March 1, 1997

BALLOT NO. 255

KUPARUK SATELLITE FACILITY SHARING BALLOT

1.0 SCOPE AND PURPOSE

1.1 Kuparuk Satellites.

To encourage and facilitate the production of additional oil and gas resources in the Greater Kuparuk Area, the KPA Owners are establishing terms and conditions for the use of KPA Equipment for the exploration, appraisal, and development of Kuparuk Satellites. The KPA Owners authorize use of KPA Equipment and services as described in this Agreement for each Kuparuk Satellite in accordance with the terms and conditions of this Agreement.

1.2 Satellite Plans of Development.

The operator of each Kuparuk Satellite will provide the KPA Owners sufficient timely information regarding the plan of development and operation for the Satellite to enable the Unit Operator and KPA Owners to assess demands and impacts that regular commercial production of the Satellite may have on KPA Equipment, on the plan of development and operation for the KPA, and on KPA production.

1.3 Unit Expansion.

The KPA Owners may vote in favor of and support Kuparuk River Unit expansions to include any portion of the Greater Kuparuk Area in order to facilitate formation of a Participating Area by the owners of a Kuparuk Satellite.

2.0 DEFINITIONS

Generally, where terms are capitalized throughout this Agreement, they shall have the meaning given them in the KRUA and KRUOA unless provided otherwise in this Agreement. Whenever the following terms are used in this Agreement, they shall have the meaning stated in this Article 2.0.

Abandonment Fee is the fee payable by Satellite Owners to KPA Owners described in Section 4.2, including any surcharge imposed in accordance with Section 7.3.

Adjusted Backout Volume means the volume of oil production determined in accordance with Subsection 8.5.2.

Capital Access Fee is the fee payable by Satellite Owners to KPA Owners described in Section 4.1, including any surcharge imposed in accordance with Section 7.3.

Excess Routine Field CAPEX means the dollar amount of Routine Field CAPEX in excess of $5 million during any calendar year.

Greater Kuparuk Area means the oil and gas leases within the boundary set forth on Exhibit F.

Gross Oil Production for Stream$_i$ means the volume of oil production reported to the State for royalty and severance tax purposes for a Satellite$_i$ or for the KPA.

Gross Satellite Oil Production means the volume of a Satellite's oil production reported to the State of Alaska for royalty and severance tax purposes.

Joint Capital Project means (1) the construction of Joint Equipment after March 1, 1997, which costs $5 million or more, or (2) the construction of Joint Equipment which will benefit the KPA, and one or more, but less than all, the Satellites and costs less than $5 million. Routine Field CAPEX is excluded from Joint Capital Project.

Joint Equipment means new equipment or modifications to KPA Equipment that is used by KPA Operations and one or more Satellite Operations.

KPA means Kuparuk Participating Area.

KPA Equipment means Unit Equipment owned by the Kuparuk Participating Area Working Interest Owners, including Joint Equipment.

KPA Owners means the Kuparuk Participating Area Working Interest Owners.

Kuparuk River Formation means the accumulation of Substances correlating with the Substances found in the ARCO West Sak River State No. 1 well between the depths of 6,474 and 6,880 feet below Kelly Bushing as measured by the Schlumberger Dual Induction Laterolog, Run 3 and Run 4, dated April 9, 1971, and any other formation that contains an accumulation of Substances in hydrocarbon communication with the above described portion of the Kuparuk River Formation. For the purposes of this Agreement, the Kuparuk River Formation shall be considered as an individual and separate accumulation of producible Substances, even if faults or other discontinuities may divide the formation into separate Reservoir segments. For the purposes of this Agreement, the Kuparuk River Formation shall be geographically limited to the area within the boundaries of the Kuparuk River Unit as of March 1, 1997. Said boundaries are depicted in Exhibit F.

Kuparuk Satellite or Satellite means that part of an oil- and/or gas-bearing formation within the Greater Kuparuk Area other than that part of the Kuparuk River Reservoir within the KPA.

QAF or *Quality Adjustment Factor* means the adjustment described in Section 8.4.

QAF Volume means the volume of oil production determined in accordance with Subsection 8.5.3.

Routine Field CAPEX means Investment Costs incurred after March 1, 1997, on projects deemed to benefit the KPA and all Satellites and which cost less than or equal to $5 million each.

Satellite Equipment means Unit Equipment owned by the Satellite Owners of a particular Kuparuk Satellite, including all subsurface and surface equipment required by that Satellite, starting at the well bore and including the wellhead and up to and including the point of tie-in(s) into KPA Equipment and any additional equipment which is separately installed and owned by the Satellite Owners.

Satellite Oil means Oil produced from a Kuparuk Satellite.

Satellite Operations means exploration, appraisal, development, and production operations by or on behalf of the Satellite Owners that are necessary and proper to develop, produce and process fluids through KPA Equipment. Satellite Operations include both Tract Operations and Participating Area Operations other than Kuparuk Participating Area Operations.

Satellite Owners means those working interest owners of a Kuparuk Satellite.

Satellite Sub-Operator or *Sub-Operator* means the operator of a Satellite other than the Kuparuk River Unit Operator.

Shared Warehouse Inventory means KPA Material (as defined in Exhibit I of the Kuparuk River Unit Operating Agreement) made available to a Kuparuk Satellite for Satellite Operations. Exhibit G contains a list of commodities comprising Shared Warehouse Inventory. This list may be amended by Operator with prior written notice to KPA Owners.

West Sak Satellite Segments means the three segments of the West Sak Satellite (West Sak East, West Sak Central, and West Sak West) as depicted on Exhibit D.

3.0 PRODUCTION PROCESSING

3.1 Use of KPA Equipment and Services.

The KPA Owners authorize the use of KPA Equipment and services for the purpose of conducting Satellite Operations. This Agreement does not authorize the sharing of the Kuparuk River Unit Topping Plant or KPA EOR facilities by Satellites.

Unit Operator will be responsible for all operation and maintenance of KPA Equipment. Unit Operator or a Sub-Operator will be responsible for all operation and maintenance of Satellite Equipment. Additionally, Unit Operator will coordinate production from the wells processing through the KPA Equipment and deliver production to point(s) of custody transfer. Unit Operator will generally control the rate of flow of produced fluids from each Satellite well, consistent with reservoir and well performance objectives specified by the Sub-Operator, if any, and consistent with the terms of this Agreement, the Kuparuk River Unit Operating Agreement, and governing law. Unit Operator may shut in or choke back wells at any time for safety reasons.

3.2 Satellite Equipment and Direct Satellite Operating and Maintenance Costs.

Satellite Owners may, at their own expense, install and operate Satellite Equipment, which shall conform to KPA design criteria. All costs and expenses for such Satellite Equipment, including installation, operation, maintenance, and abandonment, shall be paid by the Owners of the Satellite which installed and operate such Satellite Equipment.

Satellite Owners will be responsible for all subsurface development and operations of said Kuparuk Satellite, including investment, maintenance, repair, abandonment, permitting, and compliance with all requirements of state, federal and local governments. However, all such Kuparuk Satellite work will be coordinated with Unit Operator.

Satellite Owners shall be responsible for direct Satellite Operating and Maintenance Costs and associated KPA field-wide indirect costs directly attributable to Satellite Equipment and Satellite Operations. Satellite Owners shall also be responsible for ad valorem taxes directly attributable to Satellite Equipment.

3.3 Standards for Produced Fluids.

3.3.1 Production Fluid Compatibility. Produced fluids from Satellite wells shall be introduced into KPA Equipment only if such fluids are reasonably compatible with production of KPA fluids and production of other Satellite fluids. Satellite production will be shut in if, in the opinion of the Unit Operator, processing of such fluids would unreasonably impact KPA Equipment or Greater Kuparuk Area Reservoirs. All incremental costs to ensure reasonable compatibility are the responsibility of the Satellite Owners.

3.3.2 Temperature, Pressure, and Condition of Satellite Fluids. Production streams from each Kuparuk Satellite which are delivered into KPA Equipment will be at similar temperature, pressure and condition to those then prevailing for KPA production.

3.4 Priorities Governing Production Processing.

3.4.1 Oil Production Rate. The Unit Operator will operate the KPA Equipmer and conduct Unit Operations in a manner which will maximize the total oil processed through KPA facilities. In the event of competing demands on KPA Equipment being utilized by the Satellites, Unit Operator shall have the responsibility to optimize total oil production compatible with reservoir deliverability, regardless of the reservoir pool from which the production originates. However, particular wells may be produced even though they may cause higher production volume wells to be shut in. Examples of where this may occur include: (a) tests of previously shut in wells to determine current potential; (b) wells "cleaning up" after a workover; (c) electric submersible pump ("ESP") wells maintaining production during a slowdown to avoid restarting a pump motor; and (d) wells produced at a minimum rate to avoid problems with freezing. In the event KPA production is deferred by this optimization of total oil production, KPA Owners will be kept whole and compensated through the backout provisions of Article 8.0.

