

Section Two

Leasing Licensing & Incentives

Leasing

Areawide Leasing

Oil and gas lease sales are the initial step in a process that generates nearly 80 percent of the state's General Fund Revenue. Although the primary purpose of leasing state lands is to provide for oil and gas development and the subsequent economic benefits, the program in itself has been a significant revenue source. Through lease sale bonus bids alone, the state has received over \$2 billion in revenue.

Since 1959 the state has held 98 competitive lease sales in which it has offered millions of acres throughout Alaska. Several leasing methods, authorized under the AS 38.05, were used to encourage oil and gas exploration and development and maximize state revenue. These methods include combinations of fixed and variable bonus bids, royalty shares and net profit shares. The fixed terms generally involve an obligation to remit royalty payments in the form of a 12.5 or 16-2/3 percent share of gross production paid in-kind or in-value. Occasionally, the state has imposed a fixed royalty rate of 20 percent.



The minimum royalty obligation is 12.5 percent. The state has also used sliding-scale royalty terms in its leases based on production or oil price or gross revenue. In several sales, the state has offered acreage and leased with a fixed net profit share in addition to a fixed royalty rate. Net profits are defined as the share of revenues from production from the lease net of investments and ongoing operating costs.

The most common bid variable used by the state is the cash bonus. The state may require minimum bids of \$5 to \$10 per acre (and sometimes higher). The state may also use the royalty rate or the net profit share as the bidding variable, though this has happened only rarely (Sale 30 was one of these occasions).

The division annually issues a new *Five-Year Oil and Gas Leasing Program* that sets out the sale schedule for the succeeding five years. All proposed lease sales are areawide sales held each year. An areawide sale is one in which all available state acreage within a geographic region is included. The four geographic regions are the North Slope, North Slope Foothills, Beaufort Sea, and Cook Inlet. The first such sale was the North Slope Areawide held in June 1998. Since then areawide sales have been held in the other three regions. In addition, the state has proposed adding areawide sales on the Alaska Peninsula beginning in 2005. Areas outside of these regions are available for exploration through other oil and gas programs.

ALASKA OIL AND GAS LEASING PROGRAM



Sale Areas

A total of 24 lease sales are proposed over the next five years; five in each region of northern Alaska and in Cook Inlet, and four on the Alaska Peninsula beginning in 2005.

