COLVILLE RIVER UNIT

APPLICATION FOR THE FORMATION OF THE FIORD KUPARUK AND FIORD NECHELIK PARTICIPATING AREAS

FINDINGS AND DECISION OF THE DIRECTOR,
DIVISION OF OIL AND GAS,
UNDER DELEGATION OF AUTHORITY FROM THE COMMISSIONER
STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

September 25, 2006

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COLVILLE RIVER UNIT

FORMATION OF THE FIORD KUPARUK AND FIORD NECHELIK PARTICIPATING AREAS

I. INTRODUCTION, BACKGROUND, AND DECISION SUMMARY

On January 31, 2006, ConocoPhillips Alaska, Inc. (ConocoPhillips), as Colville River Unit (CRU) Operator, applied for itself and the other Colville River Unit working interest owners (WIOs) to form the Fiord Kuparuk (Fiord Kuparuk PA) and Fiord Nechelik (Fiord Nechelik PA) Participating Areas within the boundaries of the CRU (Applications). On March 28, 2006, and May 25, 2006, ConocoPhillips submitted revisions to the Applications. After discussions between the Division of Oil and Gas (Division) and ConocoPhillips regarding the initial Applications and the revisions, the Fiord Nechelik PA Application was amended with e-mail correspondence to the Division, dated July 12, July 14, and July 19, 2006. Both Applications were further amended on September 9, 2006, when ConocoPhillips submitted revised Exhibits E and F for the Fiord Kuparuk PA and the Fiord Nechelik PA. ConocoPhillips' revised Fiord Kuparuk PA and Fiord Nechelik PA Applications will result in two additional participating areas for the CRU, which will be developed from the first roadless drillsite on the North Slope--CRU Drillsite CD3.

The proposed Fiord Kuparuk PA includes all or portions of eight State of Alaska leases, encompassing approximately 6,160 acres. The proposed Fiord Nechelik PA includes all or portions of five State of Alaska leases and five leases that are held jointly by the State and the Arctic Slope Regional Corporation (ASRC). The State-only leases comprise approximately 8,230.43 acres and the joint State/ASRC leases comprise 3,480 acres, for a total Fiord Nechelik PA of approximately 11,710.43 acres. ConocoPhillips provided the State geological, geophysical and engineering data regarding the proposed Fiord Kuparuk PA and Fiord Nechelik PA. The data indicate that the Kuparuk Reservoir within the Kuparuk formation and the Nechelik Reservoir within the Kingak formation are capable of producing or contributing to the production of hydrocarbons in paying quantities.

The Division approves the Revised Applications to form the Fiord Kuparuk PA and Fiord Nechelik PA. The Fiord Kuparuk PA and the Fiord Nechelik PA each encompass an area that is "reasonably known to be underlain by hydrocarbons and known or reasonably estimated ... to be capable of producing or contributing to production of hydrocarbons in paying quantities." 11 AAC 83.351(a). The effective date of the two participating areas is August 1, 2006.

II. APPLICATIONS FOR THE FORMATION OF THE FIORD KUPARUK AND FIORD NECHELIK PARTICIPATING AREAS

Under 11 AAC 83.351 and Section 9.1 of the CRU Agreement, ConocoPhillips submitted separate Applications, both dated January 31, 2006, to form the Fiord Kuparuk PA and Fiord

Nechelik PA. By letters, dated March 28, 2006, ConocoPhillips revised the tract participation schedules (Exhibit C to the CRU Agreement) for both proposed participating areas. Further, by letters, dated May 25, 2006, ConocoPhillips submitted a revised Exhibit E (Allocation of Participating Area Expense) and Exhibit F (Allocation of Unit Expense), and a revised plan of development (POD) for each proposed participating area.

After the Division reviewed all of the submitted application materials, it determined that the Fiord Nechelik PA Application did not comply with Subsection 8.1.2(b) and Sections 9.3 and 9.5 of the CRU Agreement. The Application did not comply with Subsection 9.5.1 of the CRU Agreement, and the proposed Fiord Nechelik PA Exhibit C did not reflect the geology of the known Nechelik Reservoir during the initial two-year term of the Fiord Nechelik PA POD.

Further, the Division determined that the proposed participating areas did not comply with the terms and conditions for the Fiord Expansion Area contained in the Findings and Decision of the Director, Application for the Second Expansion of the Colville River Unit, dated November 8, 2002 (Second Expansion Decision). The Second Expansion Decision required that the entirety of seven specific CRU Tracts be included in an approved Fiord Participating Area within four years of the effective date of the Second Expansion Decision. The Applications did not include all seven of the required CRU Tracts.

On June 16, 2006, the Division met with ConocoPhillips and ASRC to discuss these issues. During this meeting, various options were suggested to resolve the Applications' problems with the Second Expansion Decision and the participating area formation provisions of the CRU Agreement. The parties resolved the above expansion issue on July 12, 2006, when ConocoPhillips notified the Division by e-mail correspondence that it agreed to the terms and conditions for retaining the Fiord Expansion Area Lands set out in Attachment 5 to this Findings and Decision.

By letter, dated September 7, 2006, ConocoPhillips submitted revised Exhibits E and F for the Fiord Kuparuk PA and the Fiord Nechelik PA. Exhibit E is a schedule that describes the allocation of participating area expenditures, both capital and operating expenditures, allocated solely to the Unit Tracts in that participating area. Exhibit F is a schedule that describes the allocation of expenditures, both capital and operating expenditures, incurred for or on account of Unit Operations, except for Participating Area expenditures, to each Unit Tract in the CRU Area. The two Exhibits were revised to 1) reflect that there would be multiple participating areas within the CRU, 2) more completely address the terms and conditions of the CRU Agreement and 3) clarify how particular expenditures, capital costs or operating costs, would be allocated to the Unit Tracts in a participating area.

The Application for the Fiord Kuparuk PA includes the original Application for the Fiord Kuparuk PA, dated January 31, 2006, and the revisions dated March 28, May 25 and September 7, 2006; the Application for the Fiord Nechelik PA includes the original Application for the Fiord Nechelik PA, dated January 31, 2006, the revisions dated March 28 and May 25, 2006, the further revisions via e-mail correspondence dated July 12, July 14 and July 19, 2006, and the

September 7, 2006, revision. Taken together, these materials constitute the Revised Applications for the two Fiord Participating Areas. The Revised Applications comply with Sections 9.3 and 9.5 and Subsection 8.1.2(b) of the CRU Agreement regarding the formation of participating areas other than the initial participating area—the Alpine Participating Area.

The proposed 6,160 acre Fiord Kuparuk PA is comprised of all or portions of eight State of Alaska leases, ADLs 364470, 364471, 364472, 372103, 372104, 372105, 372106, and 372107. ADLs 364470, 364471, and 364472 reserve a 12.5 percent royalty and a 30 percent Net Profit Share (NPSL) to the State. The proposed Fiord Kuparuk PA acreage encompasses the Kuparuk Reservoir within the Kuparuk formation in the northeastern part of the CRU. The tracts/leases proposed for inclusion and the proposed tract participation schedule for the Fiord Kuparuk PA are listed in Attachment 1 to this Findings and Decision. A map depicting the outline of the proposed Fiord Kuparuk PA and the Unit Tracts proposed for inclusion in the Fiord Kuparuk PA is Attachment 2 to this Findings and Decision.