3.4.2 Production Slowdowns due to Pipeline or Marine Prorations. In the event of a production slowdown that is caused by prorating of a common carrier pipeline or marine capacity, the KPA and each Kuparuk Satellite shall be prorated in equal percentages based on current production rates unless such prorating would result in waste or damage to KPA Equipment or Satellite Equipment, in which case Unit Operator shall produce the KP and each Kuparuk Satellite in a manner which minimizes damage to KP. and Satellite Equipment. In the event KPA production is disproportionately prorated to minimize damage to Satellite Equipment, KPA Owners will be kept whole and compensated through the backout provisions of Article 8.0.

3.5 Produced Water and Seawater.

3.5.1 Produced Water Volumes. KPA Owners will provide to each Kuparuk Satellite for water injection a volume of water (produced and / or seawater at the option of the Unit Operator) that is equal to the volume of water production that is delivered from that Kuparuk Satellite to the applicable KPA Central Processing Facility and subsequently injected into a Greater Kuparuk Area Reservoir. Delivery of produced water or seawater to Satellite Owners shall be available at then-existing KPA delivery points under then-standard conditions as delivered for use in KPA wells.

The fees described in Articles 4.0 and 5.0 of this Agreement shall compensate the KPA Owners for the costs of (1) providing produced water or seawater to the Satellite Owners as described in this Section; and (2) disposing of any volume of a Kuparuk Satellite's produced water that is in excess of the volume of source or produced water delivered to the Kuparuk Satellite.

3.5.2 Excess Water Volumes. To the extent additional produced water or seawater volumes are available, KPA Owners will provide Satellite Owners with water volumes in excess of the volume of water production that such Satellite Owners are entitled to pursuant to Subsection 3.5.1. Satellite Owners shall compensate KPA Owners as set forth in Subsection 5.1.4 for such excess water volumes. Excess water volumes shall be allocated so as to accomplish the objectives of Subsection 3.4.1.

3.6 Electricity.

KPA Owners will provide electrical power to Satellite Owners. The fees described in Articles 4.0 and 5.0 of this Agreement shall compensate the KPA Owners for the cost of such electrical power. In the event of competing demands for limited electrical power capacity, such capacity shall be allocated in a manner which minimizes damage to Kuparuk River Unit Equipment and injuries to personnel, which will minimize total Operating and Maintenance Costs for the Kuparuk River Unit, and which will accomplish the oil production rate objectives in accordance with Subsection 3.4.1.

4.0 FACILITY ACCESS FEES

4.1 Capital Access Fee.

Satellite Owners shall pay KPA Owners a Capital Access Fee of $1.20 per barrel of Satellite Oil processed through KPA Equipment. The Capital Access Fee for each Kuparuk Satellite will be charged on the gross number of barrels of Satellite Oil processed through KPA Equipment, less any Adjusted Backout Volumes allocated to the KPA Owners. Hence, the Capital Access Fee charged on all QAF Volumes shall be borne by the delivering party. A Capital Access Fee surcharge, if any, will be imposed in accordance with Section 7.3.

4.2 Abandonment Fee.

Satellite Owners shall pay KPA Owners an Abandonment Fee of $0.10 per barrel of Satellite Oil processed through KPA Equipment. The Abandonment Fee for each Kuparuk Satellite will be charged on the gross number of barrels of Satellite Oil processed through KPA Equipment, less any Adjusted Backout Volumes allocated to the KPA Owners. Hence, the Abandonment Fee charged on all QAF Volumes shall be borne by the delivering party. An Abandonment Fee surcharge, if any, will be imposed in accordance with Section 7.3.

4.3 Determination of Volumes.

For purposes of determining volumes of Satellite Oil processed through KPA Equipment, the parties shall rely upon the volumes specified in the monthly production and injection reports filed by the Operator with the Alaska Oil and Gas Conservation Commission.

4.4 Allocation Among KPA Owners.

Capital Access Fees and Abandonment Fees received from the Satellite Owners shall be allocated among the KPA Owners on a Cost Participation I basis for sharing of investment costs as set forth in the Final Redetermination Settlement Agreement dated May 7, 1990. Even though the percentages for sharing of investment costs and abandonment costs will change to Area Participation percentages as of January 1, 2000, the Capital Access and Abandonment Fees shall continue to be allocated among the KPA Owners on the basis of the Cost Participation I percentages set forth in the Final Redetermination Settlement Agreement, unless such KPA Owners are party to an agreement providing for a different allocation. Capital Access Fee and Abandonment Fee surcharges shall be allocated among the KPA Owners in accordance with Section 7.3.

5.0 OPERATING AND MAINTENANCE COSTS

5.1 Fees.

Satellite Owners shall be charged a fee based upon a proportionate share of KPA Operating and Maintenance Costs in accordance with this Article 5.0 for plant liqui processing (Subsection 5.1.1), plant gas processing (Subsection 5.1.2), commo drillsites (Subsection 5.1.3), excess water (Subsection 5.1.4), and ad valorem taxes (Subsection 5.1.5). An example of the calculation of these fees is contained in Exhibit A.

5.1.1 Plant Liquid Processing. The per barrel fee shall be determined by dividing (1) the Operating and Maintenance Costs set forth below by (2) the volume of total liquid production (oil plus water) processed in the KPA central liquid processing facilities. The Operating and Maintenance Costs shall include total plant labor, direct operating costs and allocated field support costs which are attributed to gross liquid processing operations, but shall exclude charges for KPA Operations which do not benefit the Kuparuk Satellite, such as the KPA NGL plant, KPA EOR operations, and Kuparuk River Unit Topping Plant. This fee shall be applied to a Satellite's gross liquid production (oil plus water) processed through KPA central liquid processing facilities less any Adjusted Backout Volumes allocated to the KPA Owners and less water volumes associated with such Adjusted Backout Volumes.

5.1.2 Plant Gas Processing. The per mcf fee shall be determined by dividing (1) the Operating and Maintenance Costs set forth below by (2) the volume of total gas production and lift gas processed in the KPA gas processing facilities. The Operating and Maintenance Costs shall incluc total plant labor, direct operating costs and allocated field support costs which are attributed to gross gas processing operations. This fee shall be applied to the allocated volume of fuel gas, flare gas, shrinkage and lost gas attributable to said Satellite in accordance with Article 10.0.

5.1.3 Common Drillsite. The per barrel fee shall be determined by dividing (1) the Operating and Maintenance Costs set forth below by (2) the volume of total liquid production (oil plus water) processed in the KPA central liquid processing facilities. The Operating and Maintenance Costs shall include total drillsite labor, direct operating costs, and allocated field support costs which are attributed to operating and maintaining all KPA drillsites (whether or not used by a Satellite), but shall exclude charges for KPA Operations which do not benefit the Kuparuk Satellite, such as KPA well-specific charges including KPA WAG (water alternating gas) conversions, wireline work, and workovers. This fee shall be applied to a Satellite's gross liquid production (oil plus water) processed through KPA central liquid processing facilities less any Adjusted Backout Volumes allocated to the KPA Owners and less water volumes associated with such Adjusted Backout Volumes.

5.1.4 Excess Water. For a given month the per barrel fee shall be determined by dividing (1) the Operating and Maintenance Costs set forth below by (2) the total seawater volume made available and used for injection into all Greater Kuparuk Area Reservoirs. The Operating and Maintenance Costs shall include the proportion of total labor, direct costs, and allocated field support costs which are attributed to seawater treatment plant operations and associated pipelines which carry seawater to the injection plants. This fee shall be applied to each barrel of excess water volume injected by a Satellite as described in Subsection 3.5.2.

5.1.5 Ad Valorem Tax. The annual ad valorem taxes chargeable to a Satellite shall be determined by multiplying (1) the total annual amount of KPA ad valorem taxes attributable to processing facilities and drillsites by (2) a fraction, the numerator of which is a Satellite's gross liquid production (oil plus water) processed through the KPA liquid processing facilities less any Adjusted Backout Volumes allocated to the KPA Owners and less water volumes associated with such Adjusted Backout Volume, and the denominator of which is the total liquid production (oil plus water) processed through KPA central liquid processing facilities. Ad valorem taxes attributable to wells are excluded from this calculation.