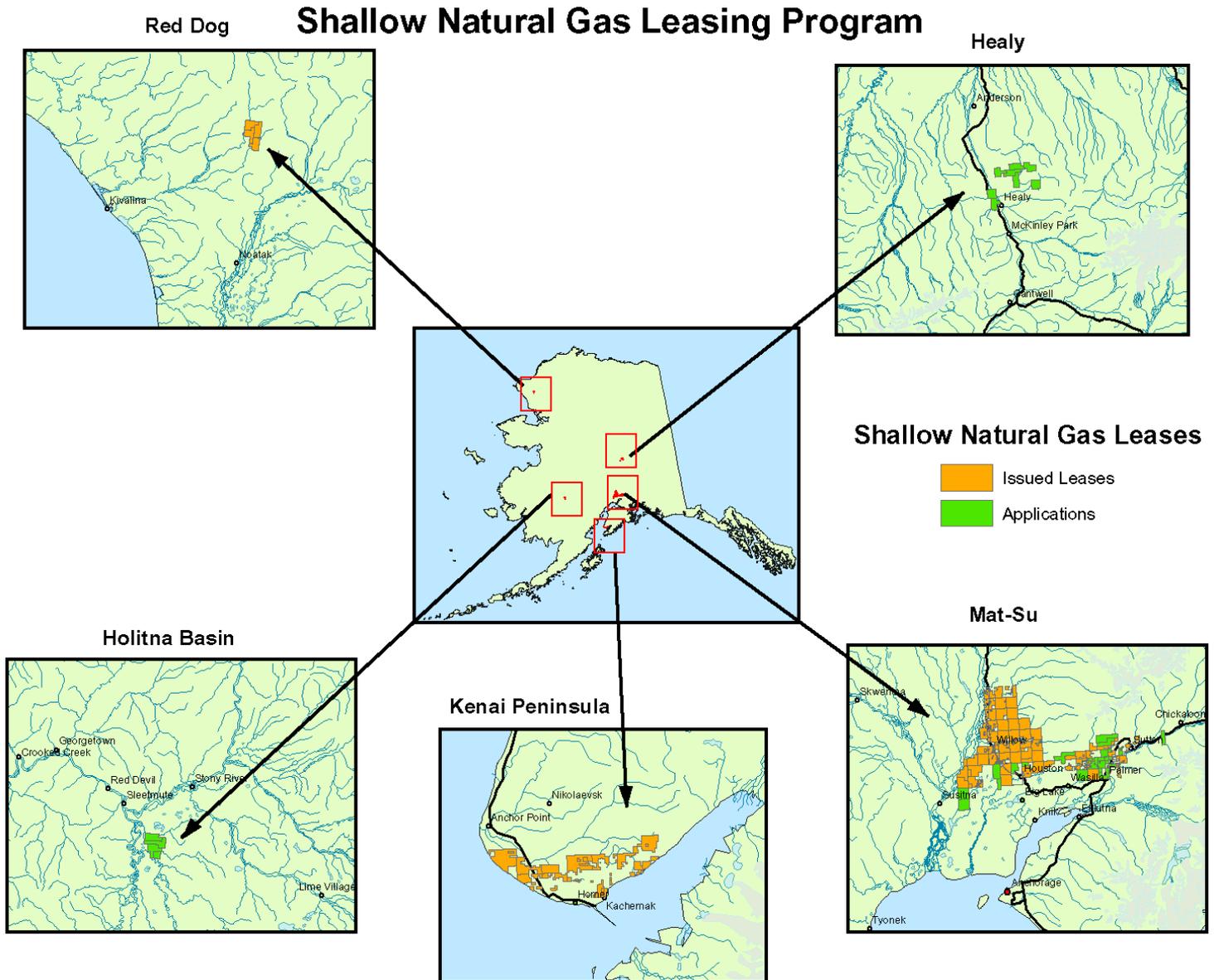
STATE OF ALASKA FIVE-YEAR OIL AND GAS LEASING PROGRAM

2004 through 2008

| <u>Sale</u> | <u>Annually Held In</u> |
|--------------------------------|-----------------------------|
| North Slope Foothills Areawide | May |
| Cook Inlet Areawide | May |
| North Slope Areawide | October |
| Beaufort Sea Areawide | October |
| Alaska Peninsula | October (beginning in 2005) |

Leasing

If the decision is to proceed with a sale, a Sale Announcement, including the sale terms, bidding method, tract map, and mitigation measures will be issued 90 days prior to that sale. If a best interest finding or a supplement to a previous finding is required, it will be released at the same time as the Sale Announcement.



Shallow Gas Leasing

Alaska's newest leasing program allows the Division of Oil and Gas to issue non-competitive leases to explore for and develop natural gas from fields if part of the field is within 3,000 feet of the surface.

To encourage participation, there is no bonus payment to the state for the right to explore on a lease. The application fee is \$5000, and the annual rental payments remain at \$1 per acre (rather than increasing to \$3 per acre, as with a conventional oil and gas lease). The royalty rate is 6.25 percent unless the gas is produced "in direct competition" with conventional gas. Then the royalty is 12.5 percent. The term of a lease is limited to three years, unless the director approves one three-year extension. The lessee has the ability to extend the life of the lease so long as there is production. A lease may consist of up to 5,760 acres, and a lessee may not hold more than 138,240 acres (six townships) of leased land under this program.

If a well penetrates a formation capable of producing that does not extend to within 3,000 feet of the surface or penetrates a formation capable of producing oil, no further operations may be conducted until the lessee complies with all applicable laws and regulations relating to oil and gas exploration and production.

Lands subject to an Exploration License or the state's Five-Year Oil and Gas Leasing Program are not eligible for a shallow gas lease. Also, if the land is held under a coal lease, only that lessee may apply for a shallow gas lease. The Commissioner of Natural Resources may waive any of these limitations.

To date, there are 72 active shallow gas leases consisting of 275,286 acres. There are 25 pending lease applications – 13 in the Mat-Su Valley, 8 in the Healy area and 4 located southeast of Sleetmute, in the Holitna basin.

