

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Commissioner of the Department of Natural Resources of the State of Alaska, under Title 38 of the Alaska Statutes, as amended, and under the Alaska Oil and Gas Leasing Regulations pursuant thereto, I do hereby:

(a) Approve the attached Unit Agreement for the Development and Operation of the Duck Island Unit Area, State of Alaska.

(b) Certify and determine that the unit plan of development and operation, contemplated in the attached agreement, is necessary and advisable in the public interest for the purpose of more properly conserving natural resources.

(c) Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of all State of Alaska leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Provided, however, this approval, certification and determination is made expressly subject to the condition that, regardless of any provision of the Unit Agreement, the parties to said Unit Agreement shall enter into an appropriate Unit Operating Agreement for said unit area, and if such Unit Operating Agreement shall not have been filed with the office of the Division of Minerals and Energy Management, Anchorage, Alaska, within 90 days from the effective date of this Unit Agreement, this approval, certification and determination and Unit Agreement shall become null and void as of its original date.

Time is of the essence for this approval.

DATED this 21 day of August, 1978.

Deputy

Fredrick H. Boness  
Commissioner  
Department of Natural Resources

AGO 1363450

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
DUCK ISLAND UNIT  
STATE OF ALASKA  
FOURTH JUDICIAL DISTRICT

THIS AGREEMENT, entered into as of the 20th day of March,  
1978, by and between the parties subscribing, ratifying, or con-  
senting hereto, and herein referred to as the "parties hereto",

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of working,  
royalty or other oil and gas interests in the unit area subject to  
this agreement; and,

WHEREAS, the Commissioner of the Department of Natural  
Resources, State of Alaska, is authorized by Alaska Statute 38.05  
and appropriate state regulations to consent to or approve this  
agreement on behalf of the State of Alaska, insofar as it covers  
and includes lands and mineral interests of the State of Alaska; and

WHEREAS, the parties hereto hold sufficient interests in  
the Duck Island Unit Area covering the land hereinafter described  
to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to  
conserve natural resources, prevent waste, and secure other benefits  
obtainable through development and operation of the area subject to  
this agreement under the terms, conditions and limitations herein  
set forth; and

WHEREAS, State lands, as that term is used in this agreement,  
means those lands title to which is vested or that become vested in  
the State of Alaska and lands which have been tentatively approved  
after state selection and are not covered by an existing Federal oil  
and gas lease at such time as any right or authority is exercised;

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NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. The Alaska Land Act (AS 38.05.005-370) and all valid and pertinent oil and gas statutes and regulations including the oil and gas operating statutes and regulations in effect as of the effective date hereof or hereafter issued thereunder governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of Alaska are hereby accepted and made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 22,800 acres, more or less. Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator.

Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party.

Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Director, Division of Lands of the Department of Natural Resources, hereinafter referred to as the "Director", and four (4) copies thereof shall be filed with the Director.

The above described unit area shall, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be affected in the

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2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 20,240 acres, more or less. Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator.

Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party.

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following manner:

(a) Unit Operator, on its own motion, or on demand of the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Director and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Director, evidence of mailing of the notice of expansion or contraction, and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Director, become effective as of the date prescribed in the notice hereof.

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots of tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within five years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement except as provided in Paragraph 18 (f),

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unless at the expiration of said five-year period diligent drilling operations are in progress on unitized lands not entitled to participation

(Diligent drilling operations shall be deemed to be "in progress on unitized lands not entitled to participation" if on said fifth anniversary actual drilling operations are in progress on a well located on land within a participating area but approved for completion at a bottom hole location which is outside of a participating area, or if Unit Operator has completed a well drilled during the twelve (12) months immediately preceding said fifth anniversary on unitized lands not entitled to participation, under an approved Plan of Operation, provided drilling operations are commenced on lands not entitled to participation within twelve (12) months after the completion of said well.),

in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 12 months time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator, as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after the first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "unavoidable delay" time shall be made by Unit Operator and subject to approval of the Director. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this Subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of ninety percent of the current unitized working interests and sixty percent of the current unitized basic royalty interests (exclusive of the basic royalty interests of the state) on a total nonparticipating-acreage basis, respectively, with approval of the Commissioner provided such extension application is submitted to the Director not later than 60 days prior to the expiration of said ten-year period.

