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February 27, 2017

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DIVISION OF
OIL AND GAS

Ms. Chantal Walsh
Director, Division of Oil & Gas
Alaska Department of Natural Resources
550 W. 7th Avenue, Ste. 1100
Anchorage, Alaska 99501-3560

Dear Director Walsh,

Pursuant to Paragraph 4.1.5 of the Point Thomson Settlement Agreement, dated March 29, 2012, enclosed is the annual report which describes operations conducted during the past year to advance the Initial Production System (IPS) Project.

As shown, significant progress was made in 2016 to advance the IPS Project consistent with work plans and activities set forth in the Settlement Agreement. Based on the current IPS Project status, this will be the final annual report pursuant to Paragraph 4.1.5 of the Settlement Agreement.

The Point Thomson Unit Owners will submit plans of further development and operation for the Point Thomson Unit consistent with Paragraph 4.6 of the Settlement Agreement and the Point Thomson Unit Agreement.

If you have any questions or wish to discuss, please contact me at (907)564-3689.

Sincerely,



CEQ/rlr
Enclosure

cc: Andrew T. Mack, DNR/Commissioner
Mark Wiggin, DNR/Deputy Commissioner
Sara Longan, DNR/OPMP

w/enclosure



**Settlement Agreement Annual Report
Point Thomson Unit Initial Production System (IPS) Project
2016**

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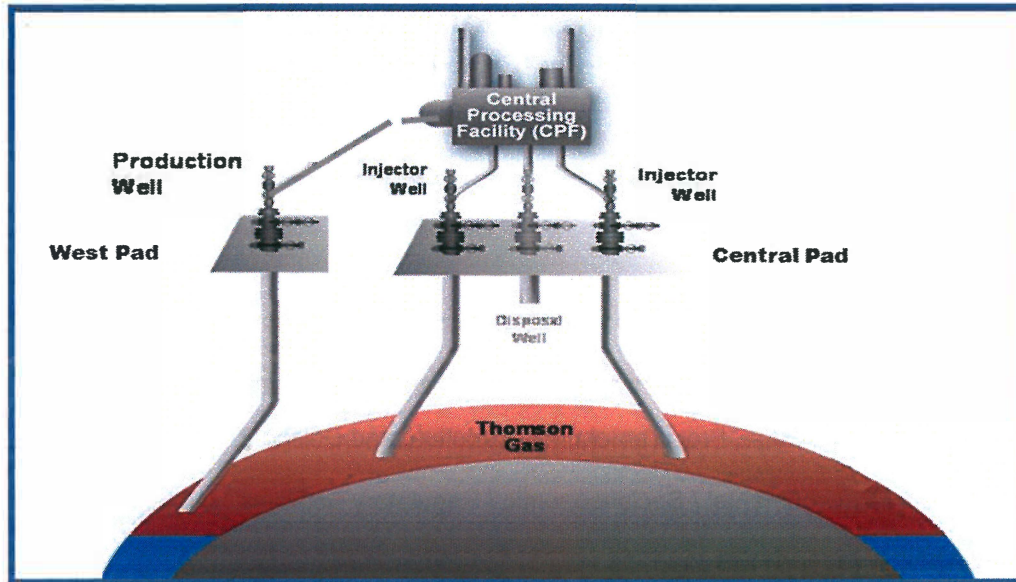
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1 Purpose

ExxonMobil, as Unit Operator and on behalf of the Working Interest Owners, submits this annual report to the Department of Natural Resources pursuant to Paragraph 4.1.5 of the Settlement Agreement dated March 29, 2012, which provides for the Unit Operator to submit an annual report describing the operations conducted during the preceding year for the IPS Project.

Initial Production System (IPS)



2 2016 Activities

Activities completed in the 2016 calendar year were consistent with the work plans and activities for the IPS Project set forth in Exhibit E, Point Thomson Provisional Schedule Level 1 Work Sheet in the Settlement Agreement, attached to this report as an appendix. These activities are described below.

2.1 Engineering Design, Procurement, Construction and Drilling

During 2016, the Project Team completed the remaining installation, commissioning, and start-up of the IPS.

Below are some key milestones achieved during 2016:

2.1.1 PTU-17 Drilling

In January 2016, the 9-1/4" hole section of PTU-17 was drilled and 75 feet of core sample collected. After perforating the well and running the lower completion, the frack pack was executed and the upper completion was installed in February, before setting the production tree and opening the flow isolation valves (FIVs).