SUMMARY OF STATE COMPETITIVE LEASE SALES

| Sale Date | Sale | Sale Area | Acres Offered | Acres Leased | Percent Leased | Average \$/Acre | Tracts Offered | Tracts Leased | Bonus Received | Bid Variable | Fixed Terms |
|------------|------|--------------|---------------|--------------|----------------|-----------------|----------------|---------------|----------------|------------------------|----------------------------------|
| 12/10/1959 | 1 | Cook Inlet | 88,055 | 77,191 | 87.66% | \$52.08 | 37 | 31 | \$4,020,342 | Bonus; No Min | 12.5% Royalty |
| 7/13/1960 | 2 | Cook Inlet | 17,568 | 16,506 | 93.96% | \$24.70 | 27 | 26 | \$407,655 | Bonus; No Min | 12.5% Royalty |
| 12/7/1960 | 3 | Mixed | 73,048 | 22,867 | 31.30% | \$1.54 | 26 | 9 | \$35,325 | Bonus; No Min | 12.5% Royalty |
| 1/25/1961 | 4 | Cook Inlet | 400 | 400 | 100.00% | \$679.04 | 3 | 3 | \$271,614 | Bonus; No Min | 12.5% Royalty |
| 5/23/1961 | 5 | Mixed | 97,876 | 95,980 | 98.06% | \$74.71 | 102 | 99 | \$7,170,465 | Bonus; No Min | 12.5% Royalty |
| 8/4/1961 | 6 | Gulf Ak | 13,257 | 13,257 | 100.00% | \$8.35 | 6 | 6 | \$110,672 | Bonus; No Min | 12.5% Royalty |
| 12/19/1961 | 7 | Mixed | 255,708 | 187,118 | 73.18% | \$79.43 | 68 | 53 | \$14,863,049 | Bonus; No Min | 12.5% Royalty |
| 4/24/1962 | 8 | Cook Inlet | 1,062 | 1,062 | 100.00% | \$4.80 | 8 | 8 | \$5,097 | Bonus; No Min | 12.5% Royalty |
| 7/11/1962 | 9 | Mixed | 315,669 | 264,437 | 83.77% | \$59.42 | 89 | 76 | \$15,714,113 | Bonus; No Min | 12.5% Royalty |
| 5/8/1963 | 10 | Cook Inlet | 167,583 | 141,491 | 84.43% | \$29.23 | 200 | 158 | \$4,136,225 | Bonus; No Min | 12.5% Royalty |
| 12/11/1963 | 12 | Cook Inlet | 346,782 | 247,089 | 71.25% | \$12.31 | 308 | 207 | \$3,042,681 | Bonus; No Min | 12.5% Royalty |
| 12/9/1964 | 13 | Mixed | 1,194,373 | 721,224 | 60.39% | \$7.68 | 610 | 341 | \$5,537,100 | Bonus; No Min | 12.5% Royalty |
| 7/14/1965 | 14 | North Slope | 754,033 | 403,000 | 53.45% | \$15.25 | 297 | 159 | \$6,145,473 | Bonus; \$1/acre Min | 12.5% Royalty |
| 9/28/1965 | 15 | Cook Inlet | 403,042 | 301,751 | 74.87% | \$15.49 | 293 | 216 | \$4,674,344 | Bonus; \$1/acre Min | 12.5% Royalty |
| 7/19/1966 | 16 | Mixed | 184,410 | 133,987 | 72.66% | \$52.55 | 205 | 153 | \$7,040,880 | Bonus; \$1/acre Min | 12.5% Royalty |
| 11/22/1966 | 17 | Cook Inlet | 19,230 | 18,590 | 96.67% | \$7.33 | 36 | 35 | \$136,280 | Bonus; \$1/acre Min | 12.5% Royalty |
| 1/24/1967 | 18 | Mixed | 47,729 | 43,657 | 91.47% | \$33.90 | 23 | 20 | \$1,479,906 | Bonus; \$1/acre Min | 12.5% Royalty |
| 3/28/1967 | 19 | Kachemak Bay | 2,560 | | | | | | | | |
| 7/25/1967 | 20 | Cook Inlet | 311,250 | 256,447 | 82.39% | \$73.14 | 295 | 220 | \$18,757,341 | Bonus; \$1/acre Min | 12.5% Royalty |
| 3/26/1968 | 21 | Ak Pen | 346,623 | 164,961 | 47.59% | \$18.24 | 308 | 147 | \$3,009,224 | Bonus; \$1/acre Min | 12.5% Royalty |
| 10/29/1968 | 22 | Cook Inlet | 111,199 | 60,272 | 54.20% | \$17.29 | 230 | 125 | \$1,042,220 | Bonus; No Min | 12.5% Royalty |
| 9/10/1969 | 23 | North Slope | 450,858 | 412,548 | 91.50% | \$2,181.66 | 179 | 164 | \$900,041,605 | Bonus; No Min | 12.5% Royalty |
| 5/12/1971 | 24 | Cook Inlet | 196,635 | 92,618 | 47.10% | \$4.92 | 244 | 106 | \$455,641 | Bonus; No Min | 12.5% Royalty |
| 9/26/1972 | 25 | Cook Inlet | 325,401 | 178,245 | 54.78% | \$7.43 | 259 | 152 | \$1,324,673 | Bonus; No Min | 12.5% Royalty |
| 12/11/1972 | 26 | Cook Inlet | 399,921 | 177,973 | 44.50% | \$8.75 | 218 | 105 | \$1,557,849 | Bonus; No Min | 12.5% Royalty |
| 5/9/1973 | 27 | Cook Inlet | 308,401 | 113,892 | 36.93% | \$9.92 | 210 | 96 | \$1,130,325 | Bonus; No Min | 12.5% Royalty |
| 12/13/1973 | 28 | Cook Inlet | 166,648 | 97,804 | 58.69% | \$253.77 | 98 | 62 | \$24,819,190 | Bonus; No Min | 16.67% Royalty |
| 10/23/1974 | 29 | Cook Inlet | 278,269 | 127,120 | 45.68% | \$8.19 | 164 | 82 | \$1,040,910 | Bonus; No Min | 16.67% Royalty |
| 7/24/1979 | 29B | Copper Riv | 34,678 | 34,678 | 100.00% | \$4.56 | 20 | 20 | \$158,042 | Bonus; No Min | 20% Royalty |
| 12/12/1979 | 30 | Beaufort Sea | 341,140 | 296,308 | 86.86% | \$1,914.87 | 71 | 62 | \$567,391,497 | Net Profit Share (NPS) | 20% Royalty; \$850 & \$1750/acre |
| 9/16/1980 | 31 | North Slope | 196,268 | 196,268 | 100.00% | \$63.12 | 78 | 78 | \$12,387,470 | Bonus; No Min | 20% Royalty; 30% NPS |
| 5/13/1981 | 33 | Cook Inlet | 815,000 | 429,978 | 52.76% | \$10.00 | 202 | 103 | \$4,299,782 | Royalty; 20% Min | \$10/acre Bonus |
| 8/25/1981 | 32 | Cook Inlet | 202,837 | 152,428 | 75.15% | \$10.00 | 78 | 59 | \$1,524,282 | Royalty; 20% Min | \$10/acre Bonus |

SUMMARY OF STATE COMPETITIVE LEASE SALES (CONT'D)

