



PACIFIC ENERGY

Lt. Governor Sean Parnell
State of Alaska
550 W. 7th Avenue, Suite 1700
Anchorage, AK 99501

May 16, 2008

Commissioner Thomas Irwin
Department of Natural Resources
550 W. 7th Avenue, Suite 1400
Anchorage, AK 99501



RE: Corsair Unit Expansion Application
Appeal of Director Bank's Decision and Request for Reconsideration

Dear Lt. Governor Parnell and Commissioner Irwin:

In accordance with 11 AAC 02, Pacific Energy Alaska Operating LLC ("PEAO") and its parent, Pacific Energy Resources Ltd. ("PERL") (which companies are sometimes referred to collectively as "Pacific") hereby appeal the decisions of the Director of the Division of Oil and Gas (Division), dated April 30, 2008, regarding the Expansion Application for the Corsair Unit (Corsair) and Plan of Exploration (POE). PERL is the operator of Corsair and had requested the Expansion of the Corsair Unit, simultaneously offering an amended POE. The Director denied the request. A copy of Pacific's request to the Director and the Director's letter to Pacific denying its request are attached and incorporated into this appeal. At the time of the submission of the Corsair Unit Expansion Application, Pacific submitted extensive geological and geophysical (G&G) interpretations, structure maps, seismic data, well logs and evaluations to the Division in support of the Application. This G&G information is held confidentially by the Department of Natural Resources (DNR), pursuant to AS 38.05.035, and is hereby incorporated into this appeal by reference. Pacific hereby requests that all previous confidential data submitted to the Division concerning the Corsair structure remain confidential.

The subject leases of the existing Corsair Unit are ADL's 389196, 389197, 389198 and 389515, totaling approximately 10,185 acres. The requested northern expansion leases are ADL's 389513 and 389514, totaling approximately 5,082 acres. The requested southern expansion leases are ADL's 389507 and 389923, totaling approximately 11,464 acres.

The main points, among others, for this Appeal are as follows:

1. The Division did not fully consider the merits the Unit Expansion Application and the benefits to the State of Alaska and the public in its negotiations. Such actions by the Division were severely prejudiced Pacific Operating Alaska, LLC and Pacific Energy Resources, Ltd.

2. The determination by the Division that the Proposed Amended POE was an “unacceptable delay” in the drilling of the unit’s resources is erroneous. Rather, the Proposed Amended POE represents an acceleration in the drilling of the unit’s resources.
3. The assumptions and conclusions made by the Division regarding the “warehousing” of leases are incorrect. The prejudicial and predetermined nature of the Division’s Decision did not allow for the full consideration of the Expansion Application and appeared to have been written for the sole purpose of using the Decision to fortify its position taken in other pending litigation.
4. The determination by the Division that having the subject expansion leases available in the May 2009 lease sale would allow the leases to be drilled sooner and thereby conserve resources is incorrect. Rather, it would be impossible for the subject acreage to be drilled sooner on a lease-by-lease basis. The more prudent approach would be to permit the unitization of the total Corsair structure and resource, thus allowing all acreage to be made a part of a comprehensive exploration and development plan.
5. The Division’s failure to unitize the entire reservoir works against the primary goal of conservation of all or part of an oil and gas. The fragmentation of the Corsair structure into unitized and non-unitized parcels with different working interest owners would ultimately result in a waste of both economical and physical resources.
6. The Division’s conclusion that the State’s and public’s best interest would be served by having the expansion leases expire and become available for releasing by any potential high bidder, rather than preserving the Corsair structure and resource as a whole, operated by a single working interest owner is erroneous.
7. The Division failed to fully consider the protection of all parties of interest, including that of Pacific and the south central natural gas consumer, especially as it relates to the overall economics of bringing a jack-up drilling rig into the Cook Inlet for not only exploration of the Corsair structure, but the exploration of other offshore prospects and the step-out development drilling of the existing offshore platforms and their respective declining production and reserves.
8. The Division’s Decision overlooks the technical, geological and geophysical information, as verified and supported by the Division’s Resource Evaluation staff, as well as the economical and commercial aspects of the proposed Corsair exploration and development plans.
9. Denial of the Corsair Unit expansion is not in the best interest of the State and damages Pacific’s capital investment in the Unit and the interpretation, evaluation and delineation of the Corsair resource.

10. The only possible parties who would benefit from the denial of the expansion application would be the existing major Cook Inlet producers. By the Division's denial of the expansion application, it is limiting competition and allowing the continued control of the market by the major Cook Inlet producers.
11. The Division's failure to adequately evaluate the expansion application in accordance with the provisions of 11 AAC 83.303 severely jeopardizes PERL's ability to economically explore and develop the Corsair prospect. The Division's failure to fully consider the merits of application prejudices and damages PERL.

These points, as well as others, are discussed in further detail, and are elaborated on as they relate to their occurrence in the aforementioned Director's Decision.

I. DECISION SUMMARY, paragraph two, finding No. 1: Does not promote the conservation of natural resources. (page 3)

The Corsair structure, as delineated and presented to the Division's Resource Evaluation staff, indicated several intervals of productive hydrocarbon sands within the Sterling, Beluga, Tyonek and Hemlock formations. Unitization of the entire reservoir, especially by a single operator, will insure the most efficient exploration and production of the resources, and the greatest ultimate recovery from the Corsair reservoirs.

Without unitization of the entire Corsair structure, the resource could be fragmented into unitized and non-unitized parcels by multiple working interest owners, requiring needless negotiations, duplication of effort, and waste. Should the subject leases be acquired by another lessee, there is no assurance that that operator will have the necessary financial capabilities or access to the required offshore drilling equipment to explore and produce those portions of the reservoir, thereby wasting the natural resources.

As the Division is aware, unitization of leases ideally encompasses the minimum area necessary to encompass the entire geologic structure or reservoirs. By denying the proposed unitization of the subject leases, the DNR effectively promotes the waste of natural resources. Therefore, Pacific maintains that the Division erred in its finding that unitization of an entire geologic structure does not promote the conservation of natural resources.

I. DECISION SUMMARY, paragraph two, finding No. 2: Does not promote the prevention of economic and physical waste any more than non-unitized development of the individual leases. (page 3)

The proposed unitization of the expansion acreage into the Corsair Unit would guarantee the efficient exploration and evaluation of the entire Corsair structure. A single operator would then be able to drill and evaluate each well and determine the optimum location of each subsequent well.

Moreover, single operator of the entire Corsair structure can develop the resource systematically, using the same offshore drilling structure and technologies without the duplication of facilities and processes.

Should the expansion leases be acquired by another lessee on a lease-by-lease basis rather than as part of a unit, that lessee would be required to have its own offshore drilling equipment, drilling schedule, plans of exploration and development separate and apart from those of the Corsair Unit operator. This would result in the duplication of resources - staff, and production and transportation facilities. There is no assurance that such lessee's plans would either compliment or conflict with those plans of the Corsair Unit operator.

The Division's evaluation of the benefits and the shortcomings associated by non-unitization, as stated on page 5, paragraph three, of the Decision, and recognizes that:

"[u]nitization may lessen environmental risks by reducing redundant facilities. Lessees operate under a unit agreement that includes a plan of exploration or development covering the entire unit area rather than individual leases."

Non-unitized development would result in duplicative facilities and the unorganized development of the Corsair reservoirs. Without the unitization of the entire Corsair structure, by a single operator, the amount of economic and physical waste would be immense. Pacific maintains that the Division erred in its finding that unitization of an entire geologic structure does not promote the prevention of economic and physical waste, any more than non-unitized development (associated with unitized development) on the individual leases.

I. DECISION SUMMARY, paragraph two, finding No. 3: Does not provide for the protection of all parties of interest, including the state. (page 3)

At present, only two parties having a direct interest in the existing and the proposed expanded Corsair Unit: the State of Alaska and Pacific Energy Alaska Operating LLC, as lessee (Pacific Energy Resources Ltd., as unit operator). Other associated parties of interest include the public, the south central Alaska natural gas and gas-generated electrical consumers, adjacent lessees, and existing offshore oil and gas producers.

Pacific maintains that the Division did not adequately consider the protection of Pacific's interest. Pacific has expended approximately \$500,000,000 to acquire the assets of Forest Oil Corporation (Forest), preserving the Corsair leases, evaluating and mapping the Corsair reservoirs, and the acquisition of a suitable offshore drilling structure. Without the expansion acreage, Pacific loses the economic advantage, as well as the benefit of the bargain, that they purchased from Forest and acquired through its own diligence. Moreover, Pacific loses approximately two-thirds (2/3rds) of the Corsair structure and any potential revenue derived from the production of those resources.

Denying the expansion of the Corsair Unit to encompass the entire geologic structure and all potential reservoirs severely prejudices and damages the economic investment and proprietary position that Pacific has endeavored to gain. The denial of the Corsair Unit expansion and the DNR's proposed offering of the Corsair leases that contain approximately two-thirds (2/3rds) of the Corsair structure amounts to nothing less than a taking by the DNR, and the ultimate waste of hundreds of millions of dollars of investment by Pacific.

The State of Alaska places the interests of its citizens and other directly interested parties at risk as well. In denying the Corsair expansion application, the DNR jeopardizes the economic feasibility of the Corsair prospect as well as Pacific's ability to justify the delivery of the jack-up drilling rig to the Cook Inlet. If Pacific is only left with control of approximately one-third of the Corsair structure, it may not be economically feasible or prudent to invest the additional tens of millions of dollars required to secure and deliver the jack-up drilling rig to the Cook Inlet. Moreover, the State of Alaska and the south central consumers are damaged if the Corsair structure is not explored by Pacific. The State loses royalty and tax income, citizens lose potential jobs, and consumers may face higher natural gas prices. Unlike potential lessees who would not acquire leases until a lease sale could be completed, Pacific is immediately positioned and best suited to explore and develop the Corsair structure.