The proposed 11,710.43 acre Fiord Nechelik PA is comprised of all or portions of: 1) five State of Alaska leases, ADLs 364470, 364471, 364472, 372104 and 372105; and 2) five leases that are held jointly by the State and ASRC, ADLs 25526, 380092, 384215, 388527, and 389725. The proposed Fiord Nechelik PA acreage encompasses the Nechelik Reservoir within the Kingak formation in the northeastern part of the CRU. The tracts/leases proposed for inclusion and the proposed tract participation schedule for the Fiord Nechelik PA are listed in Attachment 3 to this Findings and Decision. A map depicting the outline of the Fiord Nechelik PA and the Unit Tracts proposed for inclusion in the Fiord Nechelik PA is Attachment 4 to this Findings and Decision.

Because the Fiord Nechelik PA will include lands held jointly by the State and ASRC, the outline of the Fiord Nechelik PA depicted in Exhibit D to the CRU Agreement (Attachment 4 to this Findings and Decision) is prescribed by Section 9.5 of the CRU Agreement. The boundaries depicted in Attachment 4 are the product of a mechanical methodology that involves drawing circles and tangents around proposed development wells, combined with a mapping evaluation of the hydrocarbon-bearing Nechelik Reservoir. The mapping evaluation used well and seismic data to estimate the area within the CRU that is underlain by hydrocarbons and capable of producing or contributing to production of hydrocarbons in paying quantities. Subsection 9.5.1 of the CRU Agreement describes how a participating area for the Nechelik Reservoir must be drawn using the circle and tangent method. The boundaries of the participating area are those lands encompassed within the outermost circles or ellipses and connecting tangents drawn around qualified, drilled and proposed injection or production wellbores. The radius of the circles and ellipses is one-half mile, and the area encompassed includes the entirety of each quarter-quarter section whether or not the entirety of that quarter-quarter section falls within the drawn configuration.

The outline of any participating area that includes State-only lands is prescribed by Section 9.4 of the CRU Agreement. However, in a March 30, 2005, pre-application meeting with ConocoPhillips regarding the Fiord Kuparuk PA, ConocoPhillips proposed the procedures prescribed in Section 9.5 of the CRU Agreement for the Fiord Kuparuk PA outline. Because the Division finds that the Section 9.5 procedures are acceptable to estimate the area within the CRU

that is underlain by hydrocarbons and capable of producing or contributing to production of hydrocarbons in paying quantities, it agreed with the ConocoPhillips' proposal with one exception. The exception is that the application of the circle and tangent method to the northeastern and eastern boundary of the Fiord Kuparuk PA should honor the sub-surface faulting within the Kuparuk Reservoir. In a follow-up pre-application meeting on September 22, 2005, ConocoPhillips presented the outline of the Fiord Kuparuk PA based on the Division's recommendation. Attachment 2 to this Findings and Decision represents the agreed-to outline for the Fiord Kuparuk PA.

The revised initial POD for each of the two participating areas (the Revised Fiord Kuparuk PA POD and the Revised Fiord Nechelik PA POD), dated May 25, 2006, includes a listing and schedule of drilled and proposed injection and production wells. The Attachments provided for each participating area show the drilled and proposed bottomhole locations, actual and proposed injection points (in injection wells) and actual and proposed completion intervals (in production wells), and the resulting Fiord Kuparuk PA and Fiord Nechelik PA after applying the circle and tangent method. The proposed Fiord Kuparuk PA and Fiord Nechelik PA outlines encompass those lands that ConocoPhillips has drilled or intends to drill and put into production or on injection within two years of commencement of production from each participating area. The lands proposed to be included in each participating area (as described in Exhibit C and depicted in Exhibit D to the CRU Agreement) are a result of each participating area's POD and Section 9.5 of the CRU Agreement.

Finally, Section 9.8 of the CRU Agreement provides that the effective date for each subsequent participating area (other than the initial participating area, the Alpine Participating Area) shall be established by the proper authority. ConocoPhillips did not request any effective date in the Revised Applications. Because sustained production from the Fiord Nechelik PA commenced on August 8, 2006, the Division approves the Fiord Kuparuk PA and the Fiord Nechelik PA with an effective date of August 1, 2006.

III. DISCUSSION OF DECISION CRITERIA

The Commissioner of the Department of Natural Resources (Commissioner) reviews applications to form participating areas under 11 AAC 83.303--11 AAC 83.395. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Director of the Division of Oil and Gas (Director). The Division's review of the Revised Applications is based on the criteria in 11 AAC 83.303(a) and (b).

A participating area may include only land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, or engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities. 11 AAC 83.351(a). "Paying quantities" means:

> quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking as a whole may ultimately result in a loss; quantities

> are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities.

11 AAC 83.395(4). An application for a PA is evaluated by the Division under these standards, as well as those of 11 AAC 83.303. A discussion of the subsection (b) criteria, as they apply to the Revised Applications to form the Fiord Kuparuk PA and the Fiord Nechelik PA, is set out below, followed by a discussion of the subsection (a) criteria.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. The Environmental Costs and Benefits of Unitized Exploration and Development

DNR considered environmental issues in the lease sale process and the initial unitization process for the CRU leases; DNR will review them again during the unit plan of operations approval process. Unitized exploration, development, and production minimize surface impacts by consolidating facilities and reducing activity in the field. The Fiord Kuparuk PA and Fiord Nechelik PA PODs have been designed to minimize the amount of surface impact from the facilities necessary to develop the Kuparuk and Nechelik Reservoirs, which will be developed from one gravel pad. The infield development consists of a new gravel pad and gravel airstrip, CD3, which will be accessible only by air except during the winter ice road season. The absence of a gravel road from CD3 to the Alpine Central Facility (ACF) will avoid a source of significant surface impact.

The CD3 development project facilities and infrastructure include produced oil, water injection, miscible injectant, gas lift, and diesel pipelines from the ACF to the Fiord CD3 drillsite. Drilling operations will only be conducted during the winter season. All pipelines, including the infield lines, will be built at least five feet above ground level to ensure passage of migrating caribou. The CD3 development will share all existing Alpine fluid processing facilities and infrastructure.

The Fiord Kuparuk PA and Fiord Nechelik PA will promote efficient development of the State's resources, while minimizing impacts to the region's cultural, biological, and environmental resources. These impacts would be significantly greater if the Kuparuk and Nechelik Reservoirs were developed on a lease-by-lease basis, rather than on an integrated unitized basis.

2. The Geological and Engineering Characteristics, and Prior Exploration Activities of the Fiord Kuparuk and Fiord Nechelik Participating Areas

The Fiord Nechelik sandstone is defined as that interval that is correlative with the sandstone in the Fiord #5 well between 7021'md and 7172'md. The Fiord Kuparuk sandstone is defined as that interval that is correlative with and that occurs in the Fiord #5 well from 6876'md

to 6892'md. In support of their Applications, ConocoPhillips provided a discussion, entitled "Geologic and Geophysical Characteristics of the Reservoirs," log and core data for both sandstones, net pay maps, a merged Nechelik-LCU structure map, an interpreted seismic line, stratigraphic cross sections, test data for both sandstones, including API gravity, and depositional model maps for the Nechelik and Kuparuk sandstones.