| Sale Date | Sale | Sale Area | Acres Offered | Acres Leased | Percent Leased | Average \$/Acre | Tracts Offered | Tracts Leased | Bonus Received | Bid Variable | Fixed Terms |
|-----------|------|--------------|---------------|--------------|----------------|-----------------|----------------|---------------|----------------|-------------------------|--------------------------------------|
| 2/2/1982 | 35 | Cook Inlet | 601,172 | 131,191 | 21.82% | \$10.00 | 149 | 31 | \$1,311,907 | Royalty; 12.5% Min | \$10/acre Bonus |
| 5/26/1982 | *36 | Beaufort Sea | 56,862 | 56,862 | 100.00% | \$573.02 | 13 | 13 | \$32,583,452 | Bonus; No Min | 12.5% Royalty & 40% NPS |
| 8/24/1982 | *37 | Copper River | 852,603 | 168,849 | 19.80% | \$3.33 | 217 | 33 | \$562,944 | Bonus; No Min | 12.5% Royalty & 30% NPS |
| 8/24/1982 | 37A | Cook Inlet | 1,875 | 1,875 | 100.00% | \$52.00 | 1 | 1 | \$97,479 | Bonus; No Min | 43% Royalty |
| 9/28/1982 | *34 | North Slope | 1,231,517 | 571,954 | 46.44% | \$46.70 | 261 | 119 | \$26,713,018 | Bonus; No Min | Royalty:16.67%-40%NPS; 12.5%-30%NPS |
| 5/17/1983 | *39 | Beaufort Sea | 211,988 | 211,988 | 100.00% | \$99.05 | 42 | 42 | \$20,998,101 | Bonus; \$10/acre Min | 12.5% Royalty & 30% or 40% NPS |
| 9/28/1983 | 40 | Cook Inlet | 1,044,745 | 443,355 | 42.44% | \$7.17 | 284 | 140 | \$3,177,178 | Bonus; \$1/acre Min | 12.5% Royalty |
| 5/22/1984 | 43 | Beaufort Sea | 298,074 | 281,784 | 94.53% | \$114.32 | 69 | 66 | \$32,214,794 | Bonus; \$10/acre Min | 16.67% Royalty |
| 5/22/1984 | *43A | North Slope | 76,079 | 76,079 | 100.00% | \$125.44 | 15 | 15 | \$1,612,583 | Bonus; \$10/acre Min | 12.5% Royalty & 30% NPS |
| 9/18/1984 | 41 | Bristol Bay | 1,437,930 | 278,939 | 19.40% | \$3.03 | 308 | 63 | \$843,965 | Bonus; No Min | 12.5% Royalty |
| 2/26/1985 | 46A | Cook Inlet | 248,585 | 190,042 | 76.45% | \$13.28 | 65 | 50 | \$2,523,334 | Bonus; \$1/acre Min | 12.5% & 16.67% Royalty |
| 9/24/1985 | 45A | North Slope | 606,385 | 164,885 | 27.19% | \$28.25 | 113 | 32 | \$4,657,478 | Bonus; \$5/acre Min | 16.67% Royalty |
| 9/24/1985 | 47 | North Slope | 192,569 | 182,560 | 94.80% | \$63.79 | 50 | 48 | \$11,645,003 | Bonus; \$5/acre Min | 12.5% Royalty |
| 2/25/1986 | 48 | North Slope | 526,101 | 266,736 | 50.70% | \$9.16 | 104 | 54 | \$2,444,342 | Bonus; \$5/acre Min | 12.5% Royalty |
| 2/25/1986 | 48A | Beaufort Sea | 42,053 | 42,053 | 100.00% | \$12.13 | 11 | 11 | \$510,255 | Bonus; \$5/acre Min | 12.5% Royalty |
| 6/24/1986 | 49 | Cook Inlet | 1,189,100 | 394,881 | 33.21% | \$2.40 | 260 | 98 | \$947,171 | Bonus; \$1/acre Min | 12.5% & 16.67% Royalty |
| 1/27/1987 | 51 | North Slope | 592,142 | 100,632 | 16.99% | \$2.88 | 119 | 26 | \$289,625 | Bonus; \$2/acre Min | 12.5% Royalty |
| 6/30/1987 | 50 | Beaufort Sea | 118,147 | 118,147 | 100.00% | \$56.05 | 35 | 35 | \$6,621,723 | Bonus; \$5/acre Min | 16.67% Royalty |
| 1/26/1988 | *54 | North Slope | 421,809 | 338,687 | 80.29% | \$13.83 | 89 | 72 | \$4,683,388 | Bonus; \$5/acre Min | 12.5% Royalty |
| 9/28/1988 | 55 | Beaufort Sea | 201,707 | 96,632 | 47.91% | \$152.13 | 56 | 25 | \$14,700,602 | Bonus; \$10&\$25/ac Min | 12.5% & 16.67% Royalty |
| 9/28/1988 | 69A | North Slope | 775,555 | 368,490 | 47.51% | \$16.61 | 155 | 75 | \$6,119,136 | Bonus; \$5/acre Min | 12.5% Royalty |
| 1/24/1989 | 52 | Beaufort Sea | 175,981 | 52,463 | 29.81% | \$33.12 | 43 | 15 | \$1,737,513 | Bonus; \$10/acre Min | 12.5% Royalty |
| 1/24/1989 | 72A | North Slope | 677 | 677 | 100.00% | \$671.90 | 1 | 1 | \$454,977 | Bonus; \$10/acre Min | 12.5% Royalty |
| 1/29/1991 | *67A | Cook Inlet | 549,364 | 191,588 | 34.87% | \$28.77 | 140 | 55 | \$5,511,338 | Bonus; \$5/acre Min | 12.5% Royalty |
| 1/29/1991 | *70A | North Slope | 532,153 | 420,568 | 79.03% | \$65.88 | 135 | 109 | \$27,707,541 | Bonus; \$5/acre Min | 12.5% Royalty |
| 6/4/1991 | 64 | North Slope | 754,542 | 34,143 | 4.52% | \$7.10 | 141 | 6 | \$242,389 | Bonus; \$5/acre Min | 12.5% Royalty |
| 6/4/1991 | *65 | Beaufort Sea | 491,091 | 172,865 | 35.20% | \$40.46 | 108 | 36 | \$6,993,949 | Bonus; \$5/acre Min | 16.67% Royalty |
| 9/24/1991 | *74A | Cook Inlet | 605,851 | 26,605 | 4.39% | \$12.06 | 134 | 5 | \$320,853 | Bonus; \$5/acre Min | 12.5% Royalty |
| 1/22/1992 | 61 | North Slope | 991,087 | 260,550 | 26.29% | \$9.32 | 181 | 46 | \$2,429,551 | Bonus; \$5/acre Min | 12.5% Royalty |
| 6/2/1992 | 68 | Beaufort Sea | 153,445 | 0 | 0.00% | \$0.00 | 36 | 0 | \$0 | Bonus; \$10/acre Min | 12.5% Royalty |
| 12/8/1992 | 75 | North Slope | 217,205 | 124,832 | 57.47% | \$78.11 | 90 | 55 | \$9,750,111 | Bonus; \$10/acre Min | Royalty: State =12.5% & ASRC =16.67% |

