

APPROVAL OF THE PLACER
UNIT TERM EXTENSION

Findings and Decision
of the Commissioner of the
Department of Natural Resources,
State of Alaska

September 7, 2016

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I. INTRODUCTION AND DECISION SUMMARY

By letter dated July 26, 2016, the Placer Unit Operator, ASRC Exploration LLC (AEX) requested a five-year extension of the Placer Unit (PLU) Agreement under 11 AAC 83.336(a)(2) until September 8, 2021.

Under 11 AAC 83.336 and Article 14 of the PLU Agreement, the PLU Agreement automatically terminates five years from the effective date unless certain conditions are met. Without an extension, the PLU Agreement would terminate effective September 8, 2016.

The State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) gave public notice under 11 AAC 83.311 of the request to extend the PLU Agreement on August 4, 2016. The period for public comment closed effective September 6, 2016. No comments were received.

The PLU is located on the North Slope of Alaska, west of the Kuparuk River Unit, south of the Oooguruk Unit, and east of the Pikka Unit, about 15 miles northeast of the village of Nuiqsut. Effective September 8, 2011, the PLU was formed as portions of four state leases totaling 1,480 acres. The PLU formation approval included Exhibit G to the PLU Agreement and the Initial Plan of Exploration (POE), effective September 8, 2011 and ending September 7, 2013. On August 20, 2012, AEX applied to expand the PLU by 7,288 acres and amend the POE. The Division denied the request to expand the PLU and amend the POE on January 14, 2013. AEX appealed the decision by the Division denying the application to expand the PLU and amend the Initial POE.

On November 4, 2013, the Division issued a conditional approval after remand from the DNR Commissioner (Commissioner) to expand the PLU and amend the POE. AEX was unable to comply with the conditions presented in the decision on remand, and the appeal was returned to the Commissioner. The appeal was remanded to the Division a second time, and the Division issued a second decision on remand to conditionally approve the PLU expansion and amend the POE on November 13, 2014. The PLU was expanded, effective January 23, 2015, to include four additional State leases totaling 7,288 acres. The PLU now contains 8,768 acres encompassing eight State oil and gas leases. The amended POE was approved by the Division on January 30, 2015. AEX submitted the 1st Plan of Development (POD) for the PLU on June 13, 2016. The 1st POD was approved by the Division on August 18, 2016 for a one-year period effective September 8, 2016 to September 7, 2017.

This approval constitutes the written findings and decision required under 11 AAC 83.303 and is fully appealable. The DNR finds that approval of the unit term extension promotes conservation of all natural resources, prevents economic and physical waste, provides for the protection of all parties of interest, including the State, and meets the requirements of 11 AAC 83.336(2). The DNR approves the unit term extension until September 8, 2018 in accordance with the criteria under 11 AAC 83.303.

II. DISCUSSION OF DECISION CRITERIA

AS 38.05.180(p) gives the DNR the authority to approve an oil and gas unit agreement. The Division previously approved the Placer Unit Agreement. A unit agreement terminates

automatically five years from the unit agreement effective date. The Commissioner may issue a written decision extending the unit term for a period not to exceed five years if exploration operations have been conducted in accordance with an approved unit plan. 11 AAC 83.336(2). The Commissioner reviews requests for unit agreement extensions under 11 AAC 83.336(2), subject to the criteria specified in 11 AAC 83.303.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. The Environmental Costs and Benefits

The Division previously considered the environmental costs and benefits of unitized development at the PLU in the original unit formation approval; unit expansion approval; and subsequent plans of exploration, development, and operations. Extending the PLU Agreement will allow previously approved activities to continue, but does not itself authorize additional activities. Therefore, the extension itself should have no environmental costs and benefits beyond those considered in earlier approvals.

2. Geologic and Engineering Characteristics

Approval of the extension to the PLU Agreement has no impact on the Division's earlier consideration of the geologic and engineering characteristics of the potential hydrocarbon accumulations or reservoirs in the unit area.

3. Plans of Exploration and Development

Plan of Development

AEX proposed a two-year initial POD after conducting operations in accordance with the amended POE. The first year of the proposed POD focuses on determining reservoir extent and characteristics and defining infrastructure needs. AEX will conduct analysis on all geologic and engineering data for the three Placer wells, engage in discussions with other operators for terms of facility access, and develop high level infrastructure cost estimates. AEX also plans to obtain and merge the Tabasco 3D seismic data with existing surveys for reprocessing and interpretation.