Any disruption of PERL's ability to deliver the contracted jack-up drilling rig to the Cook Inlet jeopardizes not only the exploration and production of the Corsair Unit structure. Such disruption threatens the exploration and production of the Kitchen Unit, the East Kitchen Unit, step-out development drilling for the existing Cook Inlet Platforms and associated reservoirs, and any new potential offshore exploration prospects.

The Decision recognizes that the Cook Inlet has not had a mobile offshore drilling structure in its waters for almost two decades. As a result, existing production from offshore platforms has declined dramatically, and offshore exploration has become stagnant. Portions of existing reservoirs currently served by existing offshore platforms are either unreachable by directional drilling or there is not sufficient space in the platform's legs to accommodate additional wells. A jack-up drilling rig could access these unreachable portions of the existing reservoirs and tie their production back to the existing platforms, thereby extending economic life of those platforms and providing the opportunity for greater recovery of the associated resources.

Without the inclusion of the Corsair expansion acreage and subsequent delivery of a jack-up drilling rig, as proposed by Pacific, the existing production from offshore platforms in the Cook Inlet will continue its decline to a point where it is uneconomical to continue operating the platforms, and those platforms will immediately become an economic and environmental liability to the State of Alaska. Additionally, without the inclusion of the Corsair expansion acreage and subsequent delivery of a jack-up drilling rig, there will be no offshore exploration or additional offshore production for what may be decades to come, resulting in continued decreased oil and gas reserves, gas shortages and higher consumer prices.

It is unlikely that another company, including the major operators in the Cook Inlet, will bring a jack-up drilling rig into the Cook Inlet in the near future. This is evidenced by both the recent history and lack of such an attempt by the majors in the past. The Division itself acknowledges this fact as follows:

Due to the significant capital investment required to bring a jack-up rig to the Cook Inlet, and the long lead time for scheduling a suitable heavy lift vessel for transport of the rig, it is unlikely that multiple jack-up rigs would be delivered to the Cook Inlet. Indeed there has not been a jack-up drilling rig in the Cook Inlet since the early 1990's. (Decision, page 5, paragraph 4.)

By the denial of the Corsair expansion application, the State of Alaska risks the loss of potentially billions of dollars in royalties and taxes, increased employment opportunities, trickle-down income to hundreds of other Alaskan business, and other types of income and income-generating opportunities. The State would also incur the continued decline in production and eventual shut-down of the existing offshore production platforms and increased economic and environmental liabilities. This decision is surely not in the best interests of the State of Alaska, the existing offshore producers, the Cook Inlet natural gas industrial users and consumers, and the people of Alaska in general.

In summary, the denial of the Corsair Unit Expansion Application results in 1) the waste of natural resources in general, not confined to only the Corsair prospect; and 2) the specific economical and physical waste of the Corsair resources as well as others. Moreover, it jeopardizes the interests of PERL, the other offshore producers, the State of Alaska, the Cook Inlet gas industrial users, the south central and rail belt natural gas and natural gas-generated electrical consumers, and the people of Alaska in general.

IV. DISCUSSION OF DESIGN CRITERIA, A., 1. Environmental Costs and Benefits of the Expansion, paragraph four, which reads: (page 5)

In order to drill any exploratory wells in the existing unit or the proposed expansion area PERL must use a rig capable of drilling offshore without a platform, i.e. a so-called jack-up rig. Under the Initial POE, PERL has committed to drill a well by June 30, 2009 within the existing Corsair Unit regardless of unit expansion. Unit expansion will not decrease the need for such a drill rig.

The Initial POE was negotiated by PERL's predecessor Forest Oil Corporation (Forest). Upon acquisition of Forest's assets and associated contractual obligations, it became clear to PERL that Forest did not adequately interpret the Corsair structure, did not make any efforts in obtaining a jack-up drilling rig, and therefore could not have met the pre-existing obligation of drilling a well by December 31, 2008. PERL's first priority was to evaluate the reality of having a drilling rig delivered to the Cook Inlet and the earliest date that a well could subsequently be drilled. This was the basis for requesting that the Division revise the drill-by date to June 30, 2009.

The second priority was to fully examine, delineate and evaluate the Corsair Structure and the economics of bringing a jack-up drilling rig to the Cook Inlet. It became apparent to PERL that the reason Forest did not make any attempts to acquire or deliver a drilling rig to the Cook Inlet was because the existing reservoir, as they knew it, was not adequate to support the economics of rig acquisition and delivery.

With the acquisition of additional seismic data and further interpretation and evaluation, PERL determined that the Corsair structure, having multiple reservoirs, extended considerably further than the existing unit boundaries. After this evaluation by PERL (which was not completed until after the renegotiation of the aforementioned drill-by date), PERL determined that the economics for obtaining a jack-up drilling rig were sufficient if the entire Corsair structure was included in the exploration and development.

Although unit expansion will not decrease the need for a jack-up drilling rig to meet the contractual obligations of the June 30, 2009 POE drill-by date, PERL maintains that without the inclusion of the expansion acreage it is uneconomical to acquire and deliver the drilling rig. PERL agrees with the Division's determination that unit expansion will not decrease the need for such a drilling rig [for the entire Cook Inlet, in general]. However, the Division's denial of the Corsair Unit Expansion jeopardizes PERL's ability to acquire and deliver such a drilling rig. That Decision not only purposefully forces the ultimate default of the Corsair Unit, but delays any near-future offshore exploration or development throughout the Cook Inlet. The Division offers no viable economic alternative to get the Corsair acreage drilled by a party other than PERL.

Therefore, PERL maintains that the Division's determination that the approval of the Corsair Unit Expansion Application has no additional benefits is contradictory and flawed.

IV. DISCUSSION OF DESIGN CRITERIA, A., 2. The Geologic and Engineering Characteristics of the Reservoir and Prior Exploration Activities of the Corsair Unit Area; Corsair Expansion Prospect, which reads, in part: (page 7)

"The Corsair prospect is the large NNE-SSW trending doubling plunging, SRS anticline with four-way dip closure. ... The structure is approximately 2.5 miles wide and 9 miles long. ... The seismic data over the Corsair Prospect demonstrates four way closure through the entire Tertiary section.

The Corsair Unit as currently configured contains two types of hydrocarbon prospects. The primary target consists of Sterling and Beluga sands; a secondary target is the deeper Tyonek Oil Sands. In the acreage under consideration for expansion (both northern and southern leases) only a single hydrocarbon target is viable, the Tyonek oil sands. Maps provided by PERL show the expansion acreage underlain by oil-bearing sandstones of the Tyonek Formation. ..."

According to the Division's Resource Evaluation staff, PERL is correct in its assertion that the Corsair structure extends beyond the existing boundaries of the Corsair Unit. Indeed, it is agreed that the structure is 2.5 miles wide and 9 miles long, extending into both the northern and southern expansion acreages. In PERL's interpretation and evaluation of the structure and the multiple reservoirs, it was determined that it was the deeper Tyonek oil-bearing sandstones that made the prospect economically viable to drill. PERL also believes that there are potential gas traps in the expansion acreage as well, not indicated by the Resource Evaluation staff. Confirmation of either the existence or the absence of additional gas resources in the expansion acreage cannot be determined until after actual wells are drilled in that acreage.

Additional evaluations have recently been completed on the Corsair Prospect which further quantifies the value of the expansion acreage, relative to the entire Corsair prospects economic viability. The Corsair Structure Resource Evaluation prepared by Gaffney, Cline & Associates, Inc., renowned internationally recognized technical and management advisors to the petroleum industry, was been completed on May 7, 2008 for PERL. This Evaluation is attached for your review and is requested to be held confidentially, pursuant to AS 38.05.035.

Review of the aforementioned Evaluation agrees with the determination of the Division's Resources Evaluation staff: it is the larger Tyonek reservoir that determines the Corsair prospects' economically viability. Without the expansion acreage, containing approximately two-thirds of the Tyonek reservoir, PERL believes the Corsair prospect will not be economically viable and will likely not be able to justify the acquisition and delivery of the jack-up drilling rig to the Cook Inlet. Without the jack-up drilling rig, the Corsair Prospect, as well as many others, will not be explored or produced. Neither PERL nor the State will benefit if this happens.

It is curious that notwithstanding its Decision to the contrary, the Division has supported PERL's conclusion that the geologic and engineering characteristics of the Corsair structure extend into the Corsair Expansion leases, and without those expansion leases a significant portion of the Corsair prospect will be lost.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, paragraph one, which reads, in part: (page 7)

The Corsair Unit Initial POE required, among other things, that PERL submit a satisfactory drilling rig contract by December 31, 2007(attachment 5). PERL did not fulfill this commitment. On December 31, 2007, the Division notified PERL that the unit was in default and granted PERL a 90-day period, until April 1, 2008, to cure the default or the Unit would terminate. Effective April 1, 2008, the Division approved PERL's default cure, subject to the conditions set out in the Division's April 1, 2008, default cure decision. (Attachment 4). On January 29, 2008, the Division also granted PERL a six-month extension, until June 30, 2009...

PERL did not acquire the Corsair leases until August 2007. The DNR did not approve PERL as the Successor Unit Operator to Forest until November 27, 2007. This gave PERL only 34 days to meet the obligations of December 31, 2007, as stated above. To characterize this as situation of not fulfilling the obligation that PERL inherited from Forest is unfair and displays an unfavorable attitude and biased opinion towards PERL by the Division, which is prejudicial and unjustified.

Prior to the Division's issuance of the Notice of Default, mentioned above, PERL had several lengthy conversations and meetings with the Division, explaining the hardship of meeting those commitments in just 34 days after being recognized as Operator of the Corsair Unit. PERL offered a variety of options and alternatives to prevent the default of the Unit. The Division denied all proactive attempts by PERL to keep the unit out of default, and instead issued the Notice of Default with proposed cures that were essentially the same as those offered by PERL in advance of the Default.