SUMMARY OF STATE COMPETITIVE LEASE SALES (CONT'D)

| Sale Date | Sale | Sale Area | Acres Offered | Acres Leased | Percent Leased | Average \$/Acre | Tracts Offered | Tracts Leased | Bonus Received | Bid Variable | Fixed Terms |
|------------------------|------------|--------------|---------------|-------------------|----------------|-----------------|----------------|---------------|------------------------|--------------------------|--|
| 1/26/1993 | 76 | Cook Inlet | 393,025 | 141,504 | 36.00% | \$461.25 | 86 | 36 | \$65,269,167 | Bonus; \$5/acre Min | 12.5% Royalty |
| 1/26/1993 | 67 A-W | Cook Inlet | 262,577 | 129,810 | 45.94% | \$18.75 | 69 | 33 | \$2,433,864 | Bonus; \$5/acre Min | 12.5% Royalty |
| 5/25/1993 | 77 | North Slope | 1,260,146 | 45,727 | 3.63% | \$25.47 | 228 | 8 | \$1,164,555 | Bonus; \$5/acre Min | 12.5% Royalty |
| 5/25/1993 | 70 A-W | North Slope | 37,655 | 28,055 | 74.51% | \$48.41 | 11 | 8 | \$1,358,027 | Bonus; \$10/acre Min | 12.5% Royalty |
| 9/21/1993 | 57 | North Slope | 1,033,248 | 0 | 0.00% | \$0.00 | 196 | 0 | \$0 | Bonus; \$5/acre Min | 12.5% Royalty |
| 9/21/1993 | 75A | North Slope | 14,343 | 14,343 | 100.00% | \$31.36 | 11 | 11 | \$449,847 | Bonus; \$10/acre Min | 16.67% Royalty |
| 10/30/1994 | 78 | Cook Inlet | 396,760 | 136,307 | 34.36% | \$12.14 | 90 | 34 | \$1,654,137 | Bonus; \$5/acre Min | 12.5% Royalty |
| 11/14/1995 | 67A-W2 | Cook Inlet | 152,768 | 13,804 | 9.04% | \$7.29 | 36 | 3 | \$100,638 | Bonus; \$5/acre Min | 12.5% Royalty |
| 11/14/1995 | 74W | Cook Inlet | 66,703 | 17,015 | 25.51% | \$31.76 | 16 | 4 | \$540,406 | Bonus; \$5/acre Min | 12.5% Royalty |
| 11/14/1995 | 76W | Cook Inlet | 251,614 | 14,220 | 5.65% | \$5.61 | 50 | 4 | \$79,722 | Bonus; \$5/acre Min | 12.5% Royalty |
| 11/14/1995 | 78W | Cook Inlet | 260,453 | 36,478 | 14.01% | \$7.06 | 56 | 11 | \$257,583 | Bonus; \$5/acre Min | 12.5% Royalty |
| 12/5/1995 | 80 | North Slope | 951,302 | 151,567 | 15.93% | \$22.02 | 202 | 42 | \$3,337,485 | Bonus; \$10/acre Min | 12.5% Royalty |
| 10/1/1996 | 86A | North Slope | 15,484 | 5,901 | 38.11% | \$343.40 | 13 | 5 | \$2,026,247 | Bonus; \$100/acre Min | 16.67%&16.67-33.33% Sliding Scale Rylyt |
| 12/18/1996 | 85A | Cook Inlet | 1,061,555 | 173,503 | 16.33% | \$17.92 | 234 | 44 | \$3,109,603 | Bonus; \$5/acre Min | 12.5% Royalty |
| 11/18/1997 | 86 ** | Beaufort Sea | 365,054 | 323,835 | 88.70% | \$86.42 | 181 | 162 | \$27,985,125 | Bonus; \$10/acre Min | 16.67% Royalty |
| 2/24/1998 | 85A-W | Cook Inlet | 757,878 | 98,011 | 12.90% | \$8.46 | 157 | 24 | \$828,807 | Bonus; \$5/acre Min | 12.5% Royalty |
| 6/24/1998 | 87 | North Slope | Areawide | 518,689 | N/A | \$99.86 | N/A | 137 | \$51,794,173 | Bonus; \$5/acre Min | 12.5% Royalty |
| 2/24/1999 | NS 1999 | North Slope | Areawide | 174,923 | N/A | \$14.85 | N/A | 40 | \$2,596,838 | Bonus; \$5/acre Min | 12.5% Royalty |
| 4/21/1999 | CI 1999 | Cook Inlet | Areawide | 114,514 | N/A | \$10.75 | N/A | 41 | \$1,436,685 | Bonus; \$5/acre Min | 12.5% Royalty |
| 8/16/2000 | CI 2000 | Cook Inlet | Areawide | 100,480 | N/A | \$9.15 | N/A | 27 | \$919,750 | Bonus; \$5/acre Min | 12.5% Royalty |
| 11/15/2000 | BS 2000 | Beaufort Sea | Areawide | 25,840 | N/A | \$13.13 | N/A | 11 | \$338,922 | Bonus; \$10/acre Min | 12.5% & 16.67% Royalty |
| 11/15/2000 | NS 2000 | North Slope | Areawide | 652,355 | N/A | \$15.41 | N/A | 145 | \$10,052,665 | Bonus; \$5/acre Min | 12.5% & 16.67% Royalty |
| 5/9/2001 | CI 2001 | Cook Inlet | Areawide | 102,523 | N/A | \$9.05 | N/A | 29 | \$928,085 | Bonus; \$5/acre Min | 12.5% Royalty |
| 5/9/2001 | NSF 2001 | NS Foothills | Areawide | 858,811 | N/A | \$11.41 | N/A | 170 | \$9,799,277 | Bonus; \$5/acre Min | 12.5% Royalty |
| 10/24/2001 | BS 2001 | Beaufort Sea | Areawide | 36,331 | N/A | \$94.90 | N/A | 24 | \$3,447,734 | Bonus; \$10/acre Min | 12.5% & 16.67% Royalty |
| 10/24/2001 | NS2001 | North Slope | Areawide | 434,938 | N/A | \$15.89 | N/A | 146 | \$6,911,572 | Bonus; \$5/acre Min | 12.5% & 16.67% Royalty |
| 5/1/2002 | CI 2002 | Cook Inlet | Areawide | 64,923 | N/A | \$7.05 | N/A | 21 | \$421,841 | Bonus; \$5/acre Min | 12.5% Royalty |
| 5/1/2002 | NSF 2002† | NS Foothills | Areawide | 213,374 | N/A | \$14.32 | N/A | 51 | \$2,889,532 | Bonus; \$5/acre Min | 12.5% Royalty |
| 10/24/2002 | BS 2002 | Beaufort Sea | Areawide | 19,226 | N/A | \$26.34 | N/A | 15 | \$506,405 | Bonus; \$10&\$100/ac Min | 12.5%, 16.67% & 20% Royalty |
| 10/24/2002 | NS 2002 | North Slope | Areawide | 32,316 | N/A | \$17.94 | N/A | 12 | \$579,728 | Bonus; \$10/acre Min | 12.5%, 16.67%&16.67-33.33% Sliding Scale Rylyt |
| 5/7/2003 | CI 2003 | Cook Inlet | Areawide | 74 | N/A | \$9.34 | N/A | 27 | \$689,949 | Bonus; \$5/acre Min | 12.5% Royalty |
| 5/7/2003 | NSF 2003 | NS Foothills | Areawide | 5,760 | N/A | \$6.35 | N/A | 1 | \$36,576 | Bonus; \$5/acre Min | 12.5% Royalty |
| 10/29/2003 | BS 2003*** | Beaufort Sea | Areawide | 48,640 | N/A | \$40.62 | N/A | 20 | \$1,975,834 | Bonus; \$5 & \$10/ac Min | 12.5 % 16.67% Royalty |
| 10/29/2003 | NS 2003*** | North Slope | Areawide | 220,800 | N/A | \$17.36 | N/A | 75 | \$3,832,794 | Bonus; \$10/acre Min | 12.5 % 16.67% Royalty |
| TOTAL: 97 Sales | | | | 16,206,652 | | \$126.73 | | 5,979 | \$2,053,890,542 | | |