The Nechelik sand is informally named sandstone that occurs in the upper Jurassic Kingak Formation. It is the oldest of three informal, coarsening upward sandstones that occur in the Upper Jurassic in the vicinity of the present day Colville River delta. The Nechelik sandstone underlies the Alpine and the Nuiqsut sandstones. All three of these sands were deposited on the south flank of a continental margin. Whether the progradational character of the Nechelik sand is due to local sea level fluctuations or proto-tectonics associated with early Cretaceous rifting of the Canada Basin is unknown. The depositional geometry of the Nechelik sand can be demonstrated from the early exploration wells and development wells in the area. Core data from Fiord 1, Nigliq 1, Nechelik 1 and Fiord 5PB1, as well as log data from Fiord 1,1A, 2, 4, 5, 5PB1, Nigliq 1 and 1A, Temptation 1 and 1A, Nechelik 1 and northern Alpine development wells help define the depositional setting and the hydrocarbon bearing intervals of the Nechelik sand.

The Nechelik sand is a coarsening upward, progradational upper shelf to lower shoreface/deltaic sandstone. The depositionally shallowest and best developed reservoir facies occur to the north and northeast. Locally active faults allowed for accommodation and preservation of thick sections of Nechelik sand. Northwest/southeast trending faults appear to have moderate to low throw and are predominantly down to the southwest. Two of these faults bound the development area. To the northeast, the sand appears aggradational and is cleaner and blockier, particularly in the vicinity of the Fiord #4 well. Structural dip on the Nechelik is less than one degree to the southeast. The Fiord Nechelik accumulation is stratigraphically trapped. The sands shale out to the south and are truncated to the north/northeast by the Lower Cretaceous Unconformity (LCU). The sands thin and grade to siltstone along strike to the northeast and southwest. Core data from Fiord #1 located south of the development area indicate a low porosity /permeability reservoir with an average porosity of 11 percent and an average permeability of 1.4 md. A well test at Fiord #1 (DST #1) in March, 1992 flowed 180 BOPD of 28 API gravity oil. Most of the Nechelik interval was not considered pay at that time. The sandstone is predominantly lower-fine grained, slightly shaley to silty and well indurated. Porosity and permeability increase to the north where average core porosity is 15 percent and average core permeability is 19 md at Fiord #5PB1. A well test of the Nechelik sandstone at Fiord #5 in the cleaner, coarsening up, progradational sandstone facies produced 1400 BOPD of 29 API gravity oil.

Unconformably overlying the Fiord Nechelik sandstone is the Fiord Kuparuk sandstone. The lower Cretaceous Kuparuk River Formation is present only as a thin, transgressive lag in the Colville River delta area. To the north, the Lower Cretaceous Unconformity cuts deeper into the ancestral Colville High, and the Kuparuk sits directly on top of the Nechelik sand. To the south, the Kuparuk River Formation is separated by a thickening section of upper Jurassic Kingak

formation. The location of the Fiord Kuparuk sandstone is controlled by faulting which created accommodation space on the downthrown side of syndepositional faults. A thin transgressive Kuparuk sandstone was deposited as the post-Kuparuk lower Cretaceous transgression topped the ancestral Colville High. This transgressive lag in the CRU area averages ten feet of high net/gross sandstone. Porosity and permeability tend to be very high except where siderite cemented. The Fiord Kuparuk sandstone strikes northwest/southeast along the Fiord fault that preserved the sandstone on the southwestern (downthrown) side. Core data is sparse in the Fiord Kuparuk. Fiord #1 was cored in the Kuparuk interval but had very poor recovery. Rotary side wall cores from the Fiord #1 Kuparuk interval ranged from 0.1 md to 158 md permeability and 3.0 to 23.9 percent porosity. In 1994, Fiord #2 was drilled as a follow up to Fiord #1. Fiord #2 was cored through the Kuparuk, but a thin, sideritic Kuparuk section was encountered. The same result was found in1999 at the Fiord #4 well, which encountered a two foot Kuparuk interval in core. A co-mingled well test from the Nechelik and Kuparuk intervals in Fiord #5 flowed 2500BOPD.

ConocoPhillips submitted data that supports the mapped Fiord Nechelik PA and Fiord Kuparuk PA as underlain by hydrocarbons and capable of producing or contributing to production of hydrocarbons in paying quantities. The participating area outlines are drawn in accordance with the rules described in Subsection 9.5.1 of the CRU Agreement with the exception that the Fiord Kuparuk PA boundary honors the subsurface faulting. The Division's evaluation of the subsurface geology supports the configuration of the Fiord Nechelik PA and Fiord Kuparuk PA.

3. Plans of Development for the Fiord Kuparuk and Fiord Nechelik Participating Areas

Under Subsections 8.1.2(b) and 8.1.2(c) of the CRU Agreement, the term of the Initial Fiord Kuparuk PA POD and Fiord Nechelik PA POD is a period commencing with Sustained Unit Production from a participating area and ending two years after the commencement of Sustained Unit Production. Sustained Unit Production from the Fiord Nechelik PA commenced on August 8, 2006.

ConocoPhillips' PODs for both participating areas anticipate a horizontal pattern miscible water-alternating-gas (MWAG) recovery process in both the Kuparuk and Nechelik Reservoirs. Five long-reach horizontal wells, three producers and two injectors, are planned from CD3 to develop the Fiord Kuparuk PA. Within the Kuparuk Reservoir, these wellbores will parallel each other, approximately 3,500 feet in length, and spaced approximately 4,500 apart. Twelve long-reach horizontal wells, six producers and six injectors, are planned from CD3 to develop the Fiord Nechelik PA. Within the Nechelik Reservoir, these wellbores will parallel each other, approximately 8,000 feet in length, and spaced approximately 2,100 feet apart.

ConocoPhillips represented to the Division that implementation of enhanced oil recovery EOR is integral to the CD3 project as reservoir modeling and laboratory work show the MWAG will result in significant oil recovery from both reservoirs. The peak projected commingled annual

oil production rate from the two participating areas is estimated to be 20,000-24,000 BOPD. ConocoPhillips anticipates that approximately 61 million barrels of oil will be recovered from the two reservoirs over the 23-year project life.

Prior to sustained production from the Fiord Nechelik PA, ConocoPhillips operated certain Fiord Nechelik wells as CRU Tract Operations to ensure wellbore cleanup and gather additional reservoir information. The CD3-108 Nechelik injection well was drilled to completion in April 2005, and an extended flow-back was conducted to clean out the well and test well productivity. Also, in early 2005 and prior to tundra travel closure for the 2004-2005 winter season, Nechelik wells CD3-109 and CD3-110 were drilled to the top of the Nechelik Reservoir and cased with production casing. Because of ice road inaccessibility, the continued drilling of these two wells was suspended to provide adequate time for the drilling rig to return to the Alpine field. In early 2006, the production laterals for the suspended CD3-109 and CD3-110 wells were drilled and completed, followed by the drilling and completion of the CD3-111 and CD3-112 wells. All four wells were produced for an extended period of time during the 2005-2006 Winter Season to ensure wellbore clean-up.

