

United States Department of the Interior



BUREAU OF LAND MANAGEMENT
Alaska State Office
222 West Seventh Avenue, #13
Anchorage, Alaska 99513-7504
<http://www.blm.gov>

In Reply Refer To:
3180 (AK932)
Sterling Unit AA050887

CERTIFIED MAIL No: 7003 0500 0005 3216 0976
Return Receipt Requested

Chantal Walsh, Director
Oil and Gas Division
Alaska Department of Natural Resources
550 W. 7th Avenue, Suite 1100
Anchorage, AK 99501

Dear Ms. Walsh:

I am writing in regard to the 47th Plan of Development and Operations (POD) for the Sterling Unit submitted by Hilcorp Alaska in February 2017. In the 2017 Sterling Unit POD, Hilcorp proposes to plug and abandon two wells that are located on federal leases and contract the Unit such that all federal, state, and private fee mineral ownership interests will be eliminated. In this scenario, the leases remaining in the Unit would be owned by CIRI.

Production from the Sterling Unit ceased in April 2014. Section 21 of the Unit Agreement specifies under paragraph (c) that upon cessation of production of Unitized Substances in paying quantities, the Unit shall terminate in accordance with the BLM's regulations under 43 CFR 3180. To date, there is still no production holding the Unit.

On December 19, 2016 the BLM met with Hilcorp and gave notice to prepare for termination of the Sterling Unit by instituting a full plugging and abandonment plan of the remaining wells. Hilcorp's response to this notice is reflected in the POD, taking a sequential approach to the Unit-wide P&A by beginning with the federal wells.

If a concession were made to allow the Unit to continue, it will not automatically contract after the proper plugging of the federal wells. However, the participating area could be contracted to the remaining subsurface resource, which the operator contends are located under CIRI's jurisdiction.

Under the conditions of the Unit Agreement and the inability of the operator to bring the Unit back into production, termination versus contraction is appropriate. The BLM is seeking your input regarding this action.

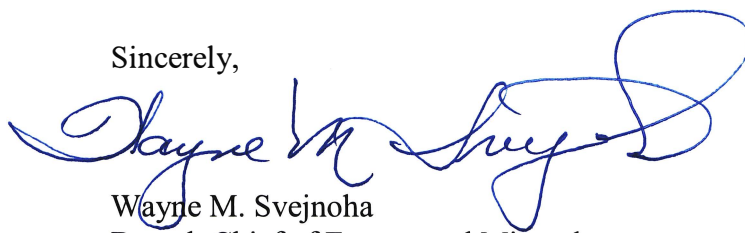
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MAY 18 2017

DIVISION OF
OIL AND GAS

Please reply to this letter to clarify your position. A copy of the POD and Unit map are enclosed with this letter for your reference. If you have any questions, please contact Rob Brumbaugh at (907) 271- 4429.

Sincerely,

A handwritten signature in blue ink, appearing to read "Wayne M. Svejnoha", with a large, stylized flourish at the end.

Wayne M. Svejnoha
Branch Chief of Energy and Minerals
Division of Resources

Enclosures:
Sterling Unit 47th POD
Unit map



Hilcorp Alaska, LLC

DEFINITION
MAILROOM AK-954

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Anchorage, AK 99524-4027

3800 Centerpoint Drive
Suite 100
Anchorage, AK 99503

Phone: 907/777-8414
Fax: 907/777/8350
Email: dduffy@hilcorp.com

March 1, 2017



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COPY

Wayne Svejnoha, Chief
Branch of Energy & Minerals
Bureau of Land Management
222 West Seventh Avenue, #13
Anchorage, Alaska 99513-7504

**47th PLAN OF DEVELOPMENT AND OPERATIONS
FOR THE STERLING UNIT
AA050887**

Hilcorp Alaska, LLC ("Hilcorp"), as Operator of the Sterling Unit, hereby submits the 47th Plan of Development and Operations ("2017 POD") for your review and approval.

As needed or required, Hilcorp renews its request for BLM to issue a suspension of unit production under this POD. The primary focus of activities under the proposed 2017 POD are related to plugging and abandoning (P&A) suspended wells, and initiating a process to contract the unit to only those leases that hold near-term development potential.

I. PERIOD

This plan will be effective from March 1, 2017 through March 31, 2018. The 2018 POD will be submitted on or before March 1, 2018.

II. FIELD REVIEW:

The Sterling Unit is a legacy gas field. Since 1962, the Sterling Unit has produced approximately 14.5 BSCF. Hilcorp acquired the field in 2013 and became the unit operator. The SU 41-15RD and SU 32-09 producing wells went offline in 2014. Hilcorp's subsequent remediation of the wells with eline and slickline efforts were unsuccessful in returning the field to production in 2016.

In October 2014, Hilcorp hosted a technical meeting and requested BLM issue a suspension of unit production.

During the 2015 POD period, federal leases within the Sterling Unit were segregated to reflect applicable state, federal and Native Corporation ownership. In addition, BLM waived administration of the Unit. To date, the State of Alaska has not accepted the role of Unit Manager. Until such time, Hilcorp will continue to recognize BLM as the Unit Manager.

During the 2016 POD Period, Hilcorp attempted to return the Unit to production through the following workovers:

- **41-15RD:** In September to October 2016, Hilcorp perforated 2 intervals in the Lower Beluga. Guns were stuck across another proposed perf interval and fishing operations were unsuccessful. A final perf interval in the lower Beluga produced water.
- **SU 32-09:** In October 2015, Hilcorp unsuccessfully used slickline and braided line to retrieve stuck fish.

Hilcorp also completed a field-wide study of the Tyonek, Beluga and Sterling formations. Based on technical and other confidential information available to Hilcorp, we have determined that although limited drilling / side track drilling opportunities may exist, such investments are not prudent under current economic conditions, particularly given the limited and seasonal nature of the Cook Inlet gas market.