As soon as was practical, PERL fulfilled all the requirements of the POE, the requirements to cure the Notice of Default, and all requirements due to date in the amendments or extensions to the POE. PERL has acted with only the highest regard of the Division, has always negotiated in good faith, and has fulfilled all its obligations to date. All requested amendments, extensions and expansions requested have been justified as a matter of necessity in relation to the timing of the acquisition of Forest, its data and interpretations, and the Corsair Unit POE work commitments.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, paragraph two, which reads, in part: (page 7 to 8)

"PERL has proposed a Revised Initial POE (Attachment 3) as part of the Application, which provides for work commitments similar to those in effect under the Initial POE, as amended by the Division's decisions, but proposes extensions to the work commitment dates.

In the Revised Initial POE, PERL proposes drilling three wells by December 31, 2009, extending the current June 30, 2009, requirement for the first well by six months. PERL neither requests an extension nor provides discussion of the justification to extend that requirement to December 31, 2009."

PERL did not specifically request an extension of the June 30, 2009 drilling commitment of the first well. Instead, PERL offered the drilling of an additional two wells within the same year. The proposed extension of the drilling date to December 31, 2009 is necessary to accommodate the time required to demobilize from the first well, move the rig to the second well location, rig-up and drill the second well, demobilize from the second well, move the rig to the third well location, and rig-up and drill the third well.

PERL was remiss in not adequately explaining the time required to drill the two additional wells and the additional time mandated by the addition of that work commitment. PERL anticipated that the Division staff would be knowledgeable of the drilling process and associated time involved. The six month extension to the 2nd year work commitment (within the same calendar year) is merely needed to allow for the drilling of two additional wells. Because of the time needed to drill and mobilize the jack-up drilling rig, it would be mandatory to have the first well drilled by June 30, 2009, in order to have the next two wells drilled and tested by December 31 of that same year.

A primary consideration in the extension of the drilling commitment date to December 31 is to allow PERL to utilize the entire drilling season. The Cook Inlet experiences ice-free periods from about April through November. Offshore exploration, due to the structural integrity of the jack-up rig's legs, must be limited to periods of ice-free water to avoid the possibility of damage. Utilizing the entire open water 2009 ice-free exploration window by PERL allows the opportunity for the jack-up drilling rig to become available for contracting out to other operators during the entire 2010 ice-free exploration window.

PERL believes the justification for the December 31, 2009 drilling commitment date was self evident. Moreover, the Division receives the benefit of data obtained from drilling two additional wells within the same year. Adding two additional wells accelerates the drilling and prospect delineation schedule. Each well will cost approximately \$20,000,000 to mobilize, drill, test, suspend and demobilize. The additional two wells bring approximately forty-million dollars more of activity and income to the State in the form of jobs and personal wages, supplies, taxes, income to support industry operations, and trickle-down revenue to hundreds of business.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, paragraph two and three, which reads: (page 8)

PERL proposes submitting an application for an initial participating area (PA) by December 31, 2010 – eleven months later than the submittal date, January 31, 2010, set out in the Initial POE.

The Initial POE proposed the drilling of a second exploration well during the fourth year of the POE, by January 31, 2011. The Revised POE, which proposes to drill three wells by December 31, 2009, proposes a drilling commitment date of December 31, 2011 for a fourth well. In both POE's, PERL commits to submit the necessary applications to obtain approvals to allow construction of pipelines and infrastructure to permit commercial production from the PA. Initial POE requires the submittals by January 31, 2010, the Revised Initial POE delays the submittal date to December 31, 2010.

As the Division has reiterated above, PERL proposed to drill the second well in the same year as the first well (year two) – instead of waiting until the fourth year to drill the second well. PERL had also proposed to drill a third well in that same year as well (year two). PERL had proposed the drilling of the fourth well in the fourth year, rather than just a second well in the fourth year.

PERL had extended that drill date eleven months to accommodate the additional time needed to evaluate the results of three wells instead of only one well (the addition of well #2 and well #3) drilled in the second year, and to plan for the most optimum location of the fourth well. The additional 11 months of time would also allow for any seismic verifications and re-evaluation in conjunction with the new well data that may be necessary after the drilling of those first three wells. For this same reason, stated above, the submission of the application for the initial PA and the construction of pipelines and infrastructure would also be needed to be extended eleven months, for evaluation and planning purposes.

In its proposed Revised Initial POE, PERL had committed to three wells in the second year - instead of only one, and a fourth well in the fourth year – instead of only a second well in the fourth year. This can in no way be construed as a delay in the development of the Corsair. The additional information to be gained by these two additional wells(which would be made available to the State), the increased activity in the Cook Inlet, the income to individuals and other business derived from this activity, and the overall benefits to the State and the people of Alaska must certainly justify and offset a delay in submitting PA and construction applications by only eleven months.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, last paragraph, which reads, in part: (page 8)

PERL proposes that the promise to drill multiple wells on the expansion leases justifies the expansion of the existing unit area and the extension of these leases beyond the primary term. The Operator has yet to drill the original Corsair Unit leases within the leases' primary terms. Approval of this proposed expansion, extending the primary term of the proposed expansion leases, amounts to warehousing of the proposed expansion lease acreage. ... The prospect described by PERL in the Application underlies the existing Corsair Unit as well as the proposed expansion leases. Delineation and production of the existing current leases is dependent upon fulfillment of the Initial POE obligations, securing contracts for the use and mobilization of a suitable rig, not upon unitization. (emphasis added)

The Operator, as stated by the Division staff above, has not drilled the original Corsair Unit leases within the leases' primary terms because the primary terms of those leases will not allow adequate time for PERL to contract and deliver a jack-up drilling rig to the Cook Inlet, let alone the actual time necessary for the drilling of the well.

That commitment was made before PERL acquired those leases from Forest. It was simply impossible for PERL to have acquired and delivered a jack-up drilling rig to the Cook Inlet before it had ownership of the leases. The Division had approved the extension of the original drilling commitment, made by Forest, for reasonable and just cause. For the Division to now use this as criteria to discredit the Operator is unfair and discriminatory.

The Division met with PERL several times throughout this process, and seemingly understood the dilemma the PERL was in upon its acquisition of Forest Alaska Operating LLC and the associated work commitments. The Division was receptive to PERL's suggested amendments and extensions to the work commitments in order to have a jack-up drilling rig delivered to the Cook Inlet which would renew the stagnant offshore exploration there. The Division approved, through whichever means deemed appropriate by the Division, all amendments and extensions necessary to allow PERL to timely explore and develop the Corsair prospect.

It is neither fair nor appropriate for the Division to use its own approvals of the modifications and extensions of the Corsair Unit work commitments as justification for denying the Expansion Application. Nor is it fair or appropriate for the Division to use its approvals in a derogatory manner against PERL's reputation and ability to perform as an Operator. As stated in IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, fourth paragraph, which reads, in part: (page 8)

The Initial POE approved with the Corsair Unit Formation Decision committed the Operator to drill a well within twenty three months after unit formation, by December 31, 2008. The state exchanged the value of re-leasing the soon to expire acreage for a promise that the original Corsair Unit Leases would be drilled within two years. Given the prolonged contracting and scheduling efforts required to bring a jack-up to the Cook Inlet, utilizing the leases under an approved Initial POE would result in production of a commercial resource, if found, sooner than allowing the leases to expire.

The criteria and rationale used by the Division to make the above determination for the formation of the Corsair Unit on January 31, 2007, makes the best case today for the inclusion of the expansion leases. With the inclusion of the expansion leases, the State obtains a promise to drill those leases within only 20 months of its proposed approval date of April 30, 2008. The original Corsair Unit required the leases to be drilled within 23 months of the unit approval, the expansion application provides an acceleration of that requirement by three months for the same number of wells.

The Division also recognized that the inclusion of leases under an approved POE would result in the commercial production of the resource sooner than if the leases were to expire and be re-leased. Further, even if the subject leases were re-leased in any upcoming leases sale, there is no greater guarantee that the leases would be drilled by another prospective lessee on a lease-by-lease basis, than the one that PERL is presently offering on a unitized basis.

The use of the term “warehousing” of leases is apparently being used as justification to support other actions that the DNR currently has pending before the Superior Court in the ExxonMobil appeal of the termination of the Point Thomson Unit and leases. PERL maintains that the actions of Exxon vis-à-vis the Point Thomson Unit and the situation faced by PERL regarding the Corsair Unit are readily distinguishable.

Exxon and the other working interest owners monopolized the Point Thomson leases for decades without fulfilling a single work commitment. The working interest owners had local access to the necessary drilling equipment throughout the entire term of the Point Thomson Unit. Exxon has received Division approvals for more than twenty amendments to its POE / POD.

PERL has had control of the Corsair leases for only five months. There is no locally available drilling rig equipped to drill offshore in Alaska. Moreover, PERL has received only one extension to its POE and is requesting the expansion leases to be included in the Corsair Unit to allow PERL to exercise a reasonable and justified opportunity to explore and develop the entire Corsair structure.

The term “warehousing of leases” is used to describe a process whereby a lessee holds acreage for an indefinite amount of time for some unknown future exploration or development activity. PERL intends to drill these expansion leases next year. This commitment is not warehousing. The expansion leases are necessary to make the exploration of the entire structure economically feasible.

Unlike the persistent inactions of the Exxon working interest owners, PERL’s actions and requests have been credible and in good faith. PERL has not endeavored to delay the efficient reservoir production. Since it acquired ownership of the former Forest leases and since its approval as Successor Operator of the Corsair Unit, PERL has made a diligent and sincere progress in its efforts to insure to the State practical and efficient reservoir production.

Further, unlike Commissioner Menge’s finding in the Exxon case, there has not been an unreasonable amount of time squandered in PERL’s actions to go forward with drilling activities in the Corsair Unit.

Inclusion of the expansion leases into the Corsair Unit is not a warehousing of leases. It is the prudent and reasonable addition of all leases that have the underlying contiguous Corsair structure to the existing Corsair Unit. For the Division to label this proposed action as warehousing is unjustified and prejudicial.

The only purpose that can possibly be served by the Division for making such a determination, is the Division’s ability to benefit from it as an example of alleged consistent behavior in other administrative proceedings.