4. The Economic Costs and Benefits to the State

Approval of the Fiord Kuparuk and Fiord Nechelik Participating Areas will provide near-term economic benefits to the State by creating jobs associated with the construction of the CD3 project facilities, operation of the two fields, and the assessment of the hydrocarbon potential of the other leases within the CD3 project area. The State will also benefit from the Fiord Kuparuk PA POD and Fiord Nechelik PA POD, which will maximize the physical recovery of hydrocarbons from the Kuparuk Reservoir and Nechelik Reservoir, respectively. Maximum hydrocarbon production will enhance the State's long-term royalty and tax revenues. The WIOs have provided sufficient technical data to define the participating areas, and have agreed to PODs for each participating area that will ensure a timely sequence of drilling and development activities to evaluate and develop both participating areas.

The leases in the Fiord Kuparuk PA and Fiord Nechelik PA are written on a variety of forms. Previously, during the CRU Agreement negotiations, the parties bargained for amendments to the terms and conditions of the leases to harmonize them. By amending, in the unit agreement, the terms of the older leases, the State avoided costly and time-consuming re-litigation over problematic lease provisions in the older forms.

Under the CRU Agreement, the State will benefit economically from a number of amendments to the individual leases. Specifically, the State's royalty share of production from the two participating areas will be free and clear of all field costs incurred on the North Slope of Alaska.

Any additional administrative burdens associated with the Fiord Kuparuk PA and the Fiord Nechelik PA will be far outweighed by the additional royalty and tax benefits from the production from each participating area.

5. Any Other Relevant Factors the Commissioner Determines Necessary or Advisable to Protect the Public Interest

Under 11 AAC 83.351 and 11 AAC 83.371, ConocoPhillips must submit for Commissioner approval a proposed division of interest setting out the percentage of production and costs to be allocated to each lease or portion of lease within each participating area. Furthermore, the proposed division of interest allocating production and costs may not take effect until approved by the Commissioner in writing. The Revised Applications include an allocation of production (CRU Agreement, Exhibit C for the Fiord Kuparuk PA, dated March 28, 2006, and Exhibit C for the Fiord Nechelik PA, dated July 14, 2006), an allocation of participating area costs (CRU Agreement, Exhibit E for the Fiord Kuparuk PA and the Fiord Nechelik PA, both dated September 7, 2006), and an allocation of unit costs (CRU Agreement, Exhibit F for the Fiord Kuparuk PA and the Fiord Nechelik PA, both dated September 7, 2006) for the leases in each participating area. The proposed division of interest schedule distributes production and ultimately costs among the tracts in each participating area according to original recoverable oil-in-place.

The basis of the Fiord Kuparuk PA and the Fiord Nechelik PA tract participation schedule, original recoverable oil-in-place, is a tract allocation methodology in the CRU Agreement. This allocation methodology has been used, and approved by the Division, to determine the tract participations for numerous North Slope participating areas. Under Section 9.3 of the CRU Agreement, the division of interest submitted by ConocoPhillips allocating unit tract participation for the Fiord Kuparuk PA and the Fiord Nechelik PA does not require approval by the Commissioner or the President of ASRC, and remains effective until changed by Section 10.1 of the CRU Agreement. Even if the parties had not agreed to Section 9.3 of the CRU Agreement, the Division would have found the methodology embodied in Exhibit C acceptable for allocating production to the various tracts in each of the two participating areas.

Further, under Section 9.3 of the CRU Agreement, ConocoPhillips submitted, for Commissioner approval, Exhibit E, Allocation of Participating Area Expense, and Exhibit F, Allocation of Unit Expense, with the Revised Applications. Participating Area Expense has two components, capital expenditures and operating expenditures. The September 7, 2006, Exhibit E for both Fiord Participating Areas clarifies how these two components of Participating Area Expense are to be allocated to the Tracts in the two participating areas. Ultimately, each Unit Tract in the Fiord Kuparuk PA and Fiord Nechelik PA has the same percentage of Participating Area Expense as the percentage of Unitized Substances allocated to the tract under Exhibit C.

Similarly, Unit Expense has two components, capital expenditures and operating expenditures. The September 7, 2006, Exhibit F for both Fiord Participating Areas clarifies how these two components of Unit Expense are to be allocated to the Tracts in the two participating areas. Ultimately, each Unit Tract in the Fiord Kuparuk PA and Fiord Nechelik PA has the same percentage of Unit Expense as the percentage of Unitized Substances allocated to the tract via

Exhibit C.

Exhibit E and Exhibit F for each participating area are based on Exhibit C. Allocated Unit Tract costs are ultimately based on recoverable oil-in-place. The Division finds the revised Exhibits E and Exhibits F for each participating area, dated September 7, 2006, acceptable for allocating costs among the Unit Tracts in the Fiord Kuparuk PA and the Fiord Nechelik PA.

ConocoPhillips has no plans for stand-alone processing facilities at the Fiord Kuparuk and Fiord Nechelik PAs. Produced fluids from the CD3 participating areas will be processed through the existing processing facilities at the ACF. CD3 produced fluids will be commingled with Alpine Participating Area produced fluids prior to final processing and custody transfer metering. All produced fluids from the various participating areas within the CRU will be treated identically in the commingled stream irrespective of individual stream quality differences, if any. Only one commingled stream from the ACF will be tendered to the Alpine Pipeline for delivery to the Trans Alaska Pipeline (TAPS).

The indigenous gas from all the CRU participating areas will be commingled at the ACF where some of it will be flared, some will be used as fuel in support of Alpine, Fiord Kuparuk, Fiord Nechelik, Nanuq Kuparuk and Nanuq Nanuq Participating Areas, and the remainder, an enriched gas and a dry gas, will be injected into each unit participating area as an EOR mechanism.

An integral part of a successful implementation of commingled production is the allocation of the produced fluids back to the originating reservoir for revenue and reservoir management purposes. Two issues regarding commingled production from multiple reservoirs through common surface facilities are not addressed in the Revised Applications, but were negotiated between the State, ASRC, and ConocoPhillips. These issues are: 1) a methodology for allocating the commingled fluid streams through the common Alpine processing facilities; and 2) a unit-wide gas management agreement for the allocation of commingled produced gas that will be used for development and production, repressuring, recycling, storage or enhanced recovery purposes of all reservoirs in the CRU. This Findings and Decision does not address these issues. Rather, they were addressed under a separate document, the CRU Gas Management Agreement, effective July 1, 2006.

Finally, Section 9.8 of the CRU Agreement provides that the effective date for each subsequent participating area shall be established by the Proper Authority. ConocoPhillips did not request an effective date in the Revised Applications. Since sustained production from CD3 commenced on August 8, 2006, the Division approves the Fiord Kuparuk PA and the Fiord Nechelik PA with an effective date of August 1, 2006.