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Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to the Sub-section 2 (e) shall not be considered automatic commitment or re-commitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. Exxon Corporation, with offices at Houston, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator and as working interest owner commits to this agreement all interests in unitized substances vested in it and agrees and consents to accept the duties and obligations of Unit Operator for discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Director as to State and privately owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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Unit Operator shall have the right to resign in like manner and subject to like limitations, as above provided, at any time a participating area established hereunder is in existence but, in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working interest owners, the owners of the working interests in the participating area or areas, according to their respective acreage interests in such participating areas or areas, or until a participating

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area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; provided that if a majority but less than 75 percent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been filed with and approved by the Director. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the unit



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agreement and the unit operating agreement, this unit agreement shall prevail. Three (3) true copies of any unit operating agreement executed pursuant to this section shall be filed with the Director within ninety (90) days after the effective date of this unit agreement or such later date as may be agreed to by the parties hereto and the Commissioner. In the event copies of the unit operating agreement are not filed as hereinabove provided, this unit shall terminate.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within 12 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Director, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Kekiktuk formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Director that further drilling of said well would be unwarranted or impracticable, provided, however, that

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Unit Operator shall not in any event be required to drill said well to a true vertical depth in excess of 11,400 ft. Until the discovery of a deposit of unitized substances under this unit agreement capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 12 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Director or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Until the discovery of a deposit of unitized substances under the unit agreement capable of producing in paying quantities, the Director reserves the right to approve the location and depth of all exploratory wells.

Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Director an acceptable plan of development and operation for the unitized land which, when approved by the Director, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period

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specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Director a plan for an additional specified period for the development and operation of the unitized land. The Unit Operator expressly covenants to develop the unit area as a reasonably prudent operator in a reasonably prudent manner.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be complete and adequate as the Director may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area, and shall:

(a) specify the number and location of any wells to be drilled and the proposed order and time for such drilling; and,

(b) to the extent practicable, specify the operating practices regarded as necessary and advisable for the proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Director.

Said plan or plans shall be modified or supplemented when necessary to meet changed conditions, or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Director is authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Director shall be drilled except in accordance with a plan of development approved as herein provided.

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11. PARTICIPATION AFTER DISCOVERY. Prior to commencement of production of unitized substances into a pipeline or other means of transportation to market, the Unit Operator shall submit for approval by the Director a schedule based on subdivisions of the public land survey or aliquot parts thereof of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director are to constitute a participating area, effective as of the date such production commences or the effective date of the unit agreement, whichever is later. The acreages of both state and non-state lands shall be based upon approved protraction diagrams or appropriate computations from the courses and distances shown on the last approved protraction diagram or public land survey as of the effective date of the initial participating area or computed with reference to the last approved protraction survey or grids. Said schedule also shall set forth the percentage of unitized tract in the participating area so established and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate



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effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the State of Alaska, which shall be determined by the Director for state lands and the amount thereof deposited, as directed by the Director, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as state royalty on the basis of such approved participating area.

Upon the request of the operator or working interest owners, the Director shall hold as confidential any engineering, geophysical, geological data including but not limited to drilling logs, daily drilling reports or any other data of like or similar nature which may be requested or required by the Director for any purpose of this agreement.

Whenever it is determined, subject to the approval of the Director, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or

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deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Director, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

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13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party or parties hereto owning or controlling the working interests in any unitized land having thereon a regular well location may, with the approval of the Director, and subject to the nonconflicting provisions of the unit operating agreement, at such party's or parties' sole risk, costs, and expense, drill a well at such location on such land to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The State of Alaska and all royalty owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well

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by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Director, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by Director as conforming to good petroleum engineering practice; and provided further that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due on account of the State of Alaska shall be computed and paid as to all unitized substances on the basis of the amounts allocated to such lands, and in accordance with appropriate statutes and regulations.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease



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obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases.

Rentals or minimum royalty on State of Alaska lands subject to this agreement shall be paid at the rates specified in the respective leases and in accordance with appropriate statutes and regulations.

With respect to any lease on non-state land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provisions of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and thereafter until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state law or regulation.

17. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with prior consent of the Director, pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by and approved by the Director for state land leases.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Director as to state leases shall and, by his

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approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of state leases committed hereto and the regulations in respect thereto and conform said requirements to the provisions of this agreement and, without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms thereof shall be deemed full performance of all obligations for development and operation with respect to each and every part of separately owned tract subject to this agreement, regardless of whether there is any development of any particular part or tract of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands, committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any lease embracing land of the State of Alaska having

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only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of Alaska having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is discovered and is capable of being produced in paying quantities from some part of the land embraced in such lease at the time of approval of the unit agreement by the State of Alaska or if at the time of approval of the unit agreement by the state the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas in paying quantities, said lease shall continue in full force and effect as to all of the lands embraced therein so long thereafter as oil or gas in paying quantities is being produced from any portion of said leases, provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities.

Any state lease having production in paying quantities, as defined in this agreement, on said lease prior to commitment to this agreement shall not be segregated. The nonunitized portion shall not participate in the unit area but shall be extended by virtue of the production on the unitized portion and so long as it produces in paying quantities. Nothing herein shall operate to excuse further development on the portion lying outside the unit area where the circumstances would require a reasonably prudent lessee to further development.

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(f) Where some portion of a lease is included within the final participating area as provided in Paragraph 2 (e) of this agreement, the following shall apply as to the area of the lease lands not so included in the final participating area shall be eliminated as in Paragraph 2 (e) of this agreement and shall terminate after the expiration of 90 days. The entire lease shall continue in force and effect so long thereafter as production is allocated to a portion of said lease and so long as annual rentals are paid on the portion not within the participating area. The first rental payment is due and payable on the first day after the expiration of the above mentioned 90-day period with allowance for proration of rentals. Thereafter, annual rentals are due and payable on the anniversary date of the lease.

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer or any working interest, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Commissioner or his duly authorized representative as of the date of approval by the Commissioner and shall terminate five (5) years from said effective date unless:

- (a) such date of expiration is extended by the Commissioner, or
- (b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land



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is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land [within any participating area established hereunder] and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 percentum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time in his discretion the quantity and rate of production in agreement when such quantity and rate is not fixed to state law or does not conform to any statewide conservation or allocation program which is established, and generally adhered to by the majority of operators in such state, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing,

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the Director is also hereby vested with authority to alter or modify from time to time at his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable state law.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of the Department of Natural Resources of the State of Alaska and to appeal from orders issued under the regulations of said department, or to apply for relief from any said regulations or in any proceedings relative to operations before the Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered mail or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or the ratification or consent hereof or to such other address as any such party may have furnished in writing to the party sending the notice, demand or statement.

24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the state or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party or any right beyond his or its authority to waive.

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25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or Municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) through (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference into this agreement.

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that, as to state land or leases, no payments of funds due the State of Alaska should be withheld, but such funds of the State of Alaska shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or

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refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director and the Unit Operator prior to the approval of this agreement by the Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Director of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Director.

29. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all

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parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

30. ALASKA RESIDENT HIRE: All State of Alaska leases committed to said agreement are hereby altered to require that the lessee and unit operator shall comply with all valid and applicable laws and regulations with regard to hire of Alaska residents. Qualified Alaska residents shall be hired as required in AS 38.40; lessee shall not discriminate against Alaska residents as prohibited by AS 38.40 and other applicable laws and regulations of the State of Alaska.

UNIT OPERATOR AND  
WORKING INTEREST OWNER  
  
EXXON CORPORATION

Dated:

MARCH 20, 1978

By W. J. Whaley  
Its Attorney in Fact

Address: P. O. Box 2180  
Houston, Texas 77001  
Attention: Division Manager  
Offshore/Alaska Division

STATE OF TEXAS )  
                          ) ss.  
COUNTY OF HARRIS )

This is to certify that on this 20<sup>th</sup> day of March, 1978, before me, the undersigned, a Notary Public in and for the State of Texas, personally appeared W. J. WHALEY, to me known and known to be the person whose name is subscribed to the within instrument as Attorney in Fact of EXXON CORPORATION, and acknowledged to me that he subscribed the name of EXXON CORPORATION thereto as principal and his own name as Attorney in Fact.

IN WITNESS WHEREOF, I have hereto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

May 17, 1978

Mary M. Gulley  
Notary Public in and for Harris County, Texas  
Mary M. Gulley

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