As the Division has stated above, the Corsair prospect also underlies the expansion acreage. As with the existing leases, delineation and production of the expansion leases is dependent on the fulfillment of the proposed POE and securing the same contract for the use and mobilization of a suitable rig. PERL maintains that the delineation and production of the expansion leases is, therefore, dependent upon unit formation. Additionally, the economic viability of the existing current leases within the approved Corsair Unit is also dependent on the unitization of the expansion leases. Without the inclusion of the expansion leases in the Unit, the prospect will not be economical.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, second paragraph, which reads, in part: (page 9)

If the expansion is not approved, the leases will expire and the acreage will be available in the May 2009 Cook Inlet Areawide Lease Sale. Provided PERL fulfills the commitment in the Initial POE, a jack-up rig will be working in the Cook Inlet by June 30, 2008. At that time PERL or any other successful bidder will have the opportunity to contract for the rig and conduct exploration and delineation drilling on any offshore lease. If the rig does not arrive, then no drilling by any party will occur on any offshore leases, regardless of unitization.

The assumption and determination by the Division that should the leases expire they will be available in the May 2009 lease sale is erroneous for two reasons:

Firstly, the upcoming May 2009 Cook Inlet Areawide Lease Sale requires a new ten-year Best Interest Finding (BIF). This process is cumbersome and often fraught with delays. In fact, the ten-year Preliminary BIF for the North Slope Areawide Lease Sale was due March 2008, and it is still pending. Once the Preliminary BIF is issued, it requires a 90-day public noticing period and an additional 30 days for information requests and responses. The Final BIF must be approved and issued 90 days prior to any lease sale date.

This entire process takes a minimum of seven-months to complete after the Preliminary BIF is drafted and published. The Preliminary Cook Inlet BIF is scheduled for July 1, 2008 in order to make the May 2009 Lease sale date. It is very likely the Final BIF will not be issued in time for the May 2009 lease sale. Once the Preliminary BIF is issued, litigation by special interest groups and obstructionist organizations often follows in attempts to stall the process. This is not an unusual occurrence in the BIF process. For these reasons, the May 2009 lease sale will likely be postponed.

Secondly, it has historically taken as long as a year to issue the leases after a lease sale. This lag time is due to the Division's work load and decision to do the necessary title work on the leases only after an acceptable bid has been received. As a result, even if the expansion acreage were to expire and be available in the May 2009 lease sale, further assuming it was held on schedule, the leases would likely not be issued until April of 2010.

Given the amount of time it would take to then evaluate and select a drilling location, formulate a drilling plan, and obtain permits, drilling in these leases would not occur until sometime in 2012. This would be a year after PERL's current proposal to have a fourth well drilled.

PERL reminds the Division that even if the May 2009 lease sale were held on schedule and the Unit expansion were approved, if PERL did not supply the Division with a signed contract for the heavy lift vessel to transport the jack-up rig to the Cook Inlet by July 31, 2008, as required in the Corsair Unit Default Cure approved by the Division, the Unit would be in default and the leases would terminate and be available in time for the proposed May 2009 lease sale.

Therefore, the State would be in no better position in denying the expansion and having the leases expire than it would be in if it approves the leases and the unit POE is ruled in default on August 1, 2008 and the leases terminate. The ONLY difference to the State is that with the denial of the Unit expansion, the acreage becomes in an un-leased condition for twelve months, instead of only nine months with the expansion approval and default. In either scenario, the State would collect a penalty from PERL in the amount equal to \$35.00 per acre.

On the other hand, if the Expansion Application be approved and the July 31, 2008 commitment is met, the delivery of a jack-up drilling rig to the Cook Inlet would almost be a certainty, barring any unforeseen force-majeure situations. In this scenario, the State, PERL, the other offshore oil and gas producers and the south central Alaskan gas consumers would be the beneficiaries.

PERL maintains that the State has not convincingly demonstrated any damages or reasonable harm in its approval of the Expansion Application and giving PERL their earned right to explore and develop those leases.

Without the expansion acreage, it is unlikely that PERL will be able to economically justify the delivery of a jack-up rig to the Cook Inlet. Although, for the sake of argument, assuming the Expansion Application denial is upheld, and the leases expire, and PERL does bring a jack-up rig to the Cook Inlet, the Division's assumption that "*any other successful bidder will have the opportunity to contract for the rig and conduct exploration and delineation drilling of any offshore lease*" is in error and has no basis in fact. Should PERL bring a jack-up rig to the Cook Inlet, there is absolutely no guarantee that this rig will be available to any other operator other than PERL. In addition, there are no U.S. registered heavy-lift vessels capable of transporting a jack-up rig, so a foreign vessel must be utilized, requiring a Jones Act Waiver from the Dept. of Homeland Security. With the current war, upcoming change of Administration and lead time necessary, it is very unlikely another company could obtain such a waiver for several years to come.

The Division is correct in its statement that "If the rig does not arrive, then no drilling by any party will occur on any leases, regardless of unitization." This is exactly what the Division risks for the entire State by not approving the Expansion Application.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, third paragraph, which reads, in part: (page 9)

PERL acquired interest in the Corsair Unit with full understanding of the commitments and agreed to the terms and conditions of the Unit Agreement, which includes the initial POE, upon their acceptance of designation by Forest as the Successor Unit Operator, on November 27, 2007.

PERL acknowledges that this statement is true with the following caveat: PERL also recognized that the commitments contained in the Initial POE were in-fact impossible to meet and intended to request appropriate amendments to make such work commitments practical and feasible that once it acquired the Forest assets ..

Upon the approval by the Division of PERL as Successor Operator of the Corsair Unit, the Division was also fully aware that the work commitments contained in the Initial POE were impossible to meet. The Division knew or had a reasonable certainty of knowing that PERL would apply for such amendments to allow for the successful execution of the work commitments. The Division approved those reasonable and appropriate amendments through the use of Default Cures and Extensions with full understanding that it was in the State's best interest to allow PERL a fair and just opportunity to fulfill those commitments.

The Division has been a willing participant as the land owner and regulatory authority governing leases, lessees, and unit operations, during the entire process from the acquisition of the Forest assets to this application for this Unit Expansion. For the Division to now use PERL's acceptance as Successor Unit Operator and the Division's own approval of such designation as reason for denial of the Unit Expansion Application is neither fair nor consistent treatment of PERL by the Division.

IV. DISCUSSION OF DESIGN CRITERIA, A., 3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit, fourth paragraph, which reads: (page 9)

The Division has already granted a six month extension for the first well drilling commitment, which is now due on June 30, 2009. PERL must drill that well in Tract 1 or 3, which are in the original unit area. PERL now proposes to postpone that commitment by an additional six months, until December 31, 2009, and commits to drill two additional wells in the proposed expansion area, Tracts 6 and 7, within the same timeframe. The Division's April 1, 2008, decision imposed additional obligations on PERL, including obligations pertaining to the rig contract, which must be met by April 30, 2008, or the unit terminates and obligations pertaining to a heavy lift vessel, which must be met by July 31, 2008, or the unit terminates.

As previously stated, the Division's approval of the six month extension for the first well drilling commitment of June 30, 2009 was appropriate and justified. The Division consciously approved that extension with the full knowledge that it was essential for any chance of getting a jack-up drilling rig delivered to the Cook Inlet and having the well drilled. The only stipulation made by the Division in the extension approval was that PERL cure the April 1, 2008 default, which PERL did cure on March 14, 2008 with the Division's acceptance.

The commitment in the Initial POE, as extended, requires PERL to drill a well in either Tracts 1 or 3 by June 30, 2008. The Division is in error in the instant Decision concerning PERL's request of an additional six months extension to the commitment to drill the first well. The Division has misconstrued PERL's proposed commitment to drill an additional two wells by December 31, 2009 – within the same timeframe as the first well, as it pertains to the overall year-two work commitment – as an additional six month extension to the original first well.

The date of the Director's Decision denying the Expansion Application is April 30, 2008. However, the Division uses the language *"including obligations pertaining to the rig contract, which must be met by April 30, 2008, or the unit terminates"*. In fact, PERL had fulfilled that obligation on April 24, 2008, with the payment of the required non-refundable deposit of \$100,000 to Blake Offshore, LLC, which was followed up with an e-mail confirmation to the Division on April 25, 2008. The use of this language clearly after the fact of the fulfilled obligation indicates that the Decision was written several days in advance of its execution and relied on the assumption that such obligation would not be met.

There are two basic flaws apparent in this section of the Decision. First, since it is obvious that the Decision was written several days in advance of its issuance, the Division had adequate time to notify the applicant of its pending Decision and its rationale for denial. Such notice would have allowed PERL the opportunity to agree to any revision that might have made either the Expansion Application or the Revised Initial POE acceptable to the Division. Second, the Division's assumption that a work commitment would not be met and having written the Decision days in advance is arbitrary and not fair to PERL.

It is clear that the Division had no intention of approving the application soon after its submittal. This position taken by the Division prejudiced PERL by not allowing for either the fair and just evaluation of the Expansion Application, the non-biased, full consideration of the proposed work commitments, or the opportunity for PERL to discuss any alleged deficiencies with the Division prior to the Denial Decision. Further, by not informing the Applicant until the day of the leases' expiration, the Division effectively made it impossible for PERL to petition the Alaska Oil and Gas Conservation Commission (AOGCC) for compulsory unitization. PERL's right was only viable as long as the leases were in force. The Division could have in good faith notified PERL in advance of the April 30, 2008 issuance date that it intended to deny the Expansion Application, allowing PERL its right to timely petition the AOGCC for a satisfactory decision. The Division's deliberate delay in notifying PERL took away important rights, including the right to due process, and prejudiced and damaged PERL.

IV. DISCUSSION OF DESIGN CRITERIA, A., 4. The Economic Costs and Benefits to the State and Other Relevant Factors, which reads: (page 9)

Approval of the unit expansion as proposed postpones current commitments and delays development. Denial of the unit expansion application will result in the expiration of the leases. The leases will be available at the May 2009 Cook Inlet Sale. The competitive lease sale program provides opportunity to all potential lessees to acquire interest in acreage and to explore that acreage within the primary term of the lease.