B. Decision Criteria considered under 11 AAC 83.303(a)

1. Promote the Conservation of All Natural Resources

The formation of oil and gas units, as well as the creation of participating areas within units, generally conserves hydrocarbons. The coordinated development of leases held by diverse parties maximizes total hydrocarbon recovery and minimizes waste. The formation of the Fiord Kuparuk PA and the Fiord Nechelik PA provides for more efficient, integrated development of the entire Fiord Kuparuk Reservoir and Fiord Nechelik Reservoir. The CRU Operating Agreement and the POD for each participating area avoids duplicative development efforts on and beneath the surface.

The number of facilities required to develop the resource and the area of land that may be required to accommodate those facilities is reduced when resources on several leases are developed as one participating area. Facilities can be located to maximize recovery and to minimize environmental impacts, without regard for individual lease ownership.

2. The Prevention of Economic and Physical Waste

Generally, the formation of a participating area facilitates the equitable division of costs and allocation of hydrocarbon shares, includes a diligent development plan that maximizes the physical and economic benefits from a reservoir's production. The creation of the Fiord Kuparuk PA and the Fiord Nechelik PA prevents economic and physical waste by eliminating redundant expenditures, and maximizes the ultimate recovery from each reservoir by adopting a unified reservoir management strategy. Oil and gas resources can be produced through a single facility infrastructure system. The Fiord Kuparuk PA and the Fiord Nechelik PA will improve the efficiency of developing their respective reservoirs, which have variable productivity across adjoining leases. Economically marginal reserves, which otherwise would not be produced on a lease-by-lease basis, can be developed through the participating areas.

Further, facility consolidation saves capital and promotes better reservoir management through pressure maintenance and enhanced recovery procedures. These factors allow the Kuparuk Reservoir and the Nechelik Reservoir to be developed and produced in the interest of all parties, including the State, while preventing economic and physical waste.

3. The Protection of All Parties of Interest, Including the State

Because hydrocarbon recovery will be maximized resulting in additional production-based revenue from the Fiord Kuparuk PA and the Fiord Nechelik PA production, the State's economic interest is promoted. Also, diligent exploration under a single unit, without the complications of competing leasehold interests, promotes the State's interest. The formation of each participating area promotes efficient evaluation and development of the State's resources, yet minimizes impacts to the area's cultural, biological, and environmental resources. Operating under the CRU Agreement provides for accurate reporting and record keeping, State concurrence with operating procedures, royalty settlement, in-kind taking, and emergency storage of oil. These all protect the State's interests.

The formation of each participating area protects the economic interests of all WIOs of each reservoir in each participating area. Combining interests and operating under the terms of the CRU Agreement and CRU Operating Agreement ensures that each individual working

interest owner an equitable allocation of costs and revenues commensurate with the resources of its lease(s).

IV. FINDINGS AND DECISION

Considering the facts discussed above and the administrative record as a whole, I hereby make the findings and impose conditions as follows.

1. The formation of the Fiord Kuparuk PA and Fiord Nechelik PA, under the terms and conditions of the Revised Applications and this decision, will promote the conservation of all natural resources, promote the prevention of economic and physical waste, protect all parties of interest, and are necessary and advisable to protect the public interest. AS 38.05.180(p); 11 AAC 83.303.

2. The available geological and engineering data demonstrate that a paying quantities certification is appropriate for the tracts proposed for both the Fiord Kuparuk PA and the Fiord Nechelik PA. The data also indicate that the acreage is underlain by hydrocarbons and known and reasonably estimated to be capable of production or contributing to production in sufficient quantities to justify the formation of the Fiord Kuparuk PA and the Fiord Nechelik PA within the CRU.

3. The Fiord Kuparuk PA POD and Fiord Nechelik PA POD, both dated May 25, 2006, meet the requirements of 11 AAC 83.343 and Section 8.1 of the CRU Agreement. The Fiord Kuparuk PA POD and Fiord Nechelik PA POD, which provide for the rational development of the hydrocarbon accumulations within the proposed participating areas, are approved.

4. ConocoPhillips shall submit annual updates to the initial PODs to DNR consistent with the provisions of 11 AAC 83.343 and Article 8 of the CRU Agreement. The annual updates must describe the status of projects undertaken and the work completed, and any proposed changes to the PODs.

5. The available geological and engineering data and PODs justify the inclusion of the proposed tracts within the Fiord Kuparuk PA and the Fiord Nechelik PA. In accordance with the regulations governing the formation and operation of oil and gas units (11 AAC 83.301 - 11 AAC 83.395), the CRU Agreement, and the terms and conditions under which these lands were leased from the State, the lands described in Attachment 1 to this Findings and Decision are included in the Fiord Kuparuk PA, and the lands described in Attachment 3 to this Findings and Decision are included in the Fiord Nechelik PA.

6. The formation of the Fiord Kuparuk PA and the Fiord Nechelik PA provide for the equitable allocation of produced hydrocarbons and costs to the tracts within each participating area, and set out PODs designed to maximize physical and economic recovery from the reservoirs within each approved participating area.

Under Section 9.3 of the CRU Agreement, 11 AAC 83.351(a), and 11 AAC 83.371(a), the Allocation of Participating Area Expense (CRU Agreement, Exhibit E for the Fiord Kuparuk PA and the Fiord Nechelik PA, both dated September 7, 2006) and the Allocation of Unit Expense (CRU Agreement, Exhibit F for the Fiord Kuparuk PA and the Fiord Nechelik PA, both dated September 7, 2006) are approved.

7. All produced fluids from the various participating areas within the CRU will be treated identically in the commingled stream irrespective of individual stream quality differences, if any. Only one commingled stream from the ACF will be tendered to the Alpine Pipeline for delivery to TAPS. The Revised Applications did not address quality differences between the Fiord Participating Areas and the Alpine Participating Area, and this Findings and Decision does not recognize any quality differences in the commingled stream for royalty payment purposes.

8. The commingling of Fiord Kuparuk PA and Fiord Nechelik PA production with Alpine Participating Area production in surface facilities before custody transfer is not authorized under this Findings and Decision. The implementation of a production allocation methodology, the terms and conditions governing the commingling of the various CRU participating area produced fluids through the ACF, and the terms and conditions governing the transfer of gas among the various CRU participating areas for production and development, repressuring, recycling, storage, and enhanced recovery purposes are the subject of another agreement document, the CRU Gas Management Agreement, effective July 1, 2006.

9. The **Fiord Kuparuk PA** is assigned Accounting Unit Code "**CRFK**" and the **Fiord Nechelik PA** is assigned Accounting Unit Code "**CRFN**" for royalty accounting purposes. All operator reports and royalty reports for the participating areas must reference these Accounting Unit Codes. The WIOs have been allocating production for royalty reporting purposes from the Fiord Nechelik Tract Operations for the CD3-108, CD3-109, CD3-110, CD3-111 and CD3-112 wells (Accounting Unit Codes CR08, CR10, CR11 and CR12). Effective August 1, 2006, ConocoPhillips, as the CRU Operator, and the **Fiord Nechelik PA** WIOs will use Accounting Unit Code **CRFN** to record all Fiord Nechelik PA production.