5.1.6 Determination of Fluids Associated with Backout Oil. For purposes of determining Operating and Maintenance Cost fees under this Article 5.0, the volumes of water and gas associated with an individual Satellite's Adjusted Backout Volumes shall be determined as follows:

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$$\text{(a) Associated Water Volume} = \frac{\text{Gross Satellite Water Production}}{\text{Gross Satellite Oil Production}} * \text{Adjusted Backout Volume}$$

$$\text{(b) Associated Gas Volume} = \frac{\text{Gross Satellite Gas Production}}{\text{Gross Satellite Oil Production}} * \text{Adjusted Backout Volume}$$

5.2 Determination of Costs and Volumes.

Operating and Maintenance Cost fees chargeable under Section 5.1 will be determined annually at the beginning of each calendar year based upon (1) actual booked costs for the prior calendar year and captured at the book property level; and (2) actual volumes of fluids processed through KPA Equipment during the prior calendar year. Exhibit A illustrates the determination of costs. For purposes of determining Satellite fluids processed through KPA Equipment, the parties shall rely upon the volumes specified in the production and injection reports filed by the Operator with the Alaska Oil and Gas Conservation Commission. Where such reports do not specify a volume for a particular category of fluid (e.g., lift gas), the parties shall rely upon the volumes used by the Operator to prepare the Alaska Oil and Gas Conservation Commission report.

5.3 Allocation Among KPA Owners

Operating and Maintenance Cost fees received from the Satellite Owners shall be allocated among the KPA Owners on a Cost Participation II basis for sharing Operating and Maintenance Costs as set forth in the Final Redeterminatic Settlement Agreement dated May 8, 1990. When the percentages for sharing of Operating and Maintenance Costs change to Area Participation percentages, said fees shall be allocated among the KPA Owners on an Area Participation basis, unless such KPA Owners are party to an agreement providing for a different allocation.

6.0 ROUNTINE FIELD CAPEX

6.1 Share of Routine Field CAPEX.

Routine Field CAPEX shall be allocated to each Kuparuk Satellite based upon the proportion which such Satellite's gross liquid production (oil and water) processed through KPA central liquid processing facilities (less any Adjusted Backout Volumes and water associated with such Adjusted Backout Volumes) bears to total liquid production (oil and water) processed in the KPA central processing facilities during the previous calendar quarter. Each Satellite shall be billed for its share of KPA Routine Field CAPEX on a monthly basis as KPA Routine Field CAPEX is incurred.

6.2 Ownership.

All construction and modifications funded by Routine Field CAPEX shall be owned solely by the KPA Owners.

7.0 JOINT CAPITAL PROJECTS

7.1 Approval and Cost Sharing.

A Joint Capital Project may be proposed by either the KPA Owners or the Owners of a Satellite.

7.1.1 KPA Proposal. The KPA Owners shall propose and approve a Joint Capital Project in accordance with Part 4.300 of the Kuparuk River Unit Operating Agreement, except that a Capital AFE for a Joint Capital Project ("Joint AFE") shall specify the allocation of costs of the Joint Capital Project among the KPA and the Satellites which would benefit from such Joint Capital Project. The KPA Operator shall issue a Joint AFE for approval by the KPA Owners and the Satellite Owners of each Satellite which would benefit from such Joint Capital Project. The Joint AFE shall be approved by the KPA Owners in accordance with the Kuparuk River Unit Operating Agreement and by the affected Satellite Owners in accordance with the provisions of the applicable tract operating agreement or special supplemental provisions. In the event the Joint AFE is approved by the KPA Owners and the affected Satellite Owners, the costs of the Joint Capital Project shall be allocated in accordance with the Joint AFE. In the event one or more Satellites disapproves the Joint AFE or fails to approve it within 60 days after issuance of the Joint AFE, the KPA Owners shall again decide by vote whether to proceed with the Joint Capital Project with 100% of the costs allocated to the KPA. If the KPA Owners approve the Joint Capital Project on such basis, the KPA Owners shall submit the matter to arbitration in accordance with Exhibit C for a determination of the allocation of costs of the Joint Capital Project among the KPA and the affected Satellites.

7.1.2 Satellite Proposal. Satellite Owners shall propose and approve a Joint Capital Project in accordance with the pertinent provisions of the governing tract operating agreement or special supplemental provisions, except that a Capital AFE for a Joint Capital Project ("Joint AFE") shall specify the allocation of costs of the Joint Capital Project among the KPA and the Satellites which would benefit from such Joint Capital Project. The Operator of the Satellite shall issue a Joint AFE for approval by the KPA Owners and the Satellite Owners of each Satellite which would benefit from such Joint Capital Project. The Joint AFE shall be approved by the KPA Owners in accordance with the provisions of the Kuparuk River Unit Operating Agreement and by the affected Satellite Owners in accordance with the provisions of the applicable tract operating agreement or special supplemental provisions. In the event the Joint AFE is approved by the KPA Owners and the affected Satellite Owners, the costs of the Joint Capital Project shall be allocated in accordance with the Joint AFE. In the event the Joint AFE is approved by the KPA Owners, but one or more Satellites disapproves the Joint AFE or fails to approve it within 60 days after issuance of the Joint AFE, the KPA Owners shall decide by vote whether to proceed with the Joint Capital Project with 100% of the costs allocated to the KPA. If the KPA Owners approve the Joint Capital Project on such basis, the KPA Owners shall submit the matter to arbitration in accordance with Exhibit C for a determination of the allocation of costs of the Joint Capital Project among the KPA and the affected Satellites. In the event the Joint AFE is disapproved by the KPA Owners, the Satellite Owners may elect to proceed with the Joint Capital Project with 100% of the costs borne by the Satellite(s); provided, however, such Joint Capital Project does not negatively impact KPA Operations. The KPA Owners shall not be required to bear any of the costs of such Joint Capital Project.

7.2 Ownership.

All Joint Equipment shall be owned solely by the KPA Owners, including Joint Equipment that was funded entirely by Satellites in accordance with Subsection 7.1.2. Satellite Owners shall have no actual or implied access rights to KPA production capacity as a result of funding Joint Equipment in whole or in part.

7.3 Surcharge.

7.3.1 Determination of Surcharge. To cover capital costs incurred after March 1, 1997, a Capital Access Fee surcharge of $0.025 per barrel of Satellite Oil and an Abandonment Fee surcharge of $0.0025 per barrel of Satellite Oil shall be imposed following each $25 million increment of cumulative gross amounts expended on Joint Capital Projects and Excess Routine Field CAPEX after March 1, 1997. Such surcharge shall not be imposed upon any Satellite or West Sak Satellite Segment that has commenced oil production through KPA facilities or has participated in funding a Joint Capital Project prior to the date on which the threshold was reached for a particular increment.

7.3.2 West Sak Satellite Segments. Notwithstanding the provisions of Subsection 7.3.1, for the purposes of determining the surcharge, if any, for each West Sak Satellite Segment, the cumulative incremental gross amounts expended on Joint Capital Projects and Routine Field CAPEX shall be reduced by the net share of any Joint Capital Project and Excess Routine Field CAPEX which was funded by any West Sak Satellite Segment.

7.3.3 Allocation Among KPA Owners. Surcharges received from the Satellite Owners shall be allocated among the KPA Owners on the basis of their Area Participations.

8.0 VOLUME ADJUSTMENTS

8.1 Introduction.

8.1.1 Backout Adjustment. In accordance with this Article 8.0, the Satellite Owners shall allocate a volume of oil production to the KPA Owners to compensate the KPA Owners for any deferral of KPA oil production caused by Satellite production. The total volume of KPA oil production backed out by the Satellites shall be determined in accordance with Section 8.2.2(b). The total KPA volume backed out shall then be allocated among the Satellites in accordance with Section 8.2.2(c). A backout modification factor described in Section 8.3 shall be applied to the backout volumes to determine the volume of oil production to be allocated by each of the Satellites to the KPA Owners. These volumes shall be further adjusted to account for production taxes and royalties in accordance with Section 8.5.

8.1.2 Quality Adjustment. In accordance with this Article 8.0, there shall be an allocation of oil among the KPA Owners and the Satellite Owners to account for the differences in the characteristics of KPA Oil and Satellite Oil. In accordance with Section 8.4, Quality Adjustment Factors shall be applied to all oil production streams processed through KPA facilities to determine the volumes of the quality adjustments. The quality adjustment allocations shall be further adjusted to account for production taxes and royalties in accordance with Section 8.5.

8.2 Determination of Total KPA Backout and Allocation Among Satellites.

8.2.1 Backout Model.

(a) Approval of Model. On or before September 1, 1997, the KPA Owners shall approve, by an 88% affirmative vote, a model to determine the volumes of KPA oil production that are backed out as a result of producing Satellite wells through KPA facilities (hereinafter "Backout Model") and procedures for modifying the Backout Model ("Backout Procedures"). The Backout Model shall include the elements set forth in this Subsection 8.2.1. In the event the KPA Owners fail to approve such a Backout Model and Backout Procedures by September 1, 1997, the KPA Owners shall submit the matter to arbitration in accordance with the procedures set forth in Exhibit B.