As demonstrated above, the Division has made an erroneous determination that the approval of the expansion application will postpone commitments and delay development. To the contrary, PERL's Revised Initial POE accelerates the drilling of the Corsair resources by adding two additional wells within the same year work commitment which in-fact expedites the development. The denial of the Expansion Application actually postpones the drilling of additional wells in the expansion acreage and delays the development, if not cancelling it all together, within the Corsair prospect.

To reiterate, the expired leases may or may not be available in May 2009 for a lease sale. By allowing the expiration of the Corsair expansion leases, and having them available to any potential lessee (other than PERL), the Division essentially gives that potential lessee an unearned interest in the Corsair reservoir, for nothing more than the highest bonus bid. This would be an unfair advantage propagated by the Division in favor of the new lessee and at the expense of and to the detriment of PERL. Should another lessee acquire these expired leases in any subsequent lease sale, there is absolutely no guarantee that that lessee will be able to either deliver its own jack-up rig to the Cook Inlet or contract for PERL's jack-up rig, if any, within the primary term of their leases. This is an erroneous assumption on the part of the Division.

By requiring PERL to competitively bid on acreage in which it has already demonstrated a hydrocarbon prospect, the State would receive an unjustified windfall in bonus bid revenue in order to insure PERL obtains such leases back. This forced re-leasing requirement is an unfair enrichment of the Division. The Division is charged with acting in the best interests of the State, the public and the Alaskan businesses, including PERL. The denial of the Corsair Unit Expansion and the resultant expiration of the leases is a taking by the Division and severely prejudices and damages PERL.

Further, the ability of the Division to "take back" the leases proposed for the unit expansion because it has the ability to re-lease the leases in a subsequent lease sale and provide an opportunity for other potential lessees to acquire those leases is not a justifiable reason for denying the unit expansion and facilitating the expiration of leases that contribute to an identified hydrocarbon deposit. In doing so, the Division is displaying blatant prejudicial treatment against PERL, and is ignoring standard leasing and unitization processes which have been established and employed industry-wide throughout the State's oil and gas leasing history.

IV. DISCUSSION OF DESIGN CRITERIA, B., 1. Promote the Conservation of All Natural Resources. (page 10)

PERL has demonstrated repeatedly that the unitization of the expansion leases will promote the conservation of not only the Corsair resources, but virtually all of the Cook Inlet offshore resources. Without the inclusion of the expansion leases, which contain approximately two-thirds of the Corsair structure, it is not economically feasible for PERL to bring a jack-up rig to the Cook Inlet. Without a jack-up drilling rig, none of the Corsair leases, as well as other leases, units and existing productive reservoirs, will be explored, produced, or enabled to have step-out development drilling. The Denial Decision actually causes a waste of natural resources and forces production from the existing offshore platforms to continue to decline and stagnate.

Further, the Division has not proven that the unitized operation of the Corsair expansion leases would in any way detract from the conservation of all natural resources. Accordingly, without substantial proof to the contrary, the Division must allow PERL the benefit of the doubt in its assertion that unitization of the Expansion acreage will promote the conservation of Natural resources. Therefore, the Corsair Unit Expansion, in and of itself, promotes the conservation of ALL hydrocarbon resources in the offshore area of the Cook Inlet.

V. DISCUSSION OF DESIGN CRITERIA, B., 2. The Prevention of Economic and Physical Waste. (page 10)

PERL has expended several millions of dollars in the acquisition and interpretation of the resource delineated under the existing Corsair Unit and the Expansion Area Leases. The Division's Resource Evaluation Staff has repeatedly acknowledged that the Corsair Structure extends under the existing Corsair Unit and the Expansion Area Leases. Unitization of the expansion leases insures a single unified reservoir management plan and the maximum ultimate recovery of the Corsair resource.

There have been several wells drilled in the past by other operators that were used to assist in the interpretation of seismic data and to evaluate and delineate the Corsair structure. Should the expansion leases remain expired and be re-leased by another operator, that operator would have to re-evaluate any available seismic data and well logs, identify their prospect, prepare their own exploration and development plan, drill its own wells and establish its own production and transportation facilities. This would clearly and ultimately result in a redundancy in facilities, operations and expenditures that would result in economic waste.

Further, separate management plans and facilities by different operators would result in poor exploration and ultimate recovery of the Corsair structure, resulting in a physical waste of the resource. Without a unified exploration and reservoir management plan, there is no way for multiple operators to insure the maximum ultimate recovery from the entire resource.

Fulfillment of the first well commitment by June 30, 2009 is in fact dependent upon approval of the proposed unit expansion. Without those expansion leases, which have been identified to contain approximately two-thirds of the Corsair Structure, the existing Corsair Unit is uneconomical to explore and produce.

PERL should not be forced into reacquiring the expired leases in any future lease sale. PERL has demonstrated that the Expansion Leases contain a significant portion of the Corsair Structure, which when combined with the existing Corsair Unit leases, make the entire Corsair prospect economical. PERL has already expended enormous amounts of capital and company resources in the delineation of the Corsair Structure. Requiring PERL to bid on the acreage that it has already proven to contain a significant portion of the Corsair structure only facilitates economic waste and is prejudicial and damaging to PERL.

It is in the State's best interest for PERL to expend these monies on exploration and development, rather than the wasteful and unnecessary re-leasing of such prospect acreage.

VI. DISCUSSION OF DESIGN CRITERIA, B., 3. The Protection of All Parties of Interest, including the State. (page 10)

PERL is not at fault for not drilling either the existing Unit leases or the Proposed Expansion Unit leases. PERL did not acquire the leases until August of 2007, and did not obtain approval from the Division as Successor Operator until late November of 2007. Holding PERL responsible for its inability to drilling the leases during the leases' primary terms is unreasonable and unfair. PERL has made every diligent effort necessary, and continues to do so, in an effort to adequately explore and hopefully produce the Corsair resource, ultimately providing additional royalties and taxes to the State.

PERL is NOT using the unitization to merely extend the primary term and "warehouse" the leases as contended by the Division. This assumption, given the amount of information and data supplied to the Division, is grossly inaccurate and puts the exploration and development of the Corsair resources, as well as the exploration and development of other prospects, at risk. It is in the best interest of the State to approve the Proposed Unit Expansion, as the expansion acreage is critical to the economical exploration and development of the Corsair resources. Without the expansion leases, the prospect is uneconomical and PERL will not be able to justify the delivery of a jack-up drilling rig to the Cook Inlet.

If the DNR approves the proposed unit expansion, the State receives the opportunity of significantly greater revenues than it would from the releasing of the expansion acreage. Increased revenue is in the best interest of the State and the people of Alaska. Should the DNR require PERL to compete for the leases it has already acquired and paid for from Forest, it would severely jeopardize the financial position of PERL in the Corsair prospect. By the Division's denial of the Proposed Corsair Expansion, the Division essentially eliminates PERL's benefit of the bargain it obtained in the acquisition of those leases.

The State's interest is best served by promoting competition for acreage offered in lease sales. However, neither the interests of the State, nor PERL are served by removing significant portions of a prospect from the whole and making the entire prospect uneconomical or functionally difficult to explore and develop. It is in the State's best interest to keep a hydrocarbon prospect intact and undivided.

In the above-referenced section, the Division uses derogatory language inferring that PERL's performance has not been adequate, which is unfair and unwarranted:

"- promises given by a lessee that has not timely fulfilled its existing commitments."

This statement may indeed be applicable to Exxon and perhaps PERL's predecessor, Forest, but it is not indicative of PERL's performance and pursuit of the economical and reasonable exploration and development of the Corsair prospect, over which PERL has only had control during the past five months.

It is in the best interest of the public to expand the Corsair Unit, making the entire prospect and identified structure economical to explore and produce. PERL is not requesting the Division to extend these leases beyond their primary term based solely on promises to drill two wells, *despite the fact* that the Division approved the Existing Corsair Unit based solely on the promises to drill two wells. PERL had requested the Division to extend the leases beyond their primary term because those leases contained a significant portion of the Corsair structure, as identified and agreed upon by the Division's Resource Evaluation staff, which would provide for the ultimate economical viability of the entire prospect.

Again, in this section, the Division uses derogatory language unjustifiably stating that PERL's performance has not been adequate, which is unfair and unwarranted:

"... when PERL did not meet its drilling rig contract commitment and will not meet its original drilling commitment."

This statement exhibits little forethought and lacks any rational deliberation as to its basis. The ability to meet the drilling rig contract commitment within only thirty-four (34) days of being approved as the Successor Operator was an impossibility, a fact recognized by the Division in its proposed cure for the Unit default. Not being able to meet the original drilling commitment of December 31, 2008 was also recognized as an impossibility by both PERL and the Division, as evidenced by the Division's approval of the six-month extension to June 30, 2009. These extensions to the work commitments as approved by the Division were necessary and appropriate for the realistic acquisition and delivery of a jack-up rig and a manageable exploration schedule. The Division was fully aware of all the circumstances and contractual difficulties involved in obtaining those POE modifications and extensions, and approved them accordingly. Since the extensions were approved by the Division, the Division is precluded from using the former commitments as justification in its denial of the unit expansion application.

Therefore, these comments serve no purpose other than an attempt by their author to discredit PERL as a responsible Cook Inlet Operator. These statements are prejudicial and damaging to PERL's reputation and intentions.

As was identified in a previous sections above, the Division states:

In addition, it is not in the public interest to expand the Corsair Unit now, given the unit could terminate automatically on April 30 or July 31, 2008, or on June 30, 2009, if PERL fails to meet it [s] current obligation under the Initial POE, as amended by the Division's January 29 and April 1, 2008, decisions.

The fulfillment of the April 30th commitment was met on April 24th, with the payment of the required non-refundable deposit of \$100,000 to the Blake Offshore, LLC. The fact suggests that the Decision was written several days before it was rendered and delivered to PERL. This apparent delay in informing PERL of its pending Decision severely prejudiced PERL and unjustly took away PERL's ability to seek due process from the AOGCC.

