

August 21, 1984

ARCO Alaska, Inc.  
P.O. Box 360  
Anchorage, AK 99510

Attn: Mr. Jim Posey

Subject: Kuparuk River Unit  
First Amendment to the Unit Agreement

Dear Mr. Posey:

As part of the March 27, 1984 approval of the First Expansion of the Kuparuk River Unit Area, the State required the Kuparuk River Unit Working Interest Owners to amend the Unit Agreement to accommodate leases with other than one-eighth royalty and net profit share leases. Attached is a copy of an amendment to the Unit Agreement that the State believes will accomplish this mandate.

If you have any questions on the attached amendment, please contact either myself or Ms. Kate Fortney at (907) 276-2653.

Sincerely,

  
Kay Brown  
Director

Attachment: As noted

1861A:KB:KF:ms

bcc: Jim Eason  
Bill Van Dyke  
Donna Wood-Johnson

AGO 1365159

KUPARUK RIVER UNIT AGREEMENT  
AMENDMENTS TO THE UNIT AGREEMENT

The following is a summary of an acceptable "Amendments to the Kuparuk River Unit Agreement" to accommodate leases with other than one-eighth royalty and net profit share leases.

WHEREAS, the Kuparuk River Unit Working Interest Owners requested expansion of the Kuparuk River Unit Area on December 21, 1983; and

WHEREAS, the expansion of the Kuparuk River Unit was approved by the State of Alaska Department of Natural Resources on March 27, 1984; and

WHEREAS, the Kuparuk River Unit is located on the North Slope of Alaska, and has been producing oil since December 13, 1981; and

WHEREAS, as a condition of approval of the expansion of the Kuparuk River Unit to include net profit share leases, the State of Alaska required that the Kuparuk River Unit Agreement be amended to accommodate leases with other than one-eighth royalty and net profit share leases prior to March 26, 1985 or the expansion of the Kuparuk Participating Area to include leases with other than one-eighth royalty or net profit share leases, whichever occurs first; and

WHEREAS, it is the desire of the Working Interest Owners to amend the Kuparuk River Unit Agreement to include provisions to accommodate leases with other than one-eighth royalty and net profit share leases; and

WHEREAS, Section 18.4 of the Kuparuk River Unit Agreement indicates that reasonable terms shall be agreed upon to adequately protect all parties of interest, including the State, if new leases with differing terms are added to the Kuparuk River Unit Area;

AGO 1365160

NOW, THEREFORE, it is agreed by the undersigned Working Interest Owners in the Kuparuk River Unit, and approved by the Commissioner of the Department of Natural Resources, that the Kuparuk River Unit Agreement shall be amended as follows:

1. Page 2, Article 1 is amended by adding a new definition:

1.3 "Cost Participation" means the method and formula agreed to by the Commissioner and the Working Interest Owners to allocate Unit Expense among the Tracts within a Participating Area or Unit Area, as appropriate, as set forth in Exhibit C-1 to this Agreement.

Each of the subsequent definitions are renumbered accordingly.

2. Page 5, Article 2 is amended by adding a new Section 2.1.4 as follows:

2.1.4 Exhibit C-1 is a schedule that describes the allocation of Participating Area expense to each Tract in the Participating Areas formed under this Agreement. If no Participating Areas have been formed, it is the schedule that describes the allocation of Unit Expense to each Tract in the Unit Area.

Each of the subsequent subsections of Section 2.1 are renumbered accordingly.

Section 2.3 is amended to read as follows:

2.3 Exhibits Considered Correct. Exhibits A, B, C, C-1, D, E, and F have been established by using the best information available and shall be considered to be correct until revised.

Section 2.6 is amended to read as follows:

2.6 Exhibits for New Participating Areas. The Unit Operator shall prepare exhibits similar in form to Exhibits C, C-1, D, E, and F for each new Participating Area created under Article 6 of this Agreement and shall submit these exhibits to the Working Interest Owners and, after approval by them, to the Commissioner for approval.

3. Section 6.1 is amended to read as follows:

6.1 Kuparuk Participating Area. The Kuparuk Participating Area is the Participating Area for the Kuparuk River Reservoir which Participating Area is described in Exhibit C and depicted in Exhibit D. The Tract Participations agreed to by the Working Interest Owners and approved by the Commissioner for the Participating Area are described in Exhibit C. Tract participations have been assigned to the Tracts within the Kuparuk Participating Area primarily on the basis of value contributed by the Tracts as determined by agreement of the Working Interest Owners as set forth in the Unit Operating Agreement. Because development of the Tracts and the available information concerning Unitized Substances is not complete enough to allow final determination of Tract Participations as of the Effective Date, the Working Interest Owners agree that, subject to the approval of the Commissioner, the Tract Participations initially determined shall be subject to adjustments or corrections as provided in the Unit Operating Agreement. New exhibits showing revised Tract Participations shall be filed with the Commissioner for approval.

4. Page 14, Article 7: the title of Article 7 shall be amended to read "Allocations of Unitized Substances and Unit Expense."