(b) Content of Model. The Backout Model shall determine the volumes of KPA oil production that are backed out as a result of Satellite Operations. The same optimization procedures shall be used for the combined KPA and Satellite production/injection system as are used or would be used for the KPA alone. The Backout Model shall take the following factors into account:

- Total gas capacity impact (produced + gas lift +injection)
- Injection water impacts (including hydraulics). Injection water impacts will be based upon current injection efficiencies.
- Produced water impacts
- Hydraulic constraints in the production system
- Oil processing and shipping impacts
- Electric power utilization and capacity impacts
- Other factors that impact the volume of oil produced (*e.g.*, pipeline prorations, repairs)

8.2.2 Model Calculations. The calculation of the total backout caused by the Satellites shall be performed monthly by the KPA Operator. Backout calculations shall be based upon a Satellite's produced fluid volumes handled through KPA facilities; if partial processing takes place at a Satellite facility, only the portion of the production streams delivered to the KPA flowlines/production facilities will be used in the backout calculations. Similarly, only injection fluids taken from KPA systems shall be used in the backout calculations. The following steps shall be followed to determine the total amount of KPA backout and to allocate it to the Satellites:

(a) Baseline Run. The Backout Model shall be calibrated to simulate actual conditions (average ambient temperature, well availability, KPA and Satellite facility downtime, incremental gas / oil ratios, etc.) and adjusted as necessary to match actual production and injection from the KPA wells and the Satellite wells ("Baseline Run").

(b) Total KPA Backout Run. Next, a Backout Model run shall be made under the same conditions as the Baseline Run, except that all Satellite production / injection shall be turned off ("Total KPA Backout Run"). The Total KPA Backout Run will produce a determination of the volume of KPA oil production that would have been produced had the Satellites not been producing through the KPA facilities. Such determination shall take into account future production deferrals resulting from any current reductions of injection into the KPA. The difference between the volume determined in this run and the actual KPA oil production volume shall be the "Total KPA Backout."

(c) Backout Allocation Runs. A series of runs shall be made to determine how to allocate the Total KPA Backout among the individual Satellites ("Allocation Runs"). The first Allocation Run of the series shall be made under the same conditions as the Baseline Run except that "Satellite i" shall be eliminated from the calculations. The n

Allocation Run shall be made under the same conditions as the Baseline Run except that "Satellite i+1" shall be eliminated from the calculations. This shall continue until one Allocation Run has been made with each Satellite individually eliminated. For each of these Allocation Runs, the difference between KPA production in that Allocation Run and KPA actual production shall be noted ("Preliminary Satellite Backout"). A portion of the Total KPA Backout shall be allocated to each Satellite ("Net Satellite Backout") as follows:

$$\textbf{Net Satellite Backout for "Satellite i"} = \textbf{Total KPA Backout} * \frac{\textbf{Preliminary Satellite Backout for "Satellite i"}}{\textbf{Sum of Preliminary Satellite Backouts for all Satellites}}$$

8.3 Backout Modification Factor.

The Net Satellite Backout for each Satellite shall be multiplied by a Backout Modification Factor of 0.9. In the event the KPA Owners enter into a facility sharing agreement which provides for a Backout Modification Factor other than 0.9 for processing oil through KPA facilities, then upon the effective date of such agreement, the Backout Modification Factor hereunder shall be adjusted prospectively (with no retroactive adjustments) to equal the backout modification under such agreement. The product of a Satellite's Net Satellite Backout and the Backout Modification Factor is that Satellite's Net Backout Share. The Net Backout Share shall be used to calculate the Adjusted Backout Volume in accordance with Section 8.5. The KPA Owners shall not be required to allocate any volumes to the Satellite Owners because of production backout.

8.4 Quality Adjustment Factors.

8.4.1 General. Quality Adjustment Factors shall be applied to all production streams processed through KPA facilities to account for the difference in the characteristics of KPA oil production and oil production from each of the individual Satellites.

8.4.2 Establishment of Quality Adjustment Factors. The following Quality Adjustment Factors are hereby adopted and shall remain in effect unless otherwise agreed by an 88% affirmative vote of the KPA Owners and the owners of a particular Kuparuk Satellite:

Satellite	Quality Adjustment Factor
Below Base of Kuparuk	1.030
Tabasco	0.950
Tarn	1.000
Ugnu	0.910

West Sak East	0.975
West Sak Central	0.950
West Sak West	0.910
Kuparuk River Reservoir	1.000
Below the Base of the West Sak to the top of the Kuparuk River Reservoir (except Tabasco)	1.000

The areas included in West Sak East, West Sak Central, and West Sak West are depicted in Exhibit D.

8.5 Tax and Royalty Adjustments.

8.5.1 General. The Net Backout Share allocated by each Satellite to the KPA Owners shall be adjusted in accordance with this Section 8.5 to account for severance taxes and royalties. The net volume of production allocated to either the KPA Owners or the Satellite Owners to account for differences in the characteristics in production shall also be adjusted in accordance with this Section 8.5 to account for severance taxes and royalties. The purpose of the severance tax and royalty adjustment is to keep the receiving parties whole on an after severance tax and royalty basis.

8.5.2 Adjusted Backout Volumes. The Satellite Owners of each Satellite shall allocate to the KPA Owners their Net Backout Share of oil production adjusted as follows:

Adjusted Backout Volume = [(Net Backout Share) * (1 - KPA Oil Royalty) * (1 - KPA Oil ELF * Oil Severance Tax Rate)]

8.5.3 Quality Adjustment Volumes. Allocations of production among the Owners of Individual Satellites and the KPA Owners to account for differences in the characteristics in production shall be determined as follows:

QAF Volume = [(Gross Oil Production for $Stream_i$) * (1-KPA Oil Royalty) * (1-KPA Oil ELF*Oil Severance Tax Rate) * (QAF_i - QAFavg)] ÷ (QAFavg)

QAF_i = The QAF for an individual Satellite or KPA

QAFavg = Σ (Gross Oil Production for $Stream_i$ * QAF_i) ÷ (Σ Gross Oil Production for all $Stream_i$)

In the event that the QAF Volume for the KPA and / or an individual Satellite is a positive number, the KPA and / or the individual Satellite shall receive that volume of oil production. In the event that the QAF Volume for the KPA and / or an individual Satellite is a negative number, then the KPA and / or the individual Satellite shall deliver that volume of oil production.

8.5.4 Example. Exhibit E-1 sets forth an example calculation of Adjusted Backout Volumes and QAF Volumes. Exhibit E-2 sets forth an application of Facility Access Fees and Operating and Maintenance Costs to Satellite production volumes.

8.6 Taxes and Royalties.

The KPA Owners shall assume no responsibility or liability for royalty or production taxes on any Gross Satellite Oil Production. Such royalty and production taxes shall be the responsibility of the Satellite Owners.

9.0 ALLOCATION AND METERING

Satellite Owners shall pay for all metering investments required to satisfy KPA Owner and State of Alaska requirements. Metering procedures will be established for each Kuparuk Satellite. In addition, if Satellite Owners utilize partial processing facilities, the Satellite Owners will install and pay for metering equipment and processes that satisfy KPA Owner and State of Alaska requirements. All volumetric accounting will be conducted by the Unit Operator in a manner that ensures there are no adverse effects on the KPA's existing volumetric accounting procedures.

Unit Operator will conduct well tests or metering as required for the allocation of production processed through the KPA Equipment and provide information to any Satellite Sub-Operator, KPA Owners, and Satellite Owners necessary for the filing of any reports required by governmental regulatory authorities relating to volume, quality, and disposition of produced fluids. Unit Operator will assist in the preparation of those portions of any reports or governmental applications relating to plans of operation or production activities for a Kuparuk Satellite for which Unit Operator creates or maintains the requisite information.

10.0 GAS SUPPLY OBLIGATIONS

Each Kuparuk Satellite shall be obligated to supply gas to satisfy gas consumed during Satellite Operations and utilized in KPA facilities for processing Satellite production, including fuel gas, flared gas, lost gas and shrinkage. If Kuparuk Satellite Gas production is insufficient to meet gas supply obligations, a Satellite Owner may substitute KPA gas in kind, substitute other Kuparuk Satellite Gas in kind, or otherwi obtain gas to meet its obligation.