West Pad Well Tree (March 2016)

2.1.2 Facilities Installation

In late February, Facility Module 110, West Pad modules, Building 506, and the Airstrip were sequentially switched to permanent power provided by the Module 105 gas turbine generators, fueled with diesel.

In the first quarter of 2016, the site team completed a variety of other direct construction and commissioning activities. The air monitoring station and bridge cranes in Building 506 were installed and the Operator Shelter was completed. Well House 27 at PTU-17 was installed ahead of schedule once the drilling equipment was moved off the West Pad.

2.1.3 Commissioning

In January 2016, the facility black start testing and airstrip emergency generator testing was completed. State of Alaska vessel inspections were completed and pressure vessel registrations affixed. The glycol system was successfully commissioned and all applicable leak testing was completed in advance of start-up.

The Fine Water Mist (FWM) system was flushed, cleaned, and refilled; and initial valve line-up, nitrogen purge of the flare headers, and warm-up of the stabilizer/stripper was completed. Following completion of a safety review, the final leak test for Central Pad start-up was completed on March 27.



Module 104 and 105 (January 2016)

2.1.4 Start-Up

Hydrocarbons were introduced into the IPS facility on April 2, with gas and condensate production from the PTU-15 well, and the pig was launched in the Export Pipeline to Badami.

On April 6, the pipe spool and a new heater and control panel for the injection compressor jacket water heater were installed to prevent liquid drop-out in the compressor.

The Export Line pig was received at Badami on April 9. After the pig receiver was removed and tie-in completed, the facility was restarted. The fuel gas skid was placed in service and the fuel gas line for the gas turbine generators was cleaned.

On April 16, gas re-injection into the Thomson Reservoir was initiated using the IPS facilities and the PTU-15 and PTU-16 wells placed in continuous operation for gas cycling.

2.1.5 West Pad Tie-in

On May 5, the facility was shut down to accommodate well swap over to PTU-17 production. Piping crews completed the initial fit-up of the spool swap for PTU-15 and the Venturi spool and installed piping for the injection compressor jacket water heater. PTU-15 was then converted into an injection well and PTU-17 was put on continuous operation as the production well. Gas and condensate production from PTU-17 commenced May 28, 2016. First gas reinjection into PTU-15 occurred June 5, 2016.

Module 126, Building 508, and Building 507 were switched to permanent power. The flow meter and sand monitor were moved from PTU-15 to PTU-17. The final emergency shutdown (ESD) test was performed.

The Well House 6 spool was swapped and Venturi spool installed, followed by the heat trace and insulation. After the spool change converting the producing well from PTU-15 to PTU-17, a valve line-up was completed at Central Pad, followed by purging, diesel fill, and West Pad valve line-up.

Modifications and adjustments were made to the Gas Injection Compressors to complete final commissioning runs, inspections, and reinstatement. On December 12, 2016, the facility reached a gas cycling rate of 200 mmscfd, with 10+ kbd of condensate export.

2.1.6 Demobilization

Demobilization efforts began in late 2015 as spare equipment such as heaters, cranes, and loaders were transported off site via rolligons or air freight. The ice road was the primary means of demobilization and the 2016 ice road season ran from January 18 to April 24.

On March 6, drill rig demobilization was completed. Following rig departure, the temporary injection skid, miscellaneous rig containments, and secondary containment for the frack spread were also removed. Cuttings and other general waste were removed from West Pad and transported to Deadhorse. The small camps were demobilized as Central Pad camp space was consolidated, with the construction camp complex being used to support remaining work at site and final civil cleanup. Remaining spare equipment and materials were demobilized via barge.



Drilling rig derrick demobilization (March 2, 2016)

2.2 Safety / Environmental / Socioeconomic / Regulatory Activities

The Point Thomson team is committed to Safety, Security, Health and the Environment (SSH&E) and all activities are underpinned by SSH&E programs and the Operations Integrity Management System.

In 2016, the Point Thomson team experienced no lost work time due to injury incidents. The team continues to build on this success and embed a strong SSH&E culture.

In addition to a strong safety culture, the Point Thomson team continued to strengthen its environmental performance. Environmental compliance and monitoring activities in 2016 included:

- Continued vehicle and equipment inspection programs to monitor and mitigate potential releases of vehicle fluid on ice and gravel pads/roads or during barge loading and transport. Additionally, dedicated crews inspected roads and pads for evidence of drips and drops to perform clean-up response.
- Continued polar bear monitoring and avoidance programs, including a Forward Looking Infrared survey in collaboration with the U.S. Fish and Wildlife Service to detect potential polar bear dens and an expanded ground surveillance radar system.
- Completed another year of wildlife and vegetation monitoring surveys using a combination of several technologies, including remote sensing, GIS tracking, and aerial surveys to monitor caribou movements.
- Continued progress on tundra sod rehabilitation experimental work at the Alaska State C-1 Pad and airstrip and monitoring at the mine site and culverts.