III. 2017 PLAN OF DEVELOPMENT AND OPERATIONS (47TH PLAN):

Hilcorp's primary 2017 POD activity in the Sterling Unit will be focused on the abandonment of suspended well SU 23-15 and shut-in well SU 41-15RD. Hilcorp anticipates this P&A well work will be commenced during Q3 2017.

After SU 23-15 and SU 41-15RD are plugged and abandoned, Hilcorp will prepare a proposed unit contraction and voluntary lease relinquishment. At this time, Hilcorp anticipates this contraction/relinquishment will result in the elimination of all Federal and private fee mineral ownership interests in the Sterling Unit. Hilcorp further anticipates that only those leases within approximately 1500' of wells remaining on the existing Sterling Pad will be retained for future production.

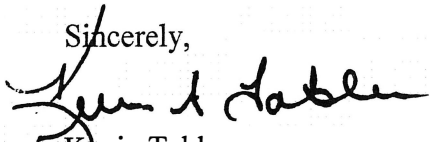
IV. STATUS OF STERLING UNIT WELLS

Well	Sterling	Upper Beluga	Lower Beluga/Tyonek
SU 23-15	Suspended		
SU 43-9X	Shut In		
SU 32-09		Shut In	
SU 41-5RD			Shut In
SU 43-09	Active disposal		

Where required or applicable, all Unit operation activities will be permitted, performed and reported in accordance with applicable state and federal regulations.

Your approval of the proposed 2017 POD, including the renewed request for a suspension of production, is respectfully requested.

Sincerely,

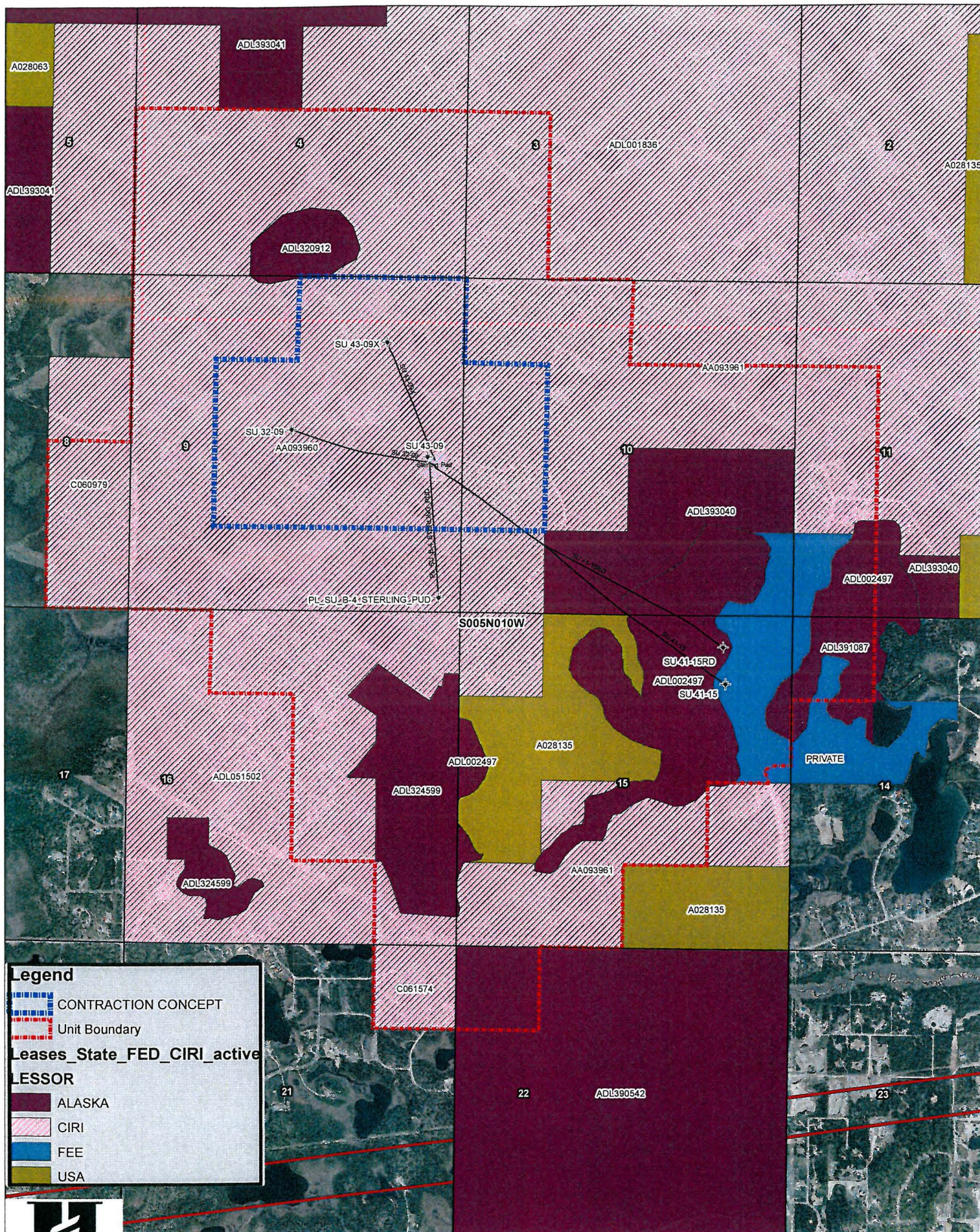


Kevin Tabler
Land Manager
Hilcorp Alaska, LLC

APPROVED: Bureau of Land Management

By: _____
Wayne M. Svenjnoha
Branch Chief of Energy and Minerals

This ____ day of _____, 2017.



Sterling Unit