The Division cannot use the suspected failure of an event yet to happen in the future as a basis for denying an action in the present. The Division was in error in its conclusion that it was not in the public's interest to expand the Corsair Unit, given that certain obligations in the future may not be met. The Division does not possess the ability to predict the future, nor the authority to make determinations based on the outcome of obligations yet to be known. This determination and conclusion by the Division is both arbitrary and capricious, and exhibits a unquestionable prejudice towards PERL as an Operator and PEO as lessee.

The Division failed to adequately consider the protection of all parties of interest including PERL, Escopeta Oil Company, LLC, Chevron Oil Company, and ConocoPhillips. By denying the Proposed Corsair Unit Expansion, the Division jeopardizes the economic viability of the exploration and development of the Corsair prospect.

The economic viability of the Corsair prospect is essential for PERL's ability to acquire and deliver a jack-up drilling rig to the Cook Inlet, in the near future. Without this jack-up rig, the exploration and production from the Kitchen and East Kitchen units become at risk. Without this jack-up rig, further step-out development drilling from the existing platforms become at risk as well as the continued acceleration towards the end of the economic life of those platforms. This is not in the best interest of any lessee or Operator in the Cook Inlet.

The Division also failed to adequately consider the protection of another party in interest, including Renaissance Oil Company (Renaissance). Renaissance contends and alleges that their adjoining acreage to the expansion leases may hold resources that are in communication with the Corsair prospect. Although this allegation has no basis of fact or relevance according to PERL's interpretation because any communication of resources has yet to be determined, the Division none the less has removed Renaissance's ability to pursue unit negotiations with PERL for inclusion in the Corsair Unit. This is not in the best interest of Renaissance.

The Division failed to adequately consider the protection of all interested parties, including the public, more specifically, the south central Alaskan consumers. With the denial of the expansion acreage, the Division jeopardizes the economic viability of the Corsair prospect. If the Corsair prospect is not economically viable, PERL will be unable to acquire and deliver the jack-up drilling rig to the Cook Inlet. Offshore exploration has been at a virtual stand still for the last two decades. Onshore exploration has declined significantly over the past three decades. As a result of this lack of exploration, no new reservoirs of any significant size have been discovered and the existing reservoirs are in a steep decline in production and reserves. The resultant lack of natural gas reserves has increased the cost of gas dramatically in the Cook Inlet, especially over the last five years. This cost increase has been absorbed by the south central consumer in the form of higher natural gas costs and higher natural gas-generated electricity costs.

Without the arrival of the jack-up rig in the Cook Inlet, no additional offshore exploration and no additional step-out development drilling from the existing platforms will occur. This will only contribute to the acceleration of higher natural gas costs and higher natural gas-generated electricity costs. This is not in the public's interest, nor in the south central Alaskan consumer's interest. By denying the Corsair Expansion Application, the Division is facilitating the increase in natural gas related costs in the Cook Inlet.

V. FINDINGS AND DECISION (page 11)

1. No Drilling has occurred within the primary term of the proposed expansion leases.

PERL did not have the ability to contract for a drilling rig, arrange for delivery of the drilling rig to the Cook Inlet nor drill the wells in either the Corsair Unit or the proposed expansion leases until after November 27, 2007, when the Division approved PERL as the Successor Unit Operator of the Corsair Unit. Both the Division and PERL recognized the onerous commitment requirements and unfortunate inability to meet those work commitments in just thirty-four (34) days. The Division rightfully and properly approved the appropriate extensions of those commitments to allow for an adequate opportunity to reasonably fulfill those commitments. Accordingly, without the reasonable ability to fulfill the requirements of the existing Corsair Unit POE, it was impossible for PERL to drill the expansion acreage within their primary terms either.

The Division's Finding that the expansion leases were not drilled during their primary term is irrelevant. The fact remains that the Corsair structure extends under the expansion acreage. Further, the Division justified the creation of the Corsair Unit with the promise to deliver a jack-up drilling rig to the Cook Inlet and drill two wells within the first twenty-three (23) months of the Division's approval. Denying the unit expansion with a continued promise to deliver a jack-up drilling rig to the Cook Inlet and a promise to drill two additional wells within the first twenty (20) months is not a consistent evaluation and application of the Division's standards.

2. PERL neither fulfilled the initial POE drilling work commitment by December 31, 2008, nor has it yet fulfilled the June 30, 2009, drilling commitment.

PERL received the Division's appropriate, necessary and rightful extension of the December 31, 2008 drilling work commitment to June 30, 2009. The Division willfully and knowingly approved that extension as an adequate measure to allow PERL the reasonable and realistic opportunity to meet the overall intent of the Corsair Unit formation and POE work commitments. The Division has been an active participant in the Corsair Unit negotiations from the date PERL first acquired the Forest assets in August 2007. The Division seemingly understood the economical and logistical obstacles involved in meeting the onerous work commitment dates that PERL inherited from Forest. The Division acted accordingly in its approval of the necessary modifications and extensions to the original POE. The Division is barred from using its own approval of those modifications and extensions by operation of its responsibilities as the landowner and its regulatory authority over leases and units.

Neither the December 31, 2008 nor the June 30, 2009 drilling work commitment dates have passed. The Division cannot use the suspected failure of an event yet to happen in the future as a basis for denying an action in the present. Any speculation at all, especially concerning the June 30, 2009 drilling work commitment date, is inappropriate. The Division neither possesses the ability to see into the future, nor has the authority to make determinations and decisions on suppositions for activities and events that have yet to transpire.

The Division's Finding that PERL has not met either the December 31, 2008 or the June 30, 2009, drilling work commitments is correct, albeit irrelevant and inappropriate to use as justification for the denial of the Proposed Corsair Unit Expansion.

3. Unitization is meant to facilitate efficient reservoir production, not enable warehousing of acreage. Given the Unit's recent history, Corsair Unit expansion will not guarantee delineation and production of the prospect sooner than lease-by-lease development by any lessee.

The Division states in the fourth paragraph on page 8 of the Decision: "*The initial POE required the Operator to timely conduct exploration, evaluation and development activities that would result in production, if a commercial resource were found, sooner than if the unit were not formed and sooner than would occur under any individual lease exploration effort.*" This evaluation and prudent determination used to justify the original Corsair Unit and POE hold true today for the Corsair expansion and Revised POE.

Without the inclusion of the expansion leases, the Corsair prospect becomes uneconomical. Even if the existing Corsair Unit were economic, the removal of the expansion leases would result in a variety of economic and physical wastes due to the lack of efficient reservoir management and production as well as the duplication of facilities, transportation mechanisms and redundant operations.

To reiterate, there is no intention by PERL to use the unitization process as a means to warehouse acreage, as Exxon and others have done in the past with the Point Thomson acreage. Neither is there just cause for the Division to allege PERL is merely trying to warehouse acreage. PERL has made every prudent and reasonable effort to diligently interpret and evaluate the Corsair structure and to commit to realistic work commitments. PERL intends to drill the expansion leases in the next year, not to warehouse them for an indefinite amount of time for some undetermined future exploration or development. PERL's plans and intentions are definite and backed by realistic commitments in the very near future.

The Division is in error in its determination, findings and inferences that PERL is using the unitization of the expansion acreage for no other purpose than to warehouse acreage. The Division's repeated statements regarding the alleged warehousing of leases and acreage by PERL displays a biased and prejudicial attitude towards PERL and is without any factual basis. Safeguards are built into the Corsair POE to avoid the warehousing of leases.

The Director states that, "*Given the unit's recent history ...*". This statement implies that the unit's recent history has been unacceptable. It should be noted that the unit's recent history had only been in the control of PERL for four months at the time the Expansion Application was submitted (five months to date).

The simple fact is: The recent history of the Corsair Unit comprised a period of only four months, in which Pacific has been the Operator. This recent history reveals the ONLY concerted effort that has been made to diligently move forward towards the exploration and development of the Corsair Unit since the inception of the leases. So, to say, "given the unit's history" in a derogative manner as justification for denying the Corsair Unit expansion is nonsensical. Further, all circumstances concerning the Corsair Unit and the POE during its past history were known by both PERL and the Division at the time of the Division's approval of Pacific as the Successor Operator. The Division has, in fact, been an active and contributing party in both the unit's past and recent history

The Division has been an active participant in all recent events that have transpired concerning the Corsair Unit since PERL secured the operations and responsibilities of the unit. The Division knew or should have reasonably known, as an oil and gas lease and unit administrator, at the time of the Successor Operator approval that the existing work commitments were impossible to be met. Accordingly, the Division approved the modifications and extensions to the POE work commitments to enable PERL to have a realistic opportunity to meet those commitments. To do otherwise, the Division would not have been acting in good faith in the public's interest

Because the Division was an active participant and ultimately had control of the unit's recent history, it is inappropriate for the Division to now use any inference as to unacceptable behavior on the part of PERL during that period, given the Division's approval of those plans.

Further, the Division is remiss in its acknowledgement that it was a party to the unit's recent history and any circumstance or event that transpired during that time which was negotiated and approved by itself.

The Division erred in its determination and finding that there is no guarantee the delineation and production from the unit, if expanded, will occur sooner than on a lease-by-lease basis by any lessee. Without the expansion acreage, the economic viability of the entire Corsair prospect is at risk. Should PERL determine that the existing Corsair Unit is uneconomical on its own, without the expansion leases which contain approximately two-thirds (2/3rds) of the structure, PERL will not be able to commit to the delivery of a jack-up drilling rig to the Cook Inlet.

Without the jack-up drilling rig, not only will PERL not be able to delineate and produce the Corsair Unit, but all other potential lessees will not be able to delineate or produce any offshore leases including the expired Corsair expansion leases. To justify the cost of bringing a jack-up drilling rig to the Cook Inlet, the prospect size must be quite large

The acquisition, delivery and operation of the jack-up drilling rig is a commercial issue solely in the control of PERL. It is incumbent upon PERL to make the prudent decision to now contract a heavy lift vessel and deliver the Jack-up drilling rig to the Cook Inlet.