Throughout 2016, the Point Thomson team continued working with local communities to progress a key cultural heritage initiative; avoid conflict with subsistence activities; and provide opportunities for business development and jobs for local residents and Alaska Native Corporations. Some of the specific activities included:

- Following a successful pilot program in 2014, Marine Exchange of Alaska technology was again used during fall 2016 subsistence whaling seasons. ExxonMobil team members worked with local entities to manage the Communication Center (“Com Center”) and hire Com Center operators from Kaktovik to use vessel tracking software to monitor nearby Beaufort Sea marine activity. This collaboration contributed to the successful completion of Point Thomson’s sealift campaign without any conflicts to subsistence whaling in 2015 and continues to be a successful method to provide ship-to-shore communication.
- Village and Regional Native Corporations continued to play a significant role in construction and commissioning, including ASRC, NANA Oilfield Services, Kuukpik, and others.
- Local hire initiatives included positions for a community liaison / subsistence representative and Communication Center Operators.

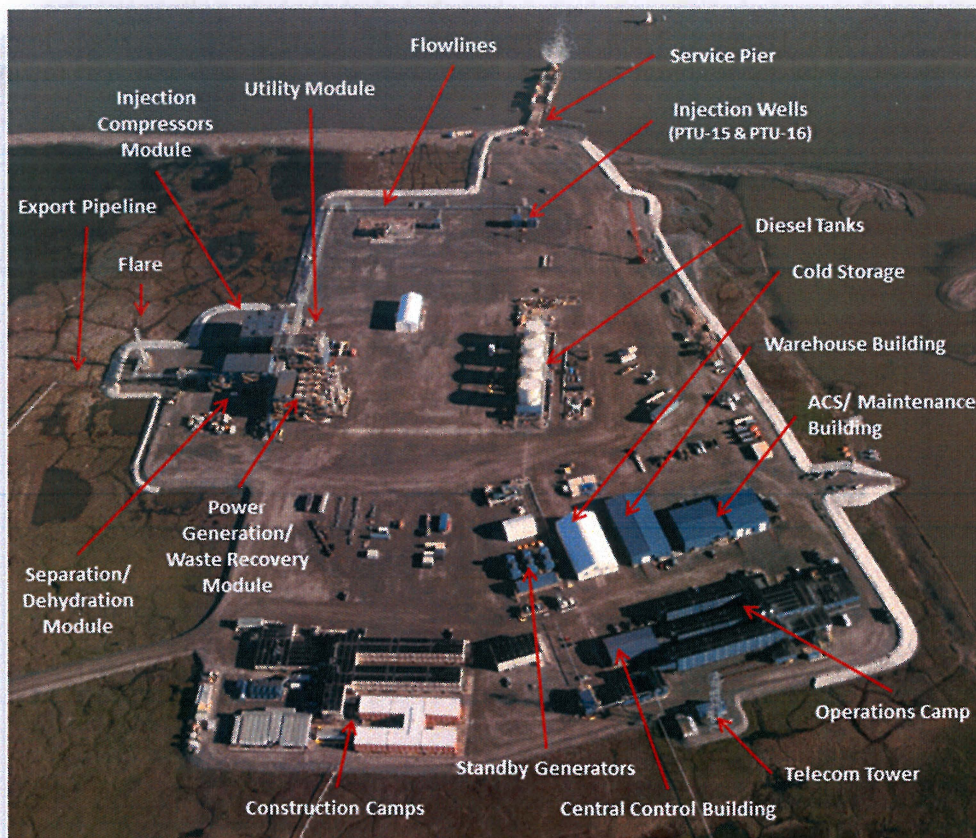
During 2016, the Point Thomson team obtained over 100 permits and approvals from various Federal, State and Local government agencies associated with new activities and routine permit renewals.

3 2017 Planned Activities

All major engineering design, procurement, construction, and drilling activities for the Point Thomson Initial Production System (IPS) Project have been completed. This will be the final annual report pursuant to Paragraph 4.1.5 of the Settlement Agreement.