10. The Second Expansion Decision required that the entirety of seven specific CRU Tracts be included in an approved Fiord Participating Area within four years of the effective date of the Second Expansion Decision. The Applications did not include all seven of the required CRU Tracts. The provisions of the Second Expansion Decision regarding the Fiord Expansion Area lands are modified to incorporate the terms and conditions outlined in Attachment 5 to this Findings and Decision.

For the reasons discussed in this Findings and Decision, I hereby approve the formation of the Fiord Kuparuk PA and the Fiord Nechelik PA, and their respective allocation of participating area expense and allocation of unit expense schedules. These approvals are effective August 1, 2006.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d), and may be mailed or delivered to Michael Menge, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr_appeals@dnr.state.ak.us. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

William Van Dyke, Acting Director
Division of Oil and Gas

September 25 2006
Date

Attachments: 1) Exhibit C to the CRU Agreement for the Fiord Kuparuk PA
2) Exhibit D to the CRU Agreement for the Fiord Kuparuk PA
3) Exhibit C to the CRU Agreement for the Fiord Nechelik PA
4) Exhibit D to the CRU Agreement for the Fiord Nechelik PA
5) Terms and Conditions for Retaining the Fiord Expansion Area Lands in the CRU

CRU_FiordKuparukPA_FiordNechelikPA_Appv.doc

Exhibit C

Fiord Kuparuk Participating Area Tract Participations

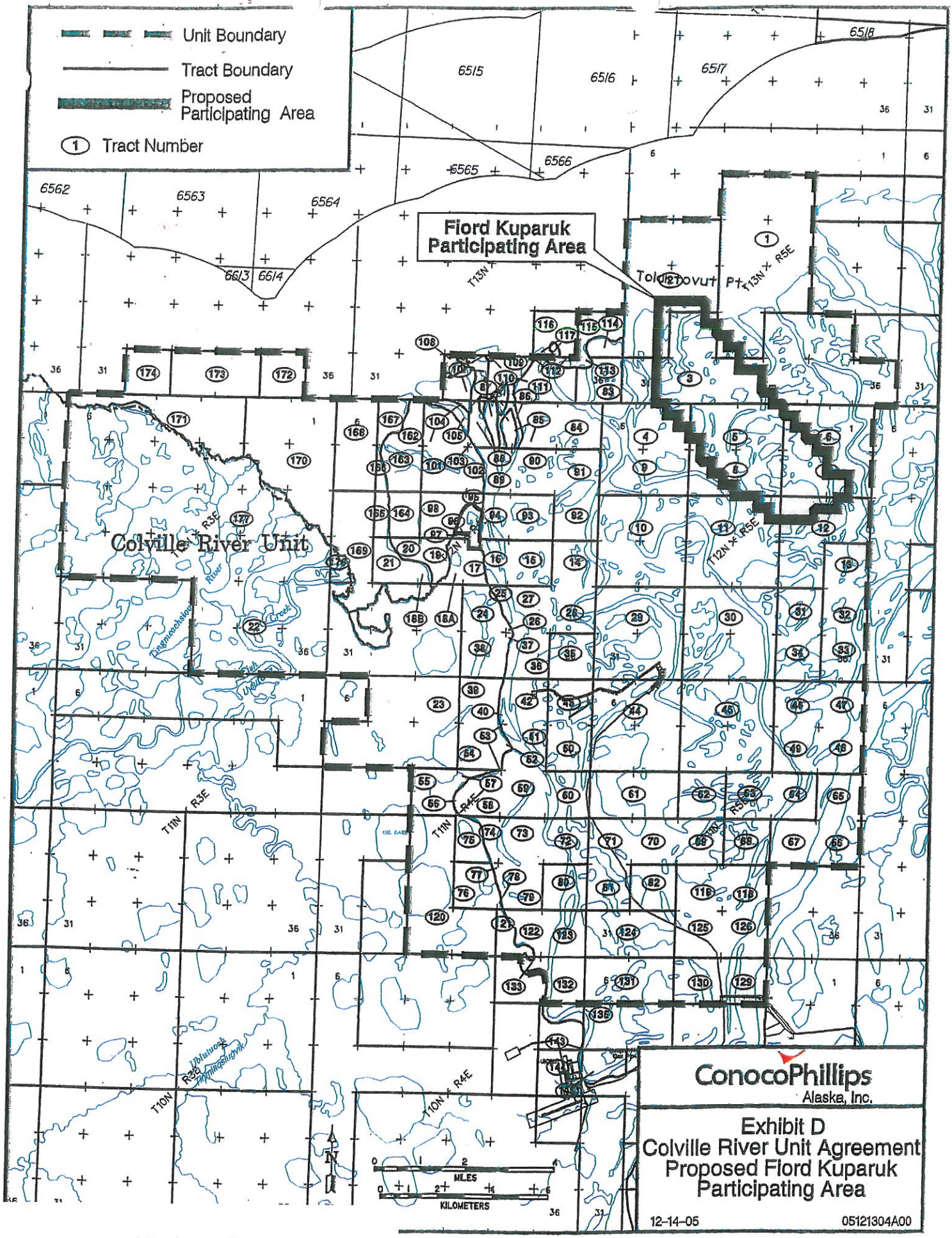
Tr. No.	ADL No./ AK No./Tobin No.	Legal Description	Acres	DEPTH Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	WI Working Interest (%)	Tract Allocation
1	364472 4544 931986	T13N,R5E-U.M. S1/2SW1/4, NW1/4SW1/4, of Sec. 28 TOTAL	<u>120.00</u> 120.00	Above 6,980'	12.5	30	CPAI APC	78.000000 22.000000 100.000000	.000183430
				Below 6,980'	12.5	30	CPAI APC	78.000000 22.000000 100.000000	
2	364470 4479 931974	T13N,R5E-U.M. SE1/4SE1/4 of Sec. 19, SW1/4SE1/4, S1/2SW1/4, of Sec. 20 E1/2E1/2 of Sec 30 TOTAL	40.00 120.00 <u>160.00</u> 320.00	None	12.5	30	CPAI APC	78.000000 22.000000 100.000000	.000074720
3	364471 4480 931976	T13N,R5E-U.M. S1/2, NW1/4, S1/2NE1/4, NW1/4NE1/4 of Sec. 29 E1/2E1/2 of Sec. 31 All of Sec. 32 S1/2, NW1/4, S1/2NE1/4 of Sec. 33 SW1/4SW1/4 of Sec. 34 TOTAL	 600.00 160.00 640.00 560.00 <u>40.00</u> 2000.00	None	12.5	30	CPAI APC	78.000000 22.000000 100.000000	.385163750