10.1 Fuel Gas.

Each Kuparuk Satellite shall be responsible for fuel gas consumed by its Satellite Equipment. In addition, each Kuparuk Satellite shall be responsible for a share of fuel gas utilized in KPA facilities in support of Satellite Operations. Said Satellite's share of the KPA fuel gas obligation shall be the product of (a) total volume of fuel gas consumed in KPA facilities times (b) a fraction, the numerator of which is the volume of said Satellite's total liquid production (oil plus water) and the denominator of which is the volume of total liquid production (oil plus water) processed through KPA facilities.

10.2 Flared Gas, Lost Gas and Shrinkage.

Kuparuk Satellite flared gas, lost gas and shrinkage shall include gas flared or lost in Satellite Equipment and a proportionate share of gas flared, gas lost or reduced through shrinkage in KPA Equipment. The share of flared or lost gas in KPA Equipment shall be that proportion of the total gas flared, gas lost or reduced through shrinkage in KPA Equipment which Kuparuk Satellite gas production bears to total gas processed in KPA facilities.

11.0 GAS USE AND REINJECTION

Any Satellite Gas not consumed as Satellite fuel gas, flared gas, lost gas or reduced through shrinkage, taken in kind or reinjected into the Kuparuk Satellite reservoir shall be injected into the Kuparuk River Reservoir at no additional cost to the Satellite Owners. Said gas shall be considered indigenous to the Kuparuk River Reservoir and, when produced, will be allocated to the KPA Owners in accordance with their respective Area Participations.

12.0 WAREHOUSE INVENTORY SHARING

Kuparuk Satellites will be permitted to use KPA Material (as defined in Exhibit I of the Kuparuk River Unit Operating Agreement) subject to the conditions contained in this Agreement. Each Kuparuk Satellite using KPA Material will deposit an amount intended to represent the percentage of that Satellite's use of Shared Warehouse Inventory relative to all operations using Shared Warehouse Inventory. The initial deposit for each Satellite shall be approved by an 88% vote of the KPA Owners. The deposit amount of each Kuparuk Satellite shall be adjusted on January 1 of each year following its first use of KPA Materials and every two years thereafter in accordance with the procedures set forth in Exhibit G.

13.0 KPA OWNERS' RESERVATION OF RIGHTS

Satellite Owners shall be entitled to use of KPA Equipment only to the extent such use does not conflict with KPA Owners' operations or other authorized third-party uses. In the event there is a conflict between the KPA Owners and the Satellite Owners concerning the use of any KPA Equipment described herein, uses required by the KPA Owners shall take priority, subject to the priorities stated in Sections 3.4 through 3.6.

In the event Satellite Operations are conducted by a Satellite Sub-Operator, said Sub-Operator shall conduct operations in accordance with the KPA Operator's operating standards, including KPA Operator's environmental, health, and safety standards.

KPA Owners will retain the right to modify, abandon, shutdown, or combine any KPA Equipment. However, the KPA Owners will agree to provide 180 days written notice to Satellite Owners of plans to modify, abandon, shutdown, or combine any KPA Equipment where such action may adversely impact a Satellite's use of such Equipment or a Satellite's delivery points.

KPA Owners may cancel this Agreement and terminate all Satellite Owner rights if this Agreement or any activities pursuant to this Agreement significantly threaten the integrity and continuing viability of the Kuparuk Tax Partnership.

14.0 LIABILITY AND INDEMNIFICATION

All costs, liabilities and damages, including any expenses, assessments, penalties, fines and obligations arising from the use of KPA Equipment, delivery and redelivery of gas lift gas and fuel gas, produced or sea water, placement of Kuparuk Satellite production into KPA Equipment, or any other Kuparuk Satellite operation shall be allocated among the KPA and Kuparuk Satellites in the same proportions as total fluid production processed in KPA central processing facilities for the preceding six month period. In the event certain costs, liabilities or damages are drillsite specific or facility specific, said costs shall be allocated among the KPA and Kuparuk Satellites in the same proportions as total fluid production produced from said drillsite or processed through said facility during the preceding six month period.

Liability for any and all costs, damages, expenses, assessments, penalties, fines and obligations associated with the spill or release of fluids shall be allocated among the KPA and Kuparuk Satellites based on the proportional ownership of fluids spilled or released. For purposes of this Article fluids are defined as water, oil, and gas produced within the Greater Kuparuk Area.

Satellite Owners agree not to raise any claim or otherwise pursue any action against the KPA Owners for any claim, demand, liability (including contractually-assumed liability), cost (including attorney's fees), assessment, penalty, fine and obligation which may result from (1) the KPA Owners' refusal to accept Kuparuk Satellite produced fluids at any KPA Equipment; (2) the Satellite Owners' inability to obtain access to any KPA Equipment by virtue of use by the KPA Owners or any other approved third parties; (3)

any spill or discharge of fluids by the Satellite Owners notwithstanding the cause of such spill or discharge; (4) the KPA Owners' exercise of any reserved rights under th Agreement; or (5) receipt of any produced fluid under this Agreement.

For the purposes of this Article, 6 MSCF of gas equals one barrel of oil.

Satellites Owners will not reimburse KPA Owners for lost production caused by Kuparuk Satellite use of KPA Equipment under the terms of this Agreement except for the backout compensation specified in Article 8.0 of this Agreement. KPA Owners will not reimburse Satellites Owners for any lost production.

15.0 INVOICING AND AUDIT RIGHTS

15.1 Statement and Billing.

KPA Operator shall bill each Kuparuk Satellite on or before the last day of each month for fees and Operating and Maintenance Costs for the preceding month. Such bills will identify the expenditure, lease, or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material (as defined in Exhibit I of the Kuparuk River Unit Operating Agreement) and unusual charges and credits shall be separately identified and fully described in detail.

15.2 Advances and Payments by Non-Operators.

All advances and payments required of Kuparuk Satellites to KPA Operator or KPA Owners shall be made pursuant to the terms and conditions described in Exhibit I of the Kuparuk River Unit Operating Agreement, as supplemented by this Agreement.

15.3 Audit Rights.

Any amounts charged or allocated to Satellite Owners pursuant to this Agreement shall be subject to the provisions of Exhibit I of the Kuparuk River Unit Operating Agreement, including the right by the Satellite Owners to audit the KPA Owners' accounts and records relating to the reimbursable costs for a period not to exceed two (2) years from the end of the year of the charge. No adjustment favorable to the KPA Owners may be made after two years from the end of the year of Kuparuk Satellite usage of KPA Equipment pursuant to this Agreement.

16.0 MISCELLANEOUS

16.1 Effective Date.

This Agreement shall become effective upon approval of the KPA Owners and, with respect to each Kuparuk Satellite, by the following:

16.1.1 New Participating Area. With respect to Kuparuk Satellites for which special supplemental provisions to the Kuparuk River Unit Operating Agreement have been adopted for a new or proposed Participating Area for said Satellite, the voting level required for approval of this Agreement or amendments thereto shall be as set forth in the special supplemental provisions for said Satellite.

16.1.2 Tract Operations. With respect to Kuparuk Satellites which are conducted as Tract Operations, this Agreement and any amendments thereto shall be approved by all of the Tract Owners of said Kuparuk Satellite or as otherwise provided in a Tract Operating Agreement.

16.2 Term.

Except for provisions that survive termination, this Agreement may be terminated by an 88% vote of the Kuparuk Participating Area Owners. This Agreement may be terminated with respect to a particular Kuparuk Satellite by the Satellite Owners in accordance with the respective agreements among the Satellite Owners governing Satellite Operations. If not terminated earlier, all Kuparuk Satellite access to Kuparuk Equipment under the terms of this Agreement shall terminate upon termination of the Kuparuk Participating Area.

16.3 Counterparts.

This Agreement may be executed in counterparts which will be deemed and be treated as a single original instrument.

16.4 Conflict.

If the provisions of this Agreement conflict with the provisions of the Kuparuk River Unit Operating Agreement, the provisions of the Kuparuk River Unit Operating Agreement shall prevail.

16.5 Enforceability.

If any portion or provision of this Agreement or any Exhibit hereto is deemed, by any court or governmental agency with jurisdiction, to be invalid or not enforceable, the Kuparuk Participating Area Owners, and the Satellite Owners for a Satellite approving this Agreement, agree that such invalidity or unenforceability of such provision or Exhibit shall in no way affect the validity or enforceability of any other portion, provision, or Exhibit of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement.

KUPARUK PARTICIPATING AREA WORKING INTEREST OWNER APPROVAL:

ARCO ALASKA, INC.

By:______________________________ Date:______________________________

Title:______________________________

BP EXPLORATION (ALASKA) INC.

By:______________________________ Date:______________________________

Title:______________________________

CHEVRON U.S.A. INC.

By:______________________________ Date:______________________________

Title:______________________________

EXXON COMPANY, U.S.A.