Data and information regarding production, well, reservoir performance, and IPS facility will be collected to aid in further development planning and evaluation of potential debottlenecking opportunities. The Point Thomson Unit Owners will submit a summary report of surveillance data acquired through December 31, 2016, in accordance with Rule 8 of Area Injection Order No. 38 (dated August 25, 2015) and Rule 5(a) of Conservation Order No. 719 (dated November 9, 2015).

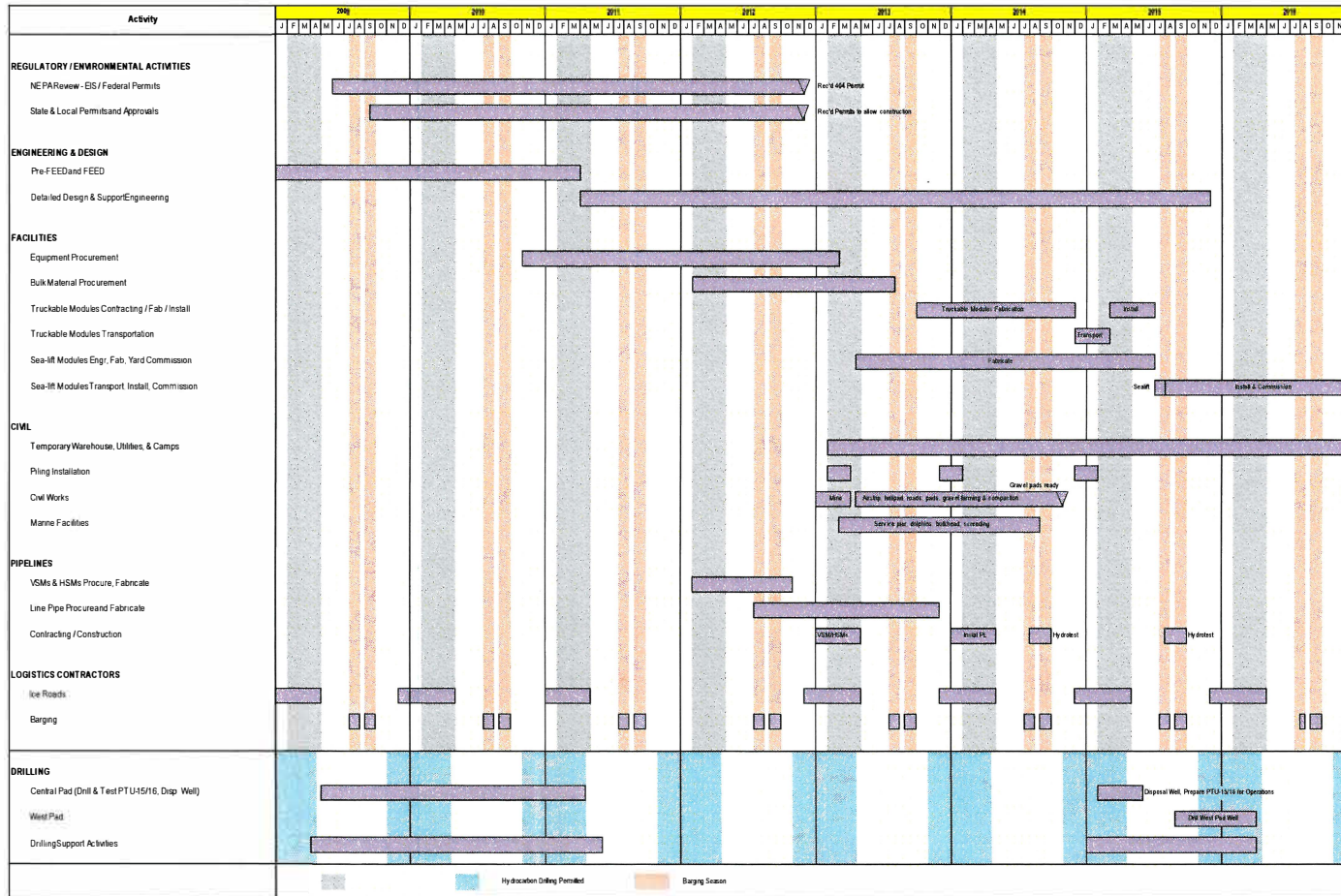
The Point Thomson Unit Owners will also submit plans of further development and operation for the Point Thomson Unit consistent with Paragraph 4.6 of the Settlement Agreement and the Point Thomson Unit Agreement.



Point Thomson Central Pad – August 2016

4 APPENDIX

Exhibit E – Point Thomson Provisional Schedule Level 1 Work Sheet



NOTE: This schedule is indicative and subject to change.