If PERL, on its own accord and by its own evaluation determines that the Corsair prospect is uneconomical as only the existing Unit, it will opt to not deliver the jack-up rig to the Cook Inlet and cut its losses. Additionally, even if PERL did determine the existing Corsair Unit was economic on a stand-alone basis and delivered the jack-up rig to the Cook Inlet, there is absolutely no guarantee that the rig would become available to any lessee for the development of any offshore leases.

With the inclusion of the expansion leases to the existing Corsair Unit, PERL is able to guarantee, in as much as it is able, and far beyond the ability of any other current lessee, that the delineation and production of the Corsair Unit and the expansion leases will occur sooner as a contiguous unit development than as would occur on a fragmented lease-by-lease development.

Further, if the expansion acreage is not included in the Corsair Unit, there will exist an almost certainty that no development on a leases-by-lease basis, as well as by a unitized basis will occur.

The Division erred in its determination and finding that the unitization of the expansion acreage will not facilitate efficient reservoir production and guarantee the delineation and production of those leases sooner than on a lease-by-lease basis. The Division did not adequately evaluate and fully consider the geological, technical, contractual, and economical implications of its denial of the Corsair Unit Expansion application. The Division offers no economically viable alternative to expansion of the unit.

4. Unitization is not necessary to promote the development of a single resource by multiple working interest owners, as there is only one working interest owner, PERL, in the existing Corsair Unit and the proposed expanded Corsair Unit.

Even if this contention by the Division were true, by denying the Corsair Unit Expansion, the Division opens the door for the infusion of other, perhaps less motivated or capable, lessees, who will undoubtedly request the expired Corsair acreage to be included into the Corsair Unit, just as PERL is requesting now. In fact, by the Division's denial, the Division in and of itself becomes responsible for creating new working interest owners – thereby making unitization necessary. The Division's denial of the Corsair expansion on the grounds the unitization is not necessary because there is only one working interest owner, establishes the necessity of unitization by creating new working interest owners by its actions.

Staggered lease terms and multiple working interest owners impede exploration and consolidation of facilities, not encourage it.

Therefore, the Division cannot validly use this argument as a reason for denying the Corsair Unit expansion. If the Division would allow the expansion acreage to be unitized in the future, it has no reason not to unitize the acreage now.

Given the enormous capital investment that PERL has expended to acquire Forest's assets, including the Corsair Unit, combined with the recent costs associated with the seismic interpretations and structure evaluations as well as the costs of the POE commitments, allowing the opportunity for another working interest owner to possibly gain an unearned economic position in the Corsair Unit gives the prospective new working interest owner an unfair advantage and does not promote the development of a single resource.

FURTHER, Pacific Energy Resources, Ltd. requests the Lt. Governor and the Commissioner to consideration on the following points:

1. The request for the Corsair Unit Expansion is not unusual, unreasonable or out of the ordinary. During the course of a unit's life, the requirement or necessity to either contract or expand a unit is a matter of continual consideration, irrespective of any subject lease's expiration date. It has been common practice for the Division since the leasing of State lands for oil and gas exploration to approve the expansion (or contraction) of unit areas as a matter of necessity to allow the unit boundaries to encompass the entire underlying reservoir.

Additionally, it has been common practice for the Division in its leasing of State lands for oil and gas exploration to approve certain other unit actions, including Plan of Operation amendments and expansions, as a matter of necessity to allow certain unit activities to adequately and efficiently manage or produce the unit's underlying reservoir.

In fact, albeit inappropriate and erroneous, the Division has either acquiesced in the administration of its authority or approved such amendments and extensions for Exxon's Point Thomson Unit over the past two decades. Now that the Division has decided to right that wrong with Exxon, they are apparently attempting to use the same heavy-hand inappropriately on PERL.

This is neither fair nor justified. As stated several times, and as a matter of record, PERL had only been the Operator of the Corsair Unit for four months, not thirty years, and it has only requested a couple of amendments or extensions, not dozens. To hold PERL to a higher standard than that which has been used for Exxon or any other Operator in the State of Alaska is unjust, unfair, inappropriate, prejudicial, biased, and does not afford PERL equal treatment under the law.

2. It is in the State's best interest to have a jack-up drilling rig in the Cook Inlet to put an end to the decades of non-exploration offshore. Since PERL's acquisition of Forest Oil Corporation for more than \$440,000,000, PERL has endeavored to negotiate acceptable Unit agreements and Plans of Exploration and Development for its fields and prospects.

Since the capital expenditure of more than 440 million dollars, PERL has diligently pursued the acquisition and delivery of a jack-up drilling rig to the Cook Inlet by not only accepting the additional requirements and stipulations imposed by the Division for the Corsair development, but by the following additional commitments:

- a) a \$100,000 non-refundable deposit to Blake Offshore, LLC as an additional requirement to the drilling rig contract that was signed on March 7, 2008;
- b) a commitment of \$12,000,000 as a drilling rig mobilization fee to Blake Offshore, LLC;
- c) a commitment of \$125,000 PER DAY rig operating rate for the 1st year to Blake Offshore, LLC;
- d) a commitment of \$135,000 PER DAY rig operating rate for the 2nd and 3rd years to Blake Offshore, LLC;
- e) a future commitment of at least \$7,700,000 for a heavy lift vessel; and
- f) a commitment to Escopeta Oil Company, LLC for the use of its Jones Act waiver to operate the foreign heavy lift vessel in U.S. Waters.

Because of the oceanic route that the heavy lift vessel must take to reach Alaska (around the tip of South America), and the inclement weather in the winter of the southern hemisphere, the earliest the jack-up drilling rig would be able to leave the Gulf of Mexico is late-December of 2008. It will take approximately 50 days to transport the drilling rig to the Cook Inlet, putting the drilling rig's arrival date at late February, at the earliest.

An 18,000 foot well in the Cook Inlet is estimated to approximately six weeks, including mobilization, rig-up, drilling, testing, suspending, rig-down, and demobilization time. Accordingly, a well of this nature will cost approximately \$5.25 million dollars in daily rig rates and another 14.75 million dollars in supplies and materials, putting the total well cost at approximately \$20,000,000.

Therefore, the total cost to PERL to acquire, mobilize, deliver and drill the first well in the Cook Inlet will be in the neighborhood of \$40,000,000, not including lease and permitting costs. PERL does not take this commitment lightly, nor should the DNR with the potential benefits that could be attributed to the State.

3. If the Division was not satisfied with PERL's proposal for the expansion of the Corsair Unit and the associated proposed Revised Plan of Exploration, given the expansion leases pending expiration, the Division could have, at any time prior to the lease's expiration, suspended operations as allowed under the lease agreement, to allow adequate time to negotiate an acceptable Unit expansion agreement and Revised Plan of Exploration, suitable to both the Division and PERL.

The Division had other options available during the Public Review period that would have also afforded PERL the opportunity to agree to the terms and conditions necessary to make the Expansion Application and Revised Plan of Exploration acceptable to the Division.

The Division's failure to give PERL the opportunity to accept terms for the unit expansion and Plan of Exploration, and come to a meeting of the minds, was not negotiating in good faith by the Division, and did not afford PERL its earned right as Operator and lessee to due process. Moreover, the Division denied PERL the ability to agree to terms that would have been acceptable to the Division. This questionable negotiating has severely prejudiced and damaged PERL.

4. PERL began good faith negotiations with the Division for a realistic and acceptable Plan of Exploration immediately after becoming approved by the Division as the successor Operator of the Corsair Unit. Throughout the negotiations with the Division regarding the Corsair Unit and the Plan of Exploration, and subsequent default cures, acceptance of additional stipulations, conditions, obligations and commitments by PERL, and acceptance of the default cures and extension approval, the Division has appeared, although resistant and apprehensive in many instances, to ultimately support PERL's diligent effort to meet the work commitments.

PERL has devoted considerable financial and company resources in an effort to bring a jack-up drilling rig to the Cook Inlet to explore and produce the Corsair prospect. The Division has imposed stringent requirements and commitments on PERL to insure, to its satisfaction, that PERL will follow through with its plans to acquire and deliver a jack-up drilling rig to the Cook Inlet and explore and produce the Corsair prospect.

Now that virtually all the commitments and requirements imposed on PERL by the Division have been met, and PERL has completely interpreted the data necessary to delineate the entire Corsair structure, which indicates the primary oil targets underlie the expansion leases, and on the cusp of having the jack-up drilling rig on its way to the Cook Inlet, the Division makes an unwarranted, prejudicial and extremely damaging Decision not allowing PERL to include the leases that contain two-thirds (2/3rds) of the primary oil reservoir into the Corsair Unit.

In essence, the Division misled PERL, imposing onerous conditions and stipulations, including the required submission of a non-refundable \$100,000 deposit. The Division allowed PERL to believe it would be able to explore and develop the entire Corsair prospect, and then took away two-thirds (2/3rds) of the structure which included the primary oil drilling targets. These actions and the Division's Decision to deny PERL the unit expansion are nothing less than reprehensible.

5. After spending over a half of a Billion dollars to gain the Alaskan assets and evaluate the prospects, and having only been an operating company in Alaska for eight (8) months, PERL has earned the right to prove up on its investment. The denial of the Corsair Unit expansion and the Division's preference to have the expansion leases expire are unfair takings of PERL's investment and proprietary information. To further willfully take this investment and offer it to another party with no compensation to PERL whatsoever is nothing less than constructive theft by the Division.
6. PERL is a real company with an Alaskan office and presence, it has invested real money in Alaska's economy, and has on-going operations and concerns that continue to provide revenue to the State and local businesses. It is not Exxon. The Division should be the State's advocate for responsible development of its oil and gas resources, not an agency with an adversarial role.

When a viable and energetic company comes to the Division with a prudent and reasonable plan for any exploration or development activity that will enhance the current exploration and development in the State of Alaska, the Division should say: "Welcome to Alaska, how we can help you develop our resources?" Instead, in the case of PERL and the Corsair Unit, the Division appears to have more the attitude of: "Here comes another company, how can we make their efforts difficult, and how can we find a reason to say no to their plans?"

Quite simply, this is not good business practice for the State and it DOES NOT encourage exploration and development.