By:______________________________ Date:______________________________

Title:______________________________

MOBIL OIL CORPORATION

By:______________________________ Date:______________________________

Title:______________________________

UNION OIL COMPANY OF CALIFORNIA

By:______________________________ Date:______________________________

Title:______________________________

WEST SAK SATELLITE OWNER APPROVAL
(Signatories to the West Sak Special, Supplemental Provisions to Unit Operating Agreement, Kuparuk River Unit, State of Alaska):

ARCO ALASKA, INC.

By:______________________________ Date:______________________________

Title:______________________________

BP EXPLORATION (ALASKA) INC.

By:______________________________ Date:______________________________

Title:______________________________

EXHIBIT A TO
FACILITY SHARING BALLOT

Determination of Fees for Operating and Maintenance Costs (O&M Fees)

This Exhibit illustrates the methodology by which the fees for Operating and Maintenance Costs (O&M Fees) will be determined. The Unit Operator may add, delete, and/or modify the book property codes listed herein in order to properly report cost structure.

STEP 1 – Complete the O&M Detail Sheet.

Each year, the actual booked Operating and Maintenance Costs as reported at the book property code level for the previous year will be used to determine the Operating and Maintenance Costs (O&M Fees) allocated under Section 5.0. These fees will be applied prospectively for the current year. The O&M Detail Sheet (Exhibit A-1) will be used to capture total costs reported at each central processing facility and the seawater treatment plant (SWTP) by major category, namely Staff, Plant, Drill Site, and Field Support Costs.

Net shared non-labor direct costs will be derived as follows:

a) Isolate labor-related costs for staff, plant, drill site, and SWTP.
b) Isolate those KPA 100% costs for plant and drill site which are not to be shared with Satellite Owners (KRUTP, NGL, and EOR costs for plant and WAG conversions, wireline, and workover costs for all drill sites).
c) Isolate gas processing charges in the plant category.
d) Isolate non-shared field support costs such as drilling allocations and the central wells group.

STEP 2 – Determine Net Shared Non-Labor Direct Costs.

Once the O&M Detail sheet is completed, the net shared non-labor direct costs will be calculated using the linked Kuparuk River Unit O&M Fees worksheet (Exhibit A-2) for the following categories:

- Plant Liquid Processing O&M Fee
- Plant Gas Processing O&M Fee
- Common Drill Site O&M Fee
- Excess Water O&M Fee

The proportion of each fee category's cost relative to the total non-labor direct cost will automatically be calculated in Column M.

STEP 3 – Allocate Plant and Drill Site Labor.

The labor costs reported within the plant major category will be allocated among plant liquid processing, plant gas processing, and KRU 100% costs in proportion to each fee category's share of total drill site non-labor direct cost (Column K).

Similarly, the labor costs reported in the drill site major category will be allocated among common drill site and KRU 100% costs in the same proportion to each fee category's share of total drill site non-labor cost (Column K).

The allocated labor costs which are derived and depicted in Column O are restated in Column Q.

STEP 4 – Allocating Staff Costs.

Labor costs captured in the Staff major category (if any) will be allocated among the fee categories in proportion to that fee category's share of total non-labor direct costs as reported in Column M. The results are reported in Column S.

STEP 5 – Allocating Field Support Costs.

Field Support Costs are allocated among the fee categories using the same allocation methodology as Allocated Staff Costs. Results are reported in Column U.

STEP 6 – Summing the Fully-Burdened Fee Category Costs.

The non-labor direct costs, allocated plant and drill site labor, staff, and Field Support Costs are summed up in Column W.

STEP 7 – Deriving O&M Fees.

The Facility Access O&M Fees are calculated in Column Y by dividing the fully burdened fee category costs by the appropriate fluid volume found in Column B. Fluid volumes represent the oil and water production, produced and lift gas processed, and seawater treatment plant water processed during the corresponding year during which the O&M costs were incurred.

Exhibit B to
Facility Sharing Ballot

Arbitration Procedures for Backout Model and Backout Procedures

In the event the KPA Owners fail to approve a Backout Model and Backout Procedures by September 1, 1997, the KPA owners shall submit the Backout Model and Backout Procedures to arbitration by a single arbitrator. Any KPA Owner may participate and submit evidence hereunder.

By October 1, 1997, each Party shall prepare a list of five acceptable arbitrators and shall exchange the list with the other Party to facilitate the selection of an arbitrator. In the event the Parties are unable to mutually select and retain an arbitrator by October 10, 1997, they shall jointly ask the American Arbitration Association ("AAA") to select an arbitrator. The arbitrator shall be a reservoir engineer with no current relationship with any of the Working Interest Owners of the Kuparuk River Unit. Any past relationship with a Kuparuk River Unit Working Interest Owner shall be disclosed by the arbitrator prior to his / her selection. Neither Party shall have any ex parte communication with the arbitrator.

Within ten days after the selection of the arbitrator, each Party shall serve upon the other a list of witnesses which it may call to testify during the arbitration, together with copies of all documents which it may introduce or rely upon during the arbitration. There will be no discovery.

The arbitrator shall select a single day not less than 30 days after his/her selection on which the arbitration will be held in Anchorage. At least 10 days before the arbitration, each Party: (1) will file any evidence it desires to submit in support of its proposed Backout Model and Backout Procedures with the arbitrator and the other Party(ies); and (2) may file a brief with the arbitrator and the other Party(ies). The brief will be limited to 20 double-spaced pages and may be accompanied by no more than 40 pages of attachments.

At the arbitration, each Party(ies) will have a total of four hours within which to present its entire case, including, if desired, an opening statement, presentation of witnesses and other evidence, cross-examination, and summation of evidence. The arbitrator may question any witnesses at his/her discretion.

No federal or state rules of evidence, or the American Arbitration Association Rules, will apply during the arbitration. However, AS 09.43.010-.040, AS 09.43.060, and AS 09.43.080-.180 of the Alaska Uniform Arbitration Act will apply. (These sections concern procedural aspects of the arbitration as a whole, excluding the procedural aspects of the arbitration hearing itself, which has already been addressed in Exhibit B.)

Unless requested by the arbitrator, no briefs or other documents will be submitted after the arbitration has concluded. Within 15 days after the conclusion of the arbitration, the arbitrator shall issue an order setting forth a Backout Model and Backout Procedures, which shall be final and binding upon the Parties and may only be appealed based on fraud or serious misconduct of the arbitrator. Under no circumstances may an arbitration award nullify, amend, modify, extend, reduce or otherwise change any of the terms or conditions of this agreement or of any amendment thereto. Upon application by either Party, the award may be enforced as a judgment by any court having jurisdiction. If the arbitrator does not issue an award within 15 days, a new arbitrator may be named as if none had been previously named.

Each Party shall pay its own arbitration fees and costs and half of the arbitrator's fees and costs. If a dispute arises regarding the interpretation of this agreement or the conduct of the arbitration, the Parties will endeavor to promptly agree as to how to proceed. If unable to agree, the arbitrator shall decide.

2/25/97 1 P.M.

Exhibit C to
Facility Sharing Ballot

Arbitration Procedures for Joint Capital Project

If a Joint AFE is disapproved by one of the affected Satellites or if it is not approved by all affected Satellites within 60 days after issuance, then the KPA Operator may notify the Owners of each affected Satellite of the KPA Owners' intent to commence arbitration ("Commencement Notice").

The parties to the arbitration shall be the KPA Owners and the Owners of each affected Satellite ("Party" or "Parties"). (The KPA Owners shall be a single Party and each affected Satellite shall be a single Party.) Within 15 days after issuance of the Commencement Notice, each Party shall prepare a list of five acceptable arbitrators and shall exchange the list with the other Parties to facilitate the selection of an arbitrator. In the event the Parties are unable to mutually select and retain an arbitrator ten days after the exchange of the lists, they shall jointly ask the American Arbitration Association ("AAA") to select an arbitrator. The arbitrator shall be qualified by education, experience, and training to pass upon the particular issues in dispute and shall have no current relationship with any of the Working Interest Owners of the Kuparuk River Unit. Any past relationship with a Working Interest Owner shall be disclosed by the arbitrator prior to his/her selection. Neither Party shall have any ex parte communication with the arbitrator.

Within ten days after the selection of the arbitrator, each Party shall serve upon the other(s) a list of witnesses which it may call to testify during the arbitration, together with copies of all documents which it may introduce or rely upon during the arbitration. There will be no discovery.

The arbitrator shall select a single day not less than 30 days after his/her selection on which the arbitration will be held in Anchorage. At least ten days before the arbitration, each Party may file a brief with the arbitrator and the other Party(s). The brief will be limited to 20 double-spaced pages and may be accompanied by no more than 40 pages of attachments.

