. Mack
Commissioner
Department of Natural Resources