



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS
550 W 7th Avenue, Suite 1400
Anchorage, AK 99501-3560
Main: 907.269.8431
Fax: 907.269.8918

December 28, 2017

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

G. Scott Pfoff, President
Aurora Exploration, LLC
4645 Sweetwater Blvd, Suite 200
Sugar Land, TX 77479

Re: Nicolai Creek 44th Plan of Development Approval

Dear Mr. Pfoff,

On December 8, 2017, the State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) received the proposed Nicolai Creek Unit (NCU) 44th Plan of Development and Operations (POD). The Division notified the operator Aurora Exploration, LLC (AE) by email on December 28, 2017 that it had deemed the application complete. This letter approves the POD.

The NCU first produced gas in 1968, with many years between sustained production through a handful of wells. In 2000, Aurora Gas, LLC succeeded Union Oil of California as operator and sole working interest owner. DNR received notice on October 11, 2016 that Aurora Gas, LLC had filed for bankruptcy under Chapter 11 in the United States Bankruptcy Court for the District of Alaska, with the resolution being either the purchase of all the membership ("stock") of the company by a new owner or shut-in, plug and abandonment of the wells. Aurora Gas, LLC thereupon withdrew its 2017 43rd POD for the NCU. The Division subsequently extended Aurora Gas, LLC's 42nd POD for the NCU pending Aurora Gas, LLC's filing a reorganization plan with the federal bankruptcy court.

AE now is in the process of acquiring the NCU from Aurora Gas, LLC out of bankruptcy. While awaiting finalization of this process, AE has submitted a NCU endorsement and letter of acceptance of all duties, obligations, and responsibilities from Aurora Gas, LLC, and posted a statewide bond with DNR. Accordingly, AE, as the successor Unit Operator and pursuant to Article X of the NCU Agreement, submitted this 44th POD.

During the 42nd POD period, Aurora Gas continued to manage this gas field through maintenance and production operations. To date, 9.44 billion standard cubic feet of gas have been produced. Aurora also performed slickline work on several wells to clean out sand fill. The dearth of activity during this extended POD period is disconcerting, but foreseeable given Aurora Gas's bankruptcy.

AE for this 44th POD period, however, commits to the following work activities, in addition to continued production:

- Coil tubing cleanout of NCU #9 well in the 1st quarter 2018 and evaluation of results

- Schedule coil tubing cleanout and chemical sand control of the Carya 2-4.2 completion of NCU #10 well in 1st quarter 2018
- Coil tubing cleanout of NCU #11 in the 1st quarter 2018

Additionally, AE commits to the following for the POD period:

- Drilling 900' directional well – NCU #12 (Nicolai Creek North) – and targeting Beluga and Upper Tyonek sands productive in NCU wells #3 and #10

And, while AE also is interested in possibly converting NCU #2 and #9 wells into a gas storage injection-production well (pending issuance of a gas storage lease), along with contemplating the possibility of a future horizontal well through the storage reservoir, commencement of feasibility studies, leasing, permitting, and implementation are not planned for this POD period.

Although no drilling of exploration wells is expected during this POD period, AE is “interested” in purchasing 3-D seismic from Apache Alaska Corporation and anticipates negotiating the purchase of this new seismic in this POD period, “with plans to interpret and evaluate this new seismic, and other geologic data to determine possible exploration, development, and extension drilling targets at all depths.”

Finally, the Division welcomes AE’s candid assessment that based on AE’s production and economic projections, the NCU will become uneconomic to operate in 2022. In that event, AE would likely plan well abandonment and surface equipment removal for the summer of 2022.

When considering a POD, the Division must consider the criteria in 11 AAC 83.303(a) and (b). Accordingly, the Division considered the public interest, conservation of natural resources, prevention of economic and physical waste, protection of all interested parties including the state, environmental costs and benefits, geological and engineering characteristics or reservoirs or potential hydrocarbon accumulations, prior exploration activities, plans for exploration or development, economic costs and benefits to the state, and any other relevant factors, including mitigation measures. 11 AAC 83.303(a), (b).

In approving earlier NCU PODs, the Division considered the 11 AAC 83.303 criteria and found that the PODs promoted conservation of natural resources, promoted prevention of waste, and protected the parties’ interests. The Division incorporates those findings by reference.

This NCU 44th POD proposes activities to help to maintain production at NCU. AE also commits to drill a new well, the NC #12, that may increase the overall resource recovery within the NCU. Continued production will lead to additional economic benefit to the state, but will have only an incremental effect on environmental costs because the development will occur under the terms of the unit agreement. The agreement promotes efficient evaluation and development of the state’s resources, and minimizes impacts to the area’s cultural, biological, and environmental resources.

Having considered the 11 AAC 83.303 (a) and (b) criteria, the Division finds that the 44th POD complies with the provisions of 11 AAC 83.303. Accordingly, the 44th POD is approved for the period December 29, 2017 through December 28, 2018. Under 11 AAC 83.343, the 45th POD is due September 28, 2018, 90 days before the 44th POD expires.

This approval is only for a general plan of development. Specific field operations will require an approved Plan of Operations.

An eligible person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal 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, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 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 appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources. If you have questions regarding this decision, contact Ken Diemer with the Division at 907-269-8799 or via email at ken.diemer@alaska.gov.

Sincerely,

A handwritten signature in cursive script, appearing to read "Chantal Walsh".

Chantal Walsh
Director