At the arbitration, each Party will have a total of four hours within which to present its entire case, including, if desired, an opening statement, presentation of witnesses and other evidence, cross-examination, and summation of evidence. The arbitrator may question any witnesses at his/her discretion.

No federal or state rules of evidence, or the American Arbitration Association Rules, will apply during the arbitration. However, AS 09.43.010-.040, AS 09.43.060, and AS 09.43.080-.180 of the Alaska Uniform Arbitration Act will apply. (These sections concern procedural aspects of the arbitration as a whole, excluding the procedural aspects of the arbitration hearing itself, which has already been addressed in this agreement.)

Unless requested by the arbitrator, no briefs or other documents will be submitted after the arbitration has concluded. Within 15 days after the conclusion of the arbitration, the arbitrator shall issue a written arbitration award which shall be final and binding upon the Parties and may only be appealed based on fraud or serious misconduct of the arbitrator. Under no circumstances may an arbitration award nullify, amend, modify, extend, reduce or otherwise change any of the terms or conditions of this agreement or of any amendment thereto. Upon application by any Party, the award may be enforced as a judgment by any court having jurisdiction. If the arbitrator does not issue an award within 15 days, a new arbitrator may be named as if none had been previously named.

Each Party shall pay its own arbitration fees and costs and its pro-rata share of the arbitrator's fees and costs (i.e., if three Parties, each Party shall pay one-third). If a dispute arises regarding the interpretation of this agreement or the conduct of the arbitration, the Parties will endeavor to promptly agree as to how to proceed. If unable to agree, the arbitrator shall decide.

Exhibit D to Facility Sharing Ballot

Volume Adjustment Factors

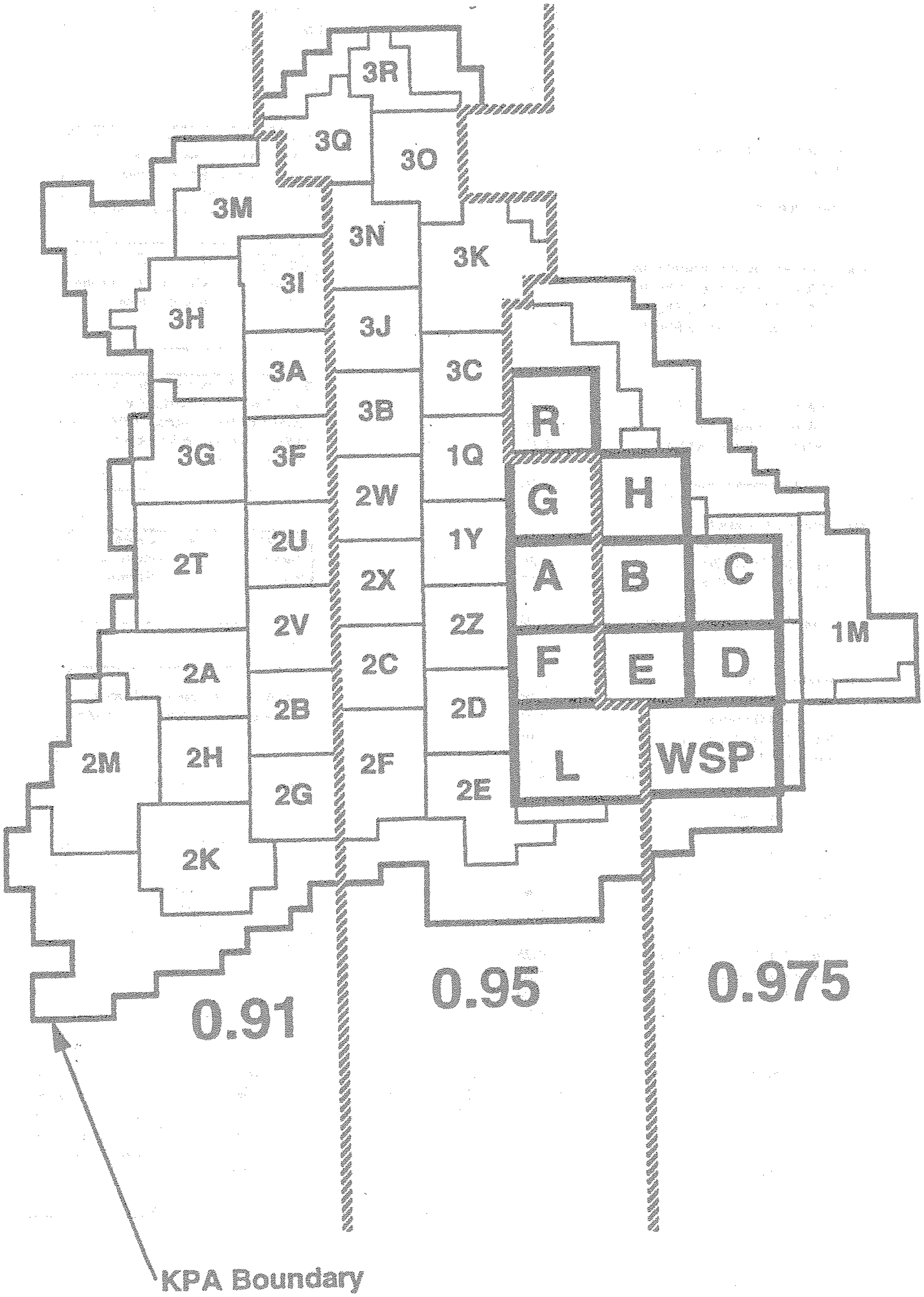

Exhibit E-1 to Facility Sharing Ballot

Facility Sharing Example Calculations

	Gross MBO		Comments
Actual Production Data			
Actual KPA Production	250.00		Actual Allocated Production Data
Actual Production Sat 1	10.00		
Actual Production Sat 2	15.00		
Actual Production Sat 3	20.00		
Total Actual GKA Production	295.00		
Base Line Model Run			
KPA	250.00		8.2.2(a) - Results from Model Run with parameters adjusted to match actual total production and production by Satellite.
Sat 1	10.00		
Sat 2	15.00		
Sat 3	20.00		
Total GKA Production	295.00		
Total Back-Out Model Run			
KPA	259.90		8.2.2(b) - KPA production estimate from model run with same parameters as Baseline Run, except all Satellite production/injection is eliminated.
Total KPA Backout	9.90		
Back-Out Allocation Model Runs			
KPA + Sat's w/ Sat 1 Shut In	250.33		8.2.2(c) - KPA production from model runs in which each Satellite is "eliminated" one at a time.
KPA + Sat's w/ Sat 2 Shut In	252.00		
KPA + Sat's w/ Sat 3 Shut In	256.67		
Preliminary Back Out Sat 1	0.33	4%	8.2.2(c) - The percentage share of total Preliminary Backout is calculated based actual KPA prod. in the Baseline run less the KPA prod. in the Alloc. runs.
Preliminary Back Out Sat 2	2.00	22%	
Preliminary Back Out Sat 3	6.67	74%	
Sum Preliminary Back Outs	9.00		
Net Satellite Backout			
Sat 1 Net Back Out	0.37	4%	8.2.2(c) -Allocate Total KPA Backout to each Satellite based on % of total Preliminary Backout.
Sat 2 Net Back Out	2.20	22%	
Sat 3 Net Back Out	7.33	74%	
Total Gross Allocated Backout	9.90		
Net Backout Share			
Backout Modification Factor	0.90		8.3 -Apply Backout Modification Factor to Net Backouts to calculate Net Backout Share.
Sat 1 Net Backout Share	0.33		
Sat 2 Net Backout Share	1.98		
Sat 3 Net Backout Share	6.60		
Total	8.91		
Adjusted Backout Volume			
KPA Oil Royalty	0.125		8.5.2 -Apply Royalty and Severance Tax adjustments to determine Adjusted Backout Volumes
Base Oil Sev. Tax Rate	0.15		
KPA ELF	0.80		
KPA Sev Rate	0.12		
Sat 1 Adj. Backout Volume	0.25		
Sat 2 Adj. Backout Volume	1.52		
Sat 3 Adj. Backout Volume	5.08		
Total	6.86		

QAF Transfer Volume

	QAFi	Gross Prod. MB	QAF x Gross Prod	QAF Vol (MB)
KPA QAF	1.000	250	250.00	0.261
Sat 1 QAF	0.975	10	9.75	-0.182
Sat 2 QAF	0.950	15	14.25	-0.563
Sat 3 QAF	1.030	20	20.60	0.484
Totals		295	294.60	0.000
		QAF avg-->	0.9986	

8.5.3 -Calculate QAFavg and Apply QAF adjustments (including royalty and severance tax adjustments). Positive QAF Volume means that party receives oil.