*Economic Incentive Credits were offered for these sales.

** Sale 86A: State received \$259,435; ASRC received \$1,766,812.

*** Preliminary Results

† Sale NSF 2002 Bonus does not include 20% of Bonus bid (\$1.25 million) retained by the state for relinquished tracts

Licensing

Exploration Licensing

Exploration Licenses are designed to stimulate exploration in Alaska's frontier basins, and complement the state's oil and gas leasing program. The North Slope and Cook Inlet, which are the main thrust of the state's leasing program, remain off limits to Exploration Licensing.

There are, however, several large sedimentary basins within interior Alaska, some of which are virtually unexplored. The highly variable structural geology of these basins offers the potential for structural traps in overthrust belts and strike slip systems. Various types of clastic and carbonate stratigraphic traps may also be present. Exploration Licensing will allow companies to explore these frontier basins with minimal initial costs.



Gil Mull

An area selected for Exploration Licensing must be between 10,000 to 500,000 acres. A license will be awarded to the applicant who has committed the most dollars to an exploration program. The recipient of a license will be required to post a bond in the amount of the work commitment and pay a \$1 per acre license fee. There are no additional charges during the term of the license, which can be up to 10 years.

During its term any portion of the licensed area may be converted to oil and gas leases. The term of the leases can then extend beyond the original term of the license. If converted, annual lease rentals are set at \$3 per acre.

Licensing Process

The licensing process will be initiated in one of two ways: Each year during the month of April applicants may submit to the Commissioner of the Department of Natural Resources a proposal to conduct exploratory activity within an area they have specified. Or the commissioner, at anytime, can issue a notice requesting the submittal of proposals to explore an area designated by the commissioner. Once a request for proposals has been issued applicants will have 20 days to notify the commissioner of their intent to submit a proposal, and 60 days in which to submit.