The second year of the POD proposed reservoir mapping and development well planning, performing engineering and cost studies for infrastructure locations, and proposing a participating area.

The Division approved the 1st POD for one year through September 7, 2017.

Plan of Exploration

The PLU amended POE prescribed four commitments with deadlines. The commitments were developed as steps towards drilling the Placer #3 well as set forth below.

- Submit to the Division a fully-executed agreement securing a drilling rig for the winter/spring 2016 drilling season on or before June 30, 2015.

- Submit for approval a Placer Unit Plan of Operations to the Division to drill the proposed Placer #3 well on or before August 30, 2015.
- Provide evidence of approval from the Department of Environmental Conservation for the Placer Unit's Oil Discharge Prevention and Contingency Plan on or before December 1, 2015.
- On or before May 31, 2016, AELLC must drill and test or plug and abandon an exploratory well in the PLU Expansion Area. The exploratory well needs to be drilled in the expansion leases to a depth sufficient to evaluate the Kuparuk River Formation as correlated in the Placer #1 well.

AEX proceeded to satisfy each of the conditions from the unit expansion approval decision and amended POE. A drilling contract was executed in June 29, 2015 for the Kuukpik #5 rig. A Plan of Operations from the Division and Oil Discharge Prevention and Contingency Plan from the Department of Environmental Conservation were obtained prior to drilling. An ice road and pad were completed in January 2016 with the Placer #3 well drilled, tested, and suspended in February 2016.

AEX has undertaken exploration operations under an approved plan of exploration. AEX requests an extension of the PLU Agreement term. Because AEX has conducted exploration under an approved POE, the unit extension request meets the requirements of 11 AAC 83.336(a)(2) for the Commissioner to consider granting a discretionary extension.

4. The Economic Costs and Benefits to the State and Other Relevant Factors

Under 11 AAC 83.336 and Article 14 of the PLU Agreement, a unit agreement automatically terminates five years from the effective date unless certain conditions are met. The expectation upon unit formation is that the unit operator will have the unit on sustained production or very near sustained production at the end of the five-year term. The regulations allow for units nearing sustained production for an extension of the unit term, granted at the Commissioner's discretion, if operations are conducted in accordance with an approved unit plan.

Without a unit term extension, the PLU would terminate and the eight leases, which are past their primary terms, would expire. The lease acreage would return to the State to be available for competitive bidding in a future North Slope areawide lease sale. The public's interest in maximizing competition among parties seeking to explore and develop resources is established in state statute. AS 38.05.180(a)(1)(B). A five-year unit term extension would be contrary to the public's interest in maximizing competition among parties and offering acreage for lease if resources are not diligently developed. The current status of the PLU exploration and development program necessitates a shorter unit term extension to provide AEX additional time to advance their project while protecting the public's interest in maximizing competition and making non-producing acreage available in a lease sale.

By approving the unit extension request, AEX has the opportunity to reprocess newly-acquired seismic and to plan for facility sharing and well locations in 2017. The operator's 2nd POD should outline a plan to bring the PLU into production within the two-year extension period. Sustained production from a unit will extend a unit term without the operator relying upon

discretionary unit extensions and POD approvals. The public's interest in developing oil and gas resources is promoted when production comes online.

Drilling and successfully testing the Placer #3 well was another step towards bringing the unit to production. AEX satisfied its commitment from the amended POE and proposed plans to better assess the reservoir and plan for processing and transportation of the unit's production. AEX's work to further evaluate and assess the state's resources is in the public's interest.

Providing a unit term extension in this instance is in the state's best interest and protects all parties. In the case of the PLU, AEX's prior exploration and plans for development compels approval of a unit term extension.

B. Decision Criteria Considered Under 11 AAC 83.303(a)

1. Promote the Conservation of All Natural Resources

The Division considered the promotion of the conservation of all natural resources criteria during the approval of the PLU Agreement, unit expansion decision, plans of exploration, and plan of development. The approval of the PLU extension request extends the term of the PLU Agreement until September 7, 2018. The unit term extension continues the conservation of natural resources provided by formation and expansion of the unit and unitized development.

2. Prevention of Economic and Physical Waste

Approval of the unit extension request prevents economic and physical waste because it approves development of all potentially productive leases under an approved unit agreement, rather than on a lease-by-lease basis. Unitization provides for equitable allocation of costs and revenues and efficient and consolidated reservoir management under a unified plan of development, eliminates redundant facilities, and lessens environmental impact.