Exhibit E-2 to Facility Sharing Agreement

Example of Applicaton of Fees

Rates for Fees

	$/Unit	Basis	Comments
Capital Access	1.20	BBL Oil	Excluding Net Backout Oil
Abandonment	0.10	BBL Oil	,Excluding Net Backout Oil
	(1995 Rates)		
Plant Liquid	0.096	BBL Liq.	Excluding Net Back Out Oil and Associated Prod. Water
Plant Gas	0.039	MCF	Lift Gas + Prod. Gas Excluding Gas Associated with Net Backed out Oil
Drill Site	0.118	BBL Liq.	Excluding Net Back Out Oil and Associated Prod. Water
Excess Water	0.044	BBL Ex. Wtr.	Inj. Water - Produced Water (no Partial Processing)
Ad Valorem	0.115	BBL Liq.	Excluding Net Back Out Oil and Associated Prod. Water

Volume Calculations

	Avg GOR MCF/BO	Avg WOR BW/BO	
Sat 1	0.50	0.20	Used for calculating water and gas associated with net backout oil
Sat 2	2.00	0.33	
Sat 3	5.00	0.50	

	Oil - MB	Water - MB	Liquid - MB	Gas - MMCF	Excess Water MB	Adjusted Backout Oil MBO	Adjusted Backout Water MBW	Adjusted Backout Gas MMCF
Sat 1	10	2	12	5	8	0.25	0.05	0.13
Sat 2	15	5	20	30	10	1.52	0.51	3.05
Sat 3	20	10	30	100	10	5.08	2.54	25.41
Totals	45	17	62	135	28	6.86	3.10	28.59

Fee Calculations

	M$	M$	Proportionate O&M (M$)					M$
	Cap Access	Abandon.	Plant Liq	Plant Gas	Drill Site	Excess Wtr	Ad Valorem*	Totals
Sat 1	11.7	1.0	1.1	0.2	1.4	0.4	1.3	17.1
Sat 2	16.2	1.3	1.7	1.1	2.1	0.4	2.1	24.9
Sat 3	17.9	1.5	2.1	2.9	2.6	0.4	2.6	30.1
Totals	45.8	3.8	5.0	4.2	6.1	1.2	6.0	72.1

* Ad Valorem to be charged on an annual basis (5.1.1)

ARCO Alaska, Inc.

Exhibit "F"

Attached to and made a part of the Kuparuk
Satellite Facility Sharing Ballot No. 255

Greater Kuparuk Area

Scale: N.T.S. 2-24-97 97013002A0

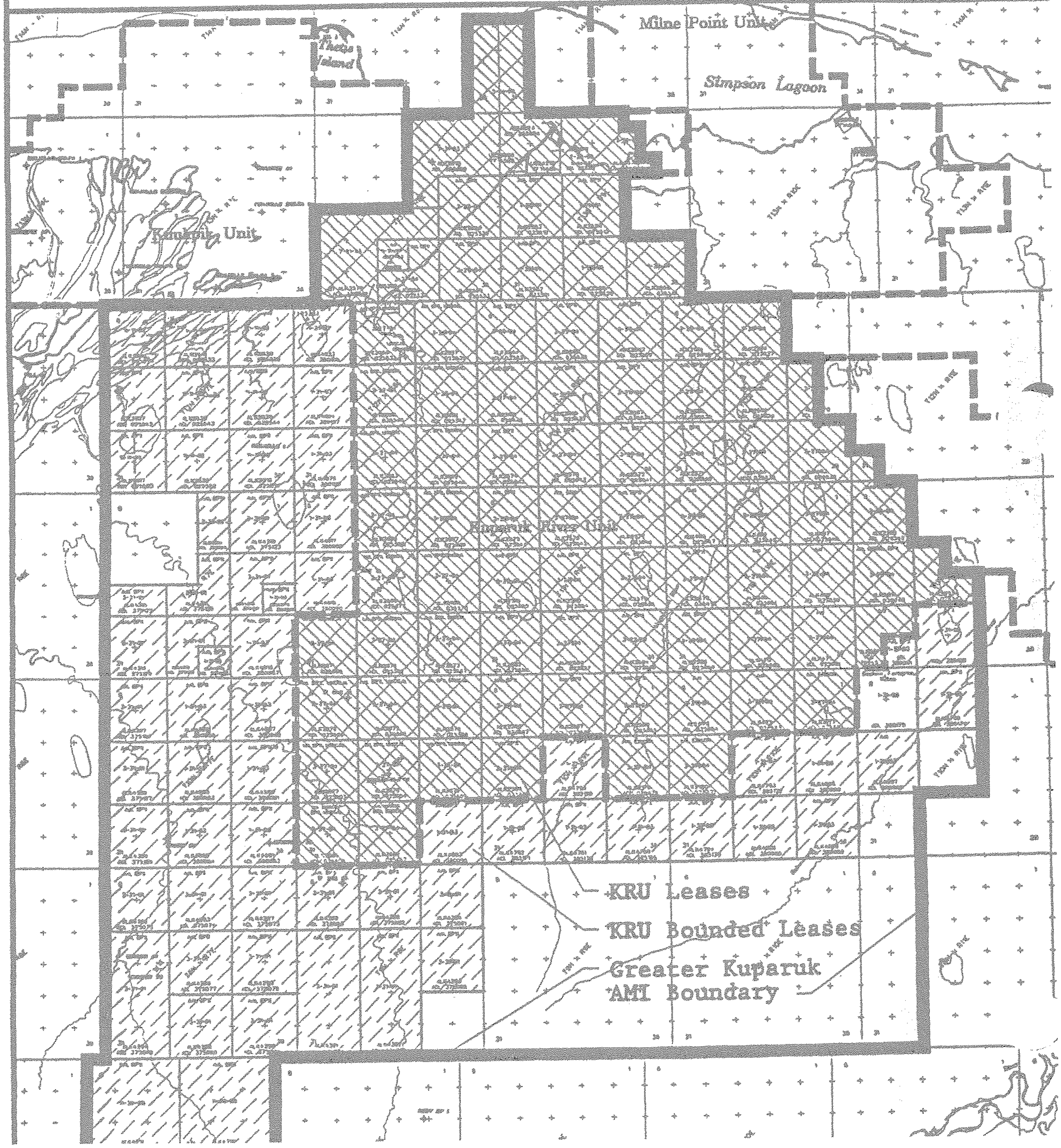

EXHIBIT G TO
FACILITY SHARING BALLOT

SHARED WAREHOUSE INVENTORY

Commodity Listing

Automotive Equipment
Containers
Control Instruments, Systems & Devices
Electrical Equipment
Electrical Supplies
Engines and Turbines
Fasteners
Filters & Strainers
Finished Petroleum Products
Gaskets & Packing
Hose & Accessories
Industrial Chemicals
Janitorial Equipment & Supplies
Lighting Fixtures & Lamps
Lubricating Equipment & Signs
Mechanical Power Transmission Equipment
Metal Bars, Sheets & Shapes
Office Supplies
Petroleum Production & Distribution Equipment
Pipe & Tube Fittings
Pipe & Tubing
Plastics
Printed Matter
Protection, Rescue & Safety Equipment
Pumps & Compressors
Rope, Chain & Fittings
Textiles & Clothing
Tools, Hardware & Mill Supplies
Valves

Adjustment of Deposit

The deposit amount for each Kuparuk Satellite shall be adjusted on January 1 of the year following first use of KPA materials, and every two years thereafter.

Formula for Adjustment of Initial Deposit Amount

Satellite_n Deposit_{year} = Satellite_n Sharing Percentage_{year} * Cost of Shared Warehouse Materials at January 1, of said year.

Satellite_n Sharing Percentage_{year} = Total Issues to Satellite from Shared Warehouse Inventory during the previous year ÷ Total Issues from Shared Warehouse Inventory during the previous year.

Formula for Subsequent Adjustment

$\text{Satellite}_n\ \text{Deposit}_{year}$ = Satellite_n Sharing Percentage_{year} * Cost of Shared Warehouse Inventory at January 1 of said year.

Satellite_n Sharing Percentage_{year} = (Total Issues to Satellite from Shared Warehouse Inventory during previous two years) ÷ (Total Issues from Shared Warehouse Inventory during previous two years).

If the new deposit amount for a Kuparuk Satellite is more than the previous deposit amount, the difference shall be paid to KPA Owners by the Satellite Owners for that Satellite.

If the new deposit amount for a Kuparuk Satellite is less than the previous deposit amount, KPA Owners shall pay the difference to that Satellite Owner for that Satellite.

Total Issues means total KPA Materials issued from the KPA Warehouse to the Kuparuk Participating Area for use in Kuparuk Participating Area Operations and to all Satellites for use in Satellite Operations.