Tr. No.	ADL No./ AK No./Tobin No.	Legal Description	Acres	DEPTH Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	WI Working Interest (%)	Tract Allocation
4	372105 4556 932002	T12N,R5E-U.M N1/2NE1/4, SE1/4NE1/4 of Sec. 5 TOTAL	 120.00 120.00	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	.00000000
5	372104 4555 932000	T12N,R5E-U.M. All of Sec. 3 N1/2, N1/2S1/2, S1/2SE1/4, SE1/4SW1/4 of Sec. 4 TOTAL	 640.00 600.00 1240.00	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	.330860980
6	372103 4554 931998	T12N,R5E-U.M. SW1/4, SW1/4NW1/4, SW1/4SE1/4 of Sec. 2 TOTAL	 240.00 240.00	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	.094796100
7	372103 4554 931998	T12N,R5E-U.M. All of Sec. 11 SW/14 of Sec. 12 TOTAL	 640.00 160.00 800.00	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	.118076760
8	372104 4555 932000	T12N,R5E-U.M. All of Sec. 10 NE1/4, NE1/4NW1/4, NE1/4SE1/4, of Sec. 9 TOTAL	 640.00 240.00 880.00	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	.070742520

Tr. No.	ADL No./ AK No./Tobin No.	Legal Description	Acres	DEPTH Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	WI Working Interest (%)	Tract Allocation
11	372107 4558 932006	T12N,R5E-U.M. E1/2NE1/4, NW1/4NE1/4, of Sec. 15 TOTAL	 120.00 120.00	Above 8,500'	12.5		CPAI APC	78.000000 22.000000 100.000000	.00000000
12	372106 4557 932004	T12N,R5E-U.M. NW1/4NW1/4 of Sec. 13 NW1/4, N1/2NE1/4, SW1/4NE1/4 of Sec. 14	 40.00 280.00 320.00	Above 8,500'	12.5		CPAI APC	78.000000 22.000000 100.000000	.000101740
		TOTAL PA ACRES	**6,160.00**						

KEY:

CPAI: ConocoPhillips Alaska, Inc.
APC: Anadarko Petroleum Corporation



Attachment 2

Fiord Nechelik Participating Area Tract Participations

Tr. No.	ADL No./ AK No./ Tobin No.	Legal Description	Acres	Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	Working Interest (%)	Tract Allocation
1	364472 4544 931986	T13N,R5E-U.M. SW1/4, S1/2SE1/4, NW1/4SE1/4 of Sec. 21 All of Sec. 28 TOTAL	 280 640 920	Above 6,980'	12.5	30	CPAI APC	78.000000 22.000000 100.000000	0.08146354
				Below 6,980'	12.5	30	CPAI APC	78.000000 22.000000 100.000000	
2	364470 4479 931974	T13N,R5E-U.M. SE1/4, S1/2SW1/4, NE1/4SW1/4 of Sec 19 S1/2 of Sec 20 All of Sec. 30 TOTAL	 278.54 320 636 1234.54	None	12.5	30	CPAI APC	78.000000 22.000000 100.000000	0.04517447
3	364471 4480 931976	T13N,R5E-U.M. W1/2W1/2, E1/2SW1/4, SE1/4NW1/4 of Sec. 27 All of Sec. 29 All of Sec. 31 All of Sec. 32 All of Sec. 33 W1/2 of Sec. 34 TOTAL	 280 640 639 640 640 320 3159	None	12.5	30	CPAI APC	78.000000 22.000000 100.000000	0.44109456
4	372105 4556 932002	T12N,R5E-U.M. All of Sec. 5 All of Sec. 6 TOTAL	 640 577 1217	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	0.10425397

Fiord Nechelik Participating Area Tract Participations

Tr. No.	ADL No./ AK No./ Tobin No.	Legal Description	Acres	Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	Working Interest (%)	Tract Allocation
5	372104 4555 932000	T12N,R5E-U.M. N1/2, N1/2S1/2, S1/2SW1/4, SW1/4SE1/4 of Sec. 4 NW1/4, N1/2NE1/4, SW1/4NE1/4, NW1/4SW1/4 of Sec. 3 TOTAL	 600 320 920	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	0.00686847
8	372104 ~~3721044~~ 4555 932000	T12N,R5E-U.M. NW1/4NW1/4 of Sec. 9 TOTAL	 40 40	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	0.00008856
9	372105 4556 932002	T12N, R5E-U.M. N1/2, SW1/4, N1/2SE1/4 of Sec. 7 NW1/4, N1/2NE1/4 of Sec. 8 TOTAL	 499.89 240 739.89	Above 10,350'	12.5		CPAI APC	78.000000 22.000000 100.000000	0.00358425
83	384215 4704 932084	T13N,R4E-U.M. All of Sec. 36 TOTAL	 597 597	None	16.667		CPAI APC Petro-Hunt	77.620000 22.000000 0.380000 100.000000	0.11157699
84	380092 4619 9380092	T12N-R4E, U.M. All of Sec. 1 TOTAL	 640 640	None	16.667		CPAI APC	78.000000 22.000000 100.000000	0.13720983
85	380092 4619 9380092	T12N-R4E, U.M. E1/2, E1/2W1/2 of Sec. 2 TOTAL	 480 480	None	16.667		CPAI APC	78.000000 22.000000 100.000000	0.03035176

Fiord Nechelik Participating Area Tract Participations

Tr. No.	ADL No./ AK No./ Tobin No.	Legal Description	Acres	Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	Working Interest (%)	Tract Allocation
90	25526 4712 932094	T12N-R4E,U.M. NE1/4, NE1/4SE1/4 of Sec. 11 TOTAL	 200 200	None	12.5		CPAI APC	78.000000 22.000000 100.000000	0.00393546
91	25526 4712 932096	T12N-R4E,U.M. All of Sec. 12 TOTAL	 640 640	None	12.5		CPAI APC	78.000000 22.000000 100.000000	0.02505330
92	25526 4712 932096	T12N-R4E,U.M. NE1/4NW1/4, NW1/4NE1/4 of Sec. 13 TOTAL	 80 80	None	12.5		CPAI APC	78.000000 22.000000 100.000000	0.00026327
111	389725 5332 932084	T13N,R4E-U.M. S1/2NE1/4, NE1/4NE1/4, NE1/4SW1/4, S1/2SW1/4, SE1/4, of Sec. 35, Unsurveyed, excluding tide and submerged lands seaward of the line of mean high water and channel closing line as shown on the official tract map for O&G Lease Sale 43 TOTAL	 363.96 363.96	None	16.667		CPAI APC Petro-Hunt	77.620000 22.000000 0.380000 100.000000	0.00520839