Within 30 days of receiving any proposal the commissioner will either reject it in a written decision or give public notice of the intent to evaluate the proposal's acceptability. This notice will solicit public comments on the proposal(s) and request competing proposals. The commissioner may also modify any proposal and request a new one based on those modifications.



Gil Mull

Submitted proposals must (1) describe the area proposed to be subject to licensing, (2) state the specific minimum work commitment expressed in dollars, (3) describe the amount and form of security to be posted based on the projected cost of the planned exploration work, (4) propose the term of the license (unless already established by the commissioner) and (5) verify that a prospective licensee meets minimum qualifications.

Licensing

Best Interest Finding

After considering all submitted proposals and public comment on those proposals the commissioner shall issue a written finding determining whether or not granting the Exploration License is in the state's best interests. The finding must describe the limitations, conditions, stipulations or changes from the initiating proposal or competing proposals that are required to make the issuance of the license conform to the best interests of the state. If only one proposal was submitted, the finding must also identify the prospective licensee.

If the finding concludes that an Exploration License should be awarded and there has only been a single applicant, that applicant will have 30 days after issuance of the finding to accept or reject the license award.



T. Davidson

Bidding Process

If competing proposals are submitted and the commissioner determines that an Exploration License should be awarded, the commissioner will issue an invitation to submit a sealed bid. A bid deposit equal to 20 percent of the license fee must be submitted with the bid. The successful bidder will be the applicant who submits the highest bid in terms of exploration expenditures.

Once notified a successful bidder will have 10 days in which to accept or reject the license award. If the successful bidder fails to accept the award within the allotted time the bid deposit and the right to accept the award are forfeited. The next successive highest bidders will then have an opportunity to accept the award.

Relinquishment of Lands

If by the fourth anniversary of the Exploration License the licensee has completed less than 25 percent of the total work commitment the license will be terminated, with the remainder of the security forfeited to the state. If the licensee has completed less than 50 percent of the total work, then 25 percent of the licensed area will be relinquished, with an additional 10 percent relinquished each successive year until half of the original acreage has been relinquished.

License Applications

The state has issued four Exploration Licenses and currently has one pending in the northern portion of the Bristol Bay basin.

Licenses Issued:

Copper River

| | |
|-------------------------|------------------------|
| Licensee: | Forest Oil Corporation |
| Size: | 318,756.35 Acres |
| Exploration Commitment: | \$1,420, 000 |
| Term: | 5 years |
| Effective Date: | October 1, 2000 |

Nenana Basin

| | |
|-------------------------|-----------------|
| Licensee: | Andex Resources |
| Size: | 483,942 Acres |
| Exploration Commitment: | \$2,525,000 |
| Term: | 7 years |
| Effective Date: | October 1, 2002 |



C. Ruff

Susitna Basin I

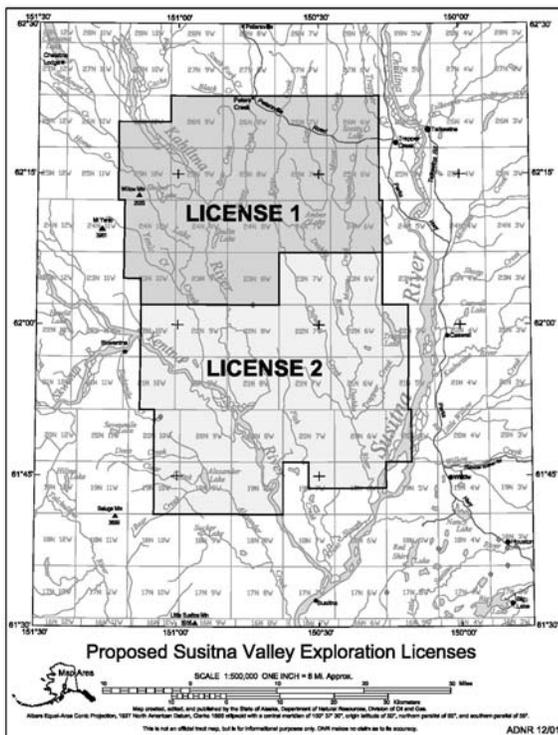
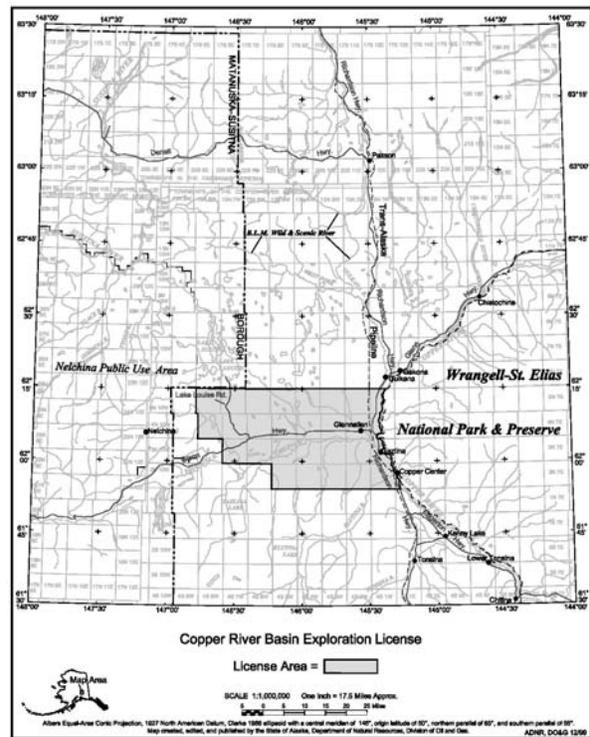
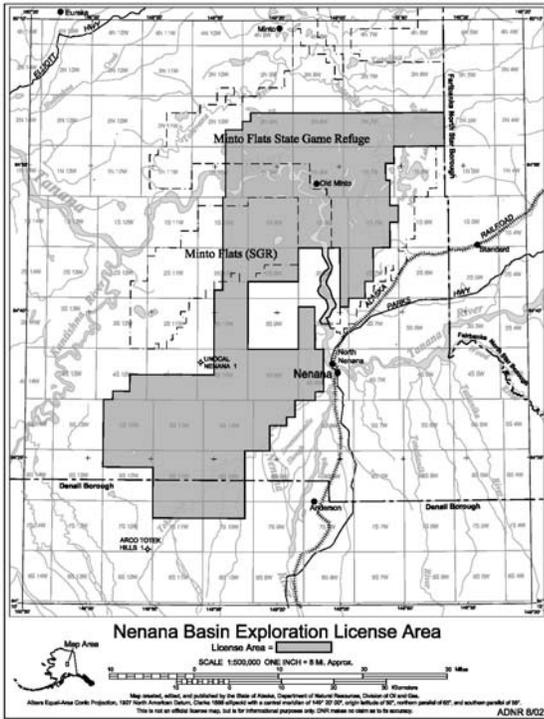
| | |
|-------------------------|------------------------|
| Licensee: | Forest Oil Corporation |
| Size: | 386,204 Acres |
| Exploration Commitment: | \$2,520,000 |
| Term: | 7 years |
| Effective Date: | November 1, 2003 |