3. Protection of All Parties of Interest, Including the State

Approval of the unit extension request protects all parties of interest, including the State, for the same reasons as the previous approvals of the unit formation and plans of exploration and development. Unitized development under an approved plan promotes development of the state's resources while minimizing impacts to cultural and environmental resources. Unitized development protects the economic interest of the working interest owners and royalty owners of a common reservoir. Operations conducted under the PLU Agreement will not diminish access to public and navigable waters beyond those limitations, if any, imposed by law or already established in the oil and gas lease contracts. The PLU Agreement and State statutes and regulations provide for notice and an opportunity to be heard. No comments were received.

Extension of the term of the PLU Agreement further protects all parties by affording AEX the opportunity to continue assessing the Kubaruk reservoir and determine an appropriate facility sharing arrangement while the public's interest in efficient development and maximizing competition is protected.

III. FINDINGS AND DECISION

A. Conservation of All Natural Resources

1. Approval of the unit extension request will conserve all natural resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.

B. Prevention of Economic and Physical Waste

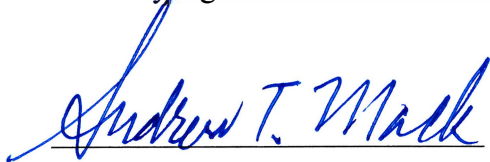
1. Approval of the unit term extension prevents economic and physical waste.

C. Protection of All Parties in Interest, Including the State

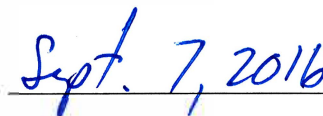
1. Approval of the unit term extension adequately and equitably protects the public interest, and is in the State's best interest.

For the reasons discussed in this Findings and Decision, I approve the request to extend the term of the Placer Unit Agreement effective September 8, 2016 through September 7, 2018.

An eligible person affected by this decision may request reconsideration, 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 W 7th Avenue, Suite 1400, Anchorage, AK 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.



Andrew T. Mack, Commissioner
Department of Natural Resources



Date

IV. ATTACHMENTS

1. Placer Unit request for 5-year Extension, dated July 26, 2016

Attachment 1: Placer Unit request for 5-year Extension, dated July 26, 2016

SENT BY CERTIFIED MAIL

July 26, 2016

Kyle S. Smith
Alaska Department of Natural Resources
Division of Oil & Gas
550 W. 7th Ave., Suite 1100
Anchorage, AK 99501-3557

RECEIVED

JUL 26 2016

**DIVISION OF
OIL AND GAS**

Subject: Placer Unit Request for 5-year Extension

Dear Mr. Smith:

The Placer Unit will automatically terminate on September 8, 2016 under 11 AAC 83.336 unless it meets a condition for extension of the unit as determined by the commissioner. ASRC Exploration LLC (AEX) argues the Placer Unit meets the definition for extension under 11 AAC 83.336(a)(2) whereby the exploration operations have been conducted in accordance with an approved unit plan of exploration through drilling of the Placer #3 well. Under 11 AAC 83.336 (a)(2), AEX is requesting, through the Division of Oil and Gas (Division), to extend the Placer Unit for an additional 5-years for a term from September 9, 2016 through September 8, 2021.

This extension will give AEX the time to execute the initial 2-year Plan of Development (POD), as attached. AEX has proposed to the Division its POD that will lead to fulfilling the State of Alaska's interests to maximize economic and physical recovery of resources while minimizing the adverse impacts of exploration, development, production or transportation activities as we continue to evaluate the Placer resource in context with other developments adjacent to the Placer Unit.

AEX feels that the Placer Unit extension is justified as follows:

- AEX experienced a 3-year delay in expansion of the Placer Unit due to a denial and appeal of the Placer Unit expansion request;
 - Drilling the Placer #3 well was delayed as AEX worked towards the unit expansion to allow for drilling in the most suitable area of the AEX leasehold to delineate the Placer reservoir;
 - It was not until October 2014 that the Placer Unit expansion appeal was remanded to allow for AEX to sanction drilling the Placer #3 well;

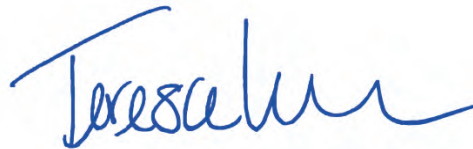
- During the appeal process AEX maintained its obligations to pay lease rentals and other unit obligations;
- Placer #3 was drilled as required under the remanded decision and confirmed extension of the Placer reservoir beyond the central Placer #1 location.
- The proposed 2 year POD will allow for AEX to re-evaluate and incorporate new seismic into our model to complete geological mapping of the area; perform reservoir engineering for reserves estimates; perform facilities engineering for a development plan; and perform economic evaluations with the goal to sanction the project development.
- Based on the current schedule a sanctioning decision for development will occur following the 2-year POD.