Fiord Nechelik Participating Area Tract Participations

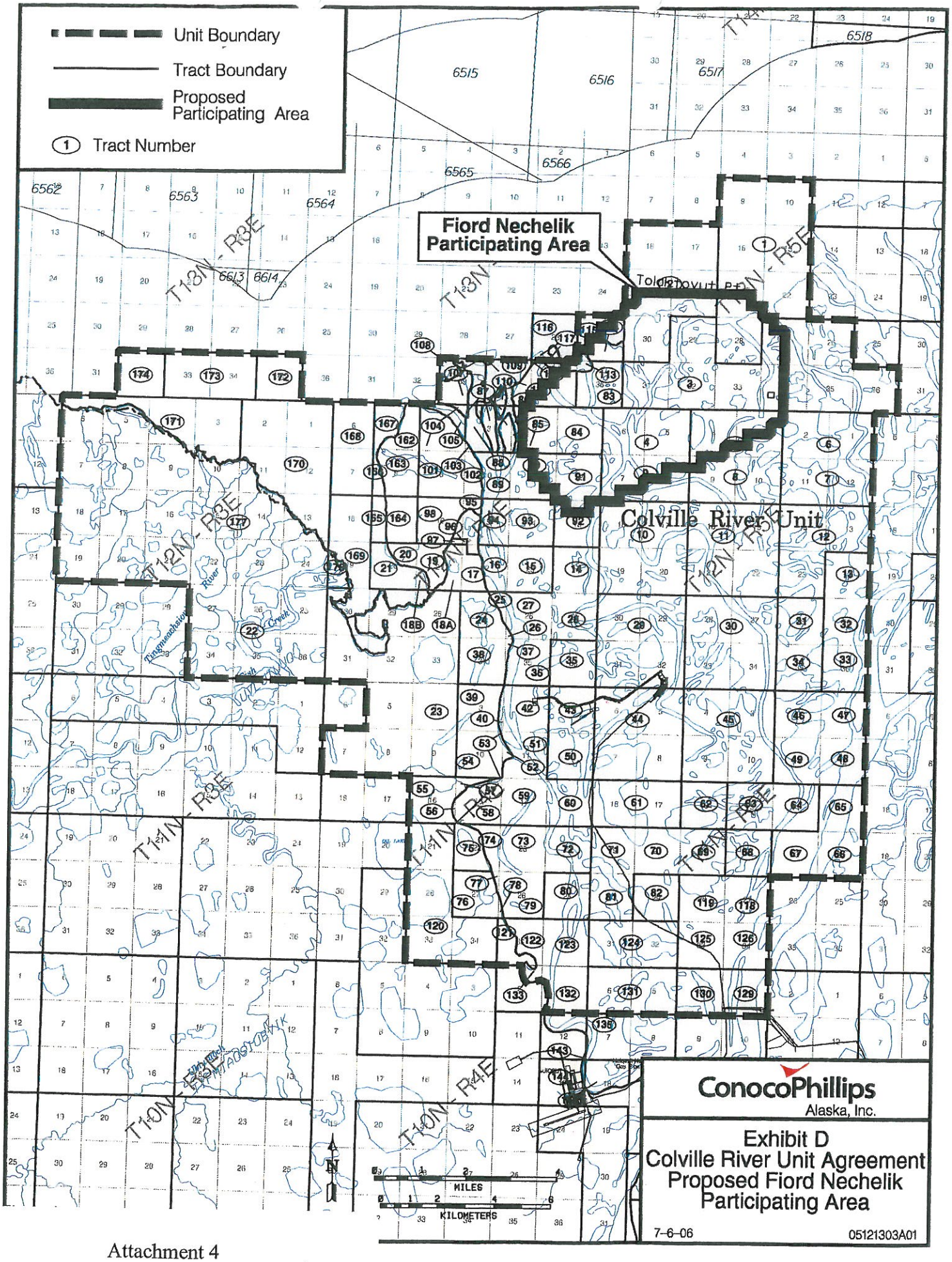
Tr. No.	ADL No./ AK No./ Tobin No.	Legal Description	Acres	Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	Working Interest (%)	Tract Allocation
112	388527 5233 932623	T13N,R4E-U.M. NE1/4NE1/4 of Sec. 35, Unsurveyed, tide and submerged lands seaward of the line of mean high water and the channel closing line as shown on the official tract map for O&G Lease Sale 75A dated June 17, 1993 TOTAL	 36.04 36.04	None	16.66667		CPAI APC	78.000000 22.000000 100.000000	0.00000000
113	388527 5233 932623	T13N,R4E-U.M. All of Sec. 36, Unsurveyed, All tide and submerged lands seaward of the line of mean high water and the channel closing line as shown on the official tract map for O&G Lease Sale 75A dated June 17, 1993 TOTAL	 43 43	None	16.66667		CPAI APC	78.000000 22.000000 100.000000	0.00014128
114	389725 5332 932084	T13N,R4E-U.M. SE1/4, E1/2SW1/4, SW1/4SW1/4 of Sec. 25, excluding tide and submerged lands seaward of the line of mean high water as shown on the official tract map for O&G Lease Sale 43 TOTAL	 189.6 189.6	None	16.667		CPAI APC Petro-Hunt	77.620000 22.000000 0.380000 100.000000	0.00372005

Fiord Nechelik Participating Area Tract Participations

Tr. No.	ADL No./ AK No./ Tobin No.	Legal Description	Acres	Depth Restrictions	Original Royalty (%)	NPSL (%)	Tract Owners	Working Interest (%)	Tract Allocation
115	388527 5233 932623	T13N,R4E-U.M. NE1/4NE1/4, S1/2NE1/4, N1/2SE1/4 NE1/4SW1/4, S1/2SW1/4 of Sec. 25, Unsurveyed, tide and submerged lands seaward of the line of mean high water as shown on the official tract map for O&G Lease Sale 75A dated June 17, 1993 TOTAL	<u>210.4</u> 210.4	None	16.66667		CPAI APC	78.000000 22.000000 100.000000	0.00001185
		TOTAL PA ACRES	**11710.43**						1.00000000

KEY:

CPAI: ConocoPhillips Alaska, Inc.
APC: Anadarko Petroleum Corporation
Petro-Hunt: Petro-Hunt, LLC



Attachment 4

ATTACHMENT 5

ConocoPhillips and the other CRU Working Interest Owners (WIOs) agreed to the following terms and conditions to retain the Fiord Expansion Area lands, as described in Section A.3. of the November 8, 2002, Second Expansion Decision, within the CRU.

1) The WIOs shall make lease payments to retain the Fiord Expansion Area lands to the State and ASRC in the amount of $38,595.15 and $15,597.14, respectively, by August 1, 2006, and $81,418.27 and $59,696.25, respectively, by August 1, 2007. The WIOs have made the 2006 payment. The 2007 payment is not subject to the provisions of 3, below.

2) The WIOs shall make a payment of $25.00 per acre on August 1, 2008, for each acre of Fiord Expansion Area land not included a Fiord PA by that date. The WIOs shall make a payment of $36.00 per acre on August 1, 2009, 2010, and 2011, for each acre of Fiord Expansion Area land not included a Fiord PA by those dates.

3) The WIOs may voluntarily contract Fiord Expansion Area land from the CRU on a tract-by-tract basis. Any tracts contracted before July 1 of a given year, beginning in 2007, will result in payment reduction on an acreage basis for the following year (e.g., any tracts contracted before July 1, 2007, would result in a payment reduction on an acreage basis on the August 1, 2008, payment date). Otherwise, annual payments will be due under 2, above, for the Fiord Expansion Area lands retained within the CRU, but not included within a Fiord Participating Area.

4) The Division approves a deferral, until August 1, 2011, of the ten-year automatic contraction required under Section 12.2 of the CRU Agreement for the Fiord Expansion Area lands.

5) If the WIOs fail to timely make the payments required, above, any Fiord Expansion Area lands not included in a Fiord PA on the date that a payment is due will automatically contract from the CRU.