Susitna Basin II

| | |
|-------------------------|------------------------|
| Licensee: | Forest Oil Corporation |
| Size: | 471,474 Acres |
| Exploration Commitment: | \$3,000,000 |
| Term: | 7 years |
| Effective Date: | November 1, 2003 |

Licensing

Current Exploration License Areas



Incentives

Exploration Incentive Credits

The state offers two programs authorizing an Exploration Incentive Credit (EIC).

Program I: This EIC is included as a term of the lease. AS 38.05.18(i) provides for a system in which a lessee of state land drilling an exploratory well may earn credits based upon the footage drilled and the region in which the well is situated. The statute also provides for an EIC for geophysical work on state land if that work is performed during the two seasons immediately preceding an announced lease sale and on land included within the sale area. The geophysical information must be made public following the sale. Drilling information is held confidential for two years. If demonstrated by the lessee as necessary, confidentiality may be extended. The Commissioner of Natural Resources grants credits, which can be as high as 50 percent of the costs. Credits may be applied against royalty and rental payments to the state or taxes, or they may be assigned. Since the state began offering this program, lessees have earned \$54.7 million in credits for exploratory drilling.



B. Havelock



Gil Mull

Program II: This program, adopted in 1994 under AS 41.09.010 allows the Commissioner of Natural Resources to grant an EIC for exploratory drilling, the drilling of a stratigraphic test well and for geophysical work on land in the state, regardless of whether the land is state-owned. This program is designed to encourage oil and gas exploration within remote parts of the state and to provide a means for the state to obtain exploration data from federal lands and certain private lands. As with the first program, the credits may be applied against oil and gas royalties, rentals, lease sale bonus bids and taxes, or they may be assigned. Data derived from drilling will be kept confidential for two years, with no extension of this period. Copies of geophysical data may be shown to interested parties by the state, but may not be transferred to third parties. Credits may be as high as 50 percent of eligible costs if performed on state land, and as high as 25 percent when performed on

federal or private land. A credit may not exceed \$5 million per eligible project, and the total of all credits may not exceed \$30 million. Drilling credits are based upon the footage drilled. All activity qualifying for this EIC must be completed by July 1, 2007.

Royalty Reduction

In 1995 the governor signed into law legislation that allowed the Commissioner of Natural Resources to adjust the royalty reserved to the state in order to encourage otherwise uneconomic production of oil and gas. If a delineated field or pool has not previously produced, the royalty can be lowered to 5 percent. If an existing producing field or pool, the royalty may be reduced to as low as 3 percent in order to prolong its economic life as costs per barrel or barrel equivalent increase. In order to establish production of shut-in oil or gas, the royalty may also be reduced to as low as 3 percent. These royalty reduction provisions expire on July 1, 2015.



Gil Mull

Incentives

Discovery Royalty

In 1996 the governor signed into law a measure that permits the granting of discovery royalty for wells in the Cook Inlet sedimentary basin that have discovered oil or gas in a previously undiscovered oil or gas pool, providing that the wells are capable of producing in paying quantities. The discovery royalty is established at 5 percent for 10 years following the discovery of a pool. The discovery royalty applies to all oil or gas from that pool that is attributable to the lease.



Gil Mull



CIRCAC

Cook Inlet Royalty Reduction

In 1998 the governor signed HB 380 that grants a 5 percent temporary royalty on the first 25 million barrels of oil and the first 35 billion cubic feet of gas produced in the first ten years of production from six specified fields in the Cook Inlet sedimentary basin. The six fields eligible for royalty reduction were discovered before January 1, 1988 and have been undeveloped or shut. The fields identified in the law are Falls Creek; Nicolai Creek; North Fork; Point Starichkof; Redoubt Shoal; and West Foreland. Production from these fields must begin before January 1, 2004.