Attached is a timeline Placer lease and Placer Unit activities since 2004. AEX has made a substantial investment in these leases, first as a non-operating working interest owner in the Placer #1 and #2 wells and then as a 100% operating working interest owner in the Placer #3 well.

AEX is in the process of preparing an application for Certification of the well test results of the Placer #3 well under 11 AAC 83.361. This application will be filed prior to the end of July 2016.

AEX is requesting the Division to fully consider our request for a 5-year extension of the Placer Unit to allow for it to fully address and perform the 2-year Plan of Development currently before the Division for approval. Upon finalizing the 2016 2-year POD AEX will be prepared to file the 2018 Plan of Development without concern of a unit termination which should be in the best interest of all parties.

Respectfully yours,



Teresa Imm, President
ASRC Exploration LLC

CC: Placer Unit Activity Timeline
2016 Plan of Development – Submitted Separately

Timeline of AEX's Placer Unit Activities

2004	Placer leases were within the western portion of the Kuparuk River Unit ASRC farmed-in to BP's WI for the Placer Prospect exploration
Feb-2004	ASRC paid 35.7% WI to Drill Placer #1, drilled by ConocoPhillips
Mar-2004	ASRC paid 35.7% WI to Drill Placer #2, drilled by ConocoPhillips
Jun-2005	Leases were contracted from Kuparuk River Unit, expired in Jun-2005 and Nov-2005
2006	ASRC in DNR lease sale acquired Placer leases in NS Lease Sale
2/1/2007	ADL 391023, ADL 391024, ADL 391027 & ADL 391028 were issued with lease expiration dates of 12/31/2012.
2009	ASRC initiated discussions with partners to acquire Placer #1 well bore.
6/28/2010	AEX approved by AOGCC as operator of Placer #1 suspended wellbore, assuming well abandonment obligations
1/20/2011	AEX applied to DNR for unit containing ADL 391023, ADL 391024, ADL 391027 & ADL 391028 to efficiently delineate and develop the Placer resources
Jun-2011	AEX acquired license to WBA and Kookpuk 3D seismic surveys over Placer Leases
9/8/2011	DNR approved unit for 1480 acres around Placer #1 and indicated that when 3D seismic acquisition, reprocessing and interpretation was complete that the unit would be expanded. Four new leases issued containing acreage segregated from initial leases that were outside the Placer Unit boundary: ADL 391910, ADL 391911, ADL 391912 and ADL 391913, all with expiration dates of 1/31/2014.
12/27/2011	AEX completed reprocessing of the 3D Surveys and submitted to State.
May-2012	AEX completed the modeling and interpretation of the reprocessed 3D
8/20/2012	AEX applied to expand the Placer Unit and modify the Plan of Exploration
1/14/2013	DNR Division of Oil and Gas declined both Placer Unit Expansion and POE extension request
2/4/2013	AEX appealed both denials to DNR Commissioner
7/25/13	DOG notified AEX that Placer Unit was in default due to failure to comply with terms of POE to drill by 6/30/13; gave AEX until 6/30/14 to cure default
9/24/2013	Remand Decision from DNR back to DOG

10/17/2013 DNR Letter disapproving the Modified Second Placer Unit POE

11/4/2013 DOG's Approval after Remand of the Placer Unit Expansion Application and Approval after Remand of the Request to Amend the Plan of Exploration

11/13/14: DNR's Placer Unit Decision on Remand from the Commissioner Conditionally Approving AEX's Applications and Appeals to Expand the Placer Unit and to Amend its Plan of Exploration

2/19/15 DOG notified AEX that Placer Unit Expansion Conditions Met

Jan-Mar 2016 Drilled and Tested Placer #3 Well

6/9/16 AEX submitted Placer Unit Annual Report and 1st Plan of Development