Page 14, Article 7: Sections 7.1 and 7.2 shall be deleted in their entirety, and shall be replaced with the following:

7.1 Allocations of Production and Cost. The division of interest, or the formula which allocates the Tract Participations of production among the leases within the Participating Area (Exhibit C), or which allocates the Cost Participation among the leases within the Unit Area or Participating Area, as appropriate (Exhibit C-1), shall not take effect until approved by the Commissioner in writing. Any proposed revision of an approved division of interest or allocation formula shall not take effect until approved by the Commissioner in writing. When requested by the Commissioner, the Unit Operator shall promptly file with the Commissioner all data that relate to the proposed or revised division of interest or the allocation formula.

7.2 Allocation of Unitized Substances Produced from Participating Areas and of Unit Expense Incurred by Participating Areas. All Unitized Substances produced and saved from a Reservoir within the Unit Area, and all Unit Expense incurred for that Reservoir, shall be allocated to the Participating Area established for that Reservoir and to the Working Interest Owners in that Participating Area. Such allocation shall be in accordance with the division of interest or formula as set forth in Exhibits C and C-1 of this Agreement.

7.2.1 Allocation of Unitized Substances. Unitized Substances allocated to each Working Interest Owner in a Participating Area shall be allocated to the several Tracts in such Participating Area in which such Working Interest Owner owns a Working Interest in the proportion that the product of such Working Interest Owner's Working Interest in such Tract, multiplied by the current Tract Participation for such Tract, bears to the sum of all such products for that Working Interest Owner. The total amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from the wells, if any, on that Tract, shall be deemed for all purposes to have been produced from that Tract.

The Tract Participations or formula used to derive such participation for each Participating Area shall be set forth in Exhibit C for the given Participating Area. Exhibit C shall also set forth on a Tract-by-Tract basis the percentage of Unitized Substances to be allocated to all Tracts within the Participating Area.

7.2.2 Allocation of Unit Expense. Unit Expense allocated to each Working Interest Owner in a Participating Area shall be allocated to the several Tracts in such Participating Area in which such Working Interest Owner owns a Working Interest in the proportion that the product of such Working Interest Owner's Working Interest in each Tract, multiplied by the current Cost Participation for each Tract, bears to the sum of all such products for that Working Interest Owner.

The Cost Participation values or formula used to derive such Cost Participations for each Participating Area shall be set forth in Exhibit C-1 for the given Participating Area. Exhibit C-1 shall also set forth on a Tract-by-Tract basis the percentage of Unit Expense or Participating Area expense to be allocated to all Tracts within the Unit Area or Participating Area, as appropriate.

7.2.3 Special Royalty Calculations. For the purposes of calculating royalty and/or net profits payments, the Tract Participation values set forth in Exhibit C for all Tracts with a royalty other than one-eighth and net profit share lease Tracts, and the Cost Participations set forth in Exhibit C-1 for any net profit share lease Tract, shall govern.

7.2.4 Net Profit Settlement. Each owner of a net profit share lease shall make settlement for payment of the State's net profit share in accordance with the terms of each such lease, unless otherwise modified by the State and the lessee.

5. Delete Article 13.2 in its entirety:

[13.2 CERTIFICATE OF EFFECTIVENESS. UNIT OPERATOR SHALL FILE FOR RECORD IN THE BARROW RECORDING DISTRICT, STATE OF ALASKA, AND IN THE FILING OFFICE OF THE DEPARTMENT OF NATURAL RESOURCES IN ANCHORAGE, ALASKA, A CERTIFICATE STATING THE EFFECTIVE DATE.]

6. Delete Section 14.5 in its entirety:

[14.5 CERTIFICATE OF TERMINATION. UPON TERMINATION OF THIS AGREEMENT, UNIT OPERATOR SHALL FILE FOR RECORD IN THE BARROW RECORDING OFFICE AND IN THE FILING OFFICE OF THE DEPARTMENT OF NATURAL RESOURCES IN ANCHORAGE, ALASKA A CERTIFICATE DECLARING THAT THIS AGREEMENT HAS TERMINATED AND ITS TERMINATION DATE.]

7. Page 26, Article 16 shall be amended by adding a new section 16.2 as follows:

16.2 Any revision of the Unit Operating Agreement must be submitted to the Commissioner before it takes effect.

8. Delete Sections 18.2 and 18.3 in their entirety:

[18.2 ACTION OF WORKING INTEREST OWNERS. ANY ACTION, DETERMINATION OR APPROVAL REQUIRED OR PERMITTED BY WORKING INTEREST OWNERS UNDER THIS AGREEMENT SHALL BE IN ACCORDANCE WITH THE PROVISIONS OF THE UNIT OPERATING AGREEMENT.

18.3 LIEN AND SECURITY INTEREST OF UNIT OPERATOR. UNIT OPERATOR SHALL HAVE A LIEN UPON A SECURITY INTEREST IN SEVEN-EIGHTHS OF ALL UNITIZED SUBSTANCES AND IN ALL OTHER INTERESTS OF WORKING INTEREST OWNERS IN THE UNIT AREA AS PROVIDED IN THE UNIT OPERATING AGREEMENT.]

Except as modified or changed herein, all other terms and conditions of the Kuparuk River Unit Agreement remain unchanged and in full force and effect. This amendment shall be effective as of September 1, 1984.

IN WITNESS WHEREOF, the Kuparuk River Unit Working Interest Owners have executed this amendment as of the date opposite their respective signatures, and the State of Alaska has approved such amendment as of the date opposite its signature.

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