7. Because the Division did not give its full and unbiased consideration of PERL's Unit Expansion Application and proposed Revised Initial Plan of Exploration; and because the Division failed to adequately consider all the aspects of PERL's proposed unit expansion and Plan of Exploration as it relates to the conservation of resources or the economical and physical waste or resources; and because the Division failed to adequately consider what

was actually in the best interest of the State, the public, and PERL; and because the Division did not adequately consider and fully evaluate the implications of its Decision; and for all of the other reasons identified throughout this Appeal; the Division's Decision to deny the Expansion of the Corsair Unit and the denial of the proposed Revised Initial Plan of Exploration is erroneous, unjustified, unwarranted, prejudicial, damaging, arbitrary and capricious, and should be reversed.

"Balance of Hardships" Test

Case law exists relative to the situations presented in this Appeal. The present matter focuses upon the Division's Denial of PERL's Application for the First Expansion of the Corsair Unit, a situation in which the Division cannot demonstrate any damages to the Department of Natural Resources or the State of Alaska if the Application were approved. Conversely, PERL can show significant damages if it is forced to relinquish the expansion acreage and the underlying resources. An appellant rule applies where the party seeking the appeal stands to suffer irreparable harm and where, at the same time, the opposing party can be protected from injury. This rule was set out by the United States Supreme Court in *Ohio Oil Co v. Conway*, 279 U.S. 813, 49 S.Ct. 256, 73 L.Ed. 972 (1929) and has been expanded by both federal and state courts in later jurisprudence:

Where the matters presented by an appellant for an appeal are grave, and the injury to the Appellant will be certain and irreparable if the appeal is not granted, while if the appeal is granted the injury to the opposing part will be inconsiderable, or may be adequately indemnified by a bond, the appeal usually will prevail. Id.

This approach requires balancing the hardships by weighing the harm that will be suffered by the appellant if an appeal is not granted, against the harm that will be imposed upon the opposing party by the granting of an appeal.¹

In this matter, an appeal pursuant to 11 AAC 83.02 of the Director's Decision to Deny the Application for the First Expansion of the Corsair Unit – ultimately resulting in the loss of a portion of PERL's oil and gas prospect to which it has devoted significant amounts of financial, tangible and intangible resources to acquire – must be granted because such a Decision will not cause either the Department of Natural Resources or State of Alaska irreparable harm.. However, PERL will suffer irreparable injury and financial losses if PERL is denied the Expansion of the Corsair Unit, loses the expansion leases and the underlying resources.

Regardless of the outcome of this Appeal, the State of Alaska retains its royalty interest in the underlying resources and therefore is not at risk of any damages related to the entity that has the care, custody and control over those leases (whether the underlying resource remains in the control of PERL or any other potential lessee or Operator).

¹ *A.J. Industries, Inc. v. Alaska Public Service Commission*, 470 P.2d 537, 540 (Alaska 1970)(citations omitted).

Because of the reasons stated elsewhere in this Appeal, it is highly unlikely and perhaps impossible that (1) the expansion leases subject to this Appeal could be explored and produced faster by another Lessee or Operator, and (2) the resource underlying the expansion leases could be produced faster on a lease-by-lease basis than it could be produced under unitization. Therefore, the State of Alaska is at no risk of damages whatsoever should the leases remain in the control of PERL.

If PERL loses its expansion leases, it will lose the underlying resources which it has endeavored to identify and any potential revenue that might be derived from that resource. These damages speak for themselves. Further, should the leases expire and become available in any subsequent lease sale, in order for PERL to reacquire those leases it will have to be the highest bidder in a competitive lease sale, likely spending hundreds of thousands of dollars reacquiring the leases because the industry is generally aware of the underlying resources contained in these leases. This is money that PERL would not have otherwise had to spend should the leases not expire.

The State of Alaska will also suffer damage if the leases are left to expire, as fragmented lease-by-lease development will delay the time it will take to produce the leases, and will also result in a waste of economical and physical resources.

Losing the expansion leases and the underlying resources will be a grave injustice and will result in irreparable injury to PERL. Therefore, PERL urges the Lt. Governor and the Commissioner of Natural Resources to grant the Appeal and approve the Application of the First Expansion of the Corsair Unit for the reasons stated above.

IT IS THEREFORE REQUESTED by Pacific Energy Alaska Operating Ltd., as the lessee, and Pacific Energy Resources Ltd., as the Corsair Unit Operator, that the Lt. Governor of Alaska and the Commissioner of Natural Resources issue a Decision that the Application for the First Expansion of the Corsair Unit and the accompanying Revised Initial Plan of Exploration, dated March 18, 2008, is in the best interest of the State of Alaska.

IT IS FURTHER REQUESTED by Pacific Energy Operating Alaska Ltd., as the lessee, and Pacific Energy Resources Ltd., as the Corsair Unit Operator, that the Lt. Governor of Alaska and the Commissioner of Natural Resources Approve the Application for the First Expansion of the Corsair Unit and the accompanying Revised Initial Plan of Exploration, dated March 18, 2008.

This DECISION and APPROVAL will support and allow for the prudent and responsible exploration and development of the Corsair Structure in a timely and efficient manner, it will also support and encourage PERL's efforts to bring the desperately needed jack-up drilling rig into the waters of the State of Alaska and renew the stagnated exploration and development of the Cook Inlet Basin and possibly other offshore basins throughout Alaska.

This DECISION and APPROVAL will not prejudice nor damage the State of Alaska in any manner, either administratively, procedurally or financially.

Your time and consideration of this Appeal is greatly appreciated. We look forward to discussing our plans and these issues with you, if necessary.

Respectfully Submitted,

PACIFIC ENERGY ALASKA OPERATING LLC

By: 
Vladimir Katic
Executive Chairman & Chief Operating Officer

Cc: Kevin Banks, Acting Director
State of Alaska
Department of Natural Resources
Division of Oil and Gas
550 W. 7th Avenue, Suite 1100
Anchorage, AK 99501-3560

Attachments: Application for the Approval of the First Expansion of the Corsair Unit
Revised Exhibit "A" to the Corsair Unit Agreement
Revised Exhibit "B" to the Corsair Unit Agreement
Revised Exhibit "G" to the Corsair Unit Agreement
(Revised Initial Unit Plan of Exploration)
Attachment No. 1 to the Revised Initial Unit Plan of Exploration

DENIAL of the Application for the First Expansion Corsair Unit

Acceptance as Successor Unit Operator for the Corsair Unit
Corsair Unit Default Cure
Offshore Daywork Drilling Contract with Blake Offshore, LLC
Confirmation of \$100,000 Deposit to Blake Offshore, LLC

Resource Development Council Letter regarding Exxon / Pt. Thomson

The following are requested to be held confidential under AS. 38.05.035:

Geophysical Report for the Corsair Unit
Corsair Structure Resource Evaluation



March 18, 2008

Mr. Kevin Banks, Acting Director
Mr. Tom Irwin, Commissioner
State of Alaska, Department of Natural Resources
550 West Seventh Avenue, Suite 1100
Anchorage, Alaska 99501-3560

RE: Application for Approval of the First Expansion of the Corsair Unit

Gentlemen:

Pacific Energy Alaska Operating LLC ("Pacific"), pursuant to the authority of AS 38.05.180(p), and in accordance with the provisions of the Department of Natural Resources ("DNR") regulations 11 AAC 83.301 – 11 AAC 83.395 and the terms of the leases held by Pacific, acting in its capacity as the Designated Unit Operator, hereby makes application for approval of the attached Application for Approval of the First Expansion of the Corsair Unit, hereinafter referred to as the "Application", including approval of the accompanying revised Exhibits to the approved Corsair Unit Agreement.

Pacific certifies that, as required by 11 AAC 83.303, it is qualified to act as Unit Operator by virtue of the facts that 1) it is a corporation qualified to do business in Alaska, 2) it is currently a holder of State of Alaska oil and gas leases, including the leases proposed to be unitized and included into the approved Corsair Unit, and 3) it is qualified to fulfill the duties and obligations prescribed in the unit agreement. Pacific respectfully requests that the Effective Date of the Commissioner's approval of the Expanded Corsair Unit Area be no later than April 30, 2008.

As Executive Chairman of Pacific, I certify that I am authorized to make this Application on behalf of the company. Evidence of my authority to act on behalf of the company on this matter, as required by 11 AAC 83.379, is provided by the current list of the company's corporate officers, which includes me, who are authorized to sign instruments relative to State of Alaska oil and gas leases and assignments. A copy of the list of authorized persons is located in Qualification File No. 2307 maintained by the Lease Administration Section of the Division of Oil and Gas.

Also enclosed are the revised Exhibits "A", "A-1" and "A-2" to the Corsair Unit Offshore Operating Agreement. These submittals are for information purposes only in accordance with 11 AAC 83.306 (2).

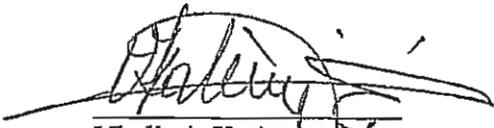
Given the several meetings and technical presentations Pacific has had with the DNR staff to date, and the subsequent discussions regarding the content of this Unit Expansion Application, Pacific respectfully requests your expedited determination that this Application is deemed complete and that you immediately proceed with the public notice and Expanded Corsair Unit approval as prescribed under 11 AAC 83.311 and 11 AAC 83.316. If you have any questions or require additional information, please contact the undersigned at (562) 628-1526, or Barbara Kruk, Geophysicist, at (907) 868-2113.

The supporting Geologic and Geophysical data and interpretations will be delivered under separate cover, along with the required \$500.00 Unit Expansion Application fee.

Thank you for your valued time and consideration of this important matter.

Respectfully,

PACIFIC ENERGY RESOURCES LTD



Vladimir Katic
Executive Chairman

Attachments: Application for Approval of the First Expansion of the Corsair Unit
Revised Exhibit "A" to the approved Corsair Unit Agreement
Revised Exhibit "B" to the approved Corsair Unit Agreement
Revised Exhibit "G" to the approved Corsair Unit Agreement
Attachment No. 1 to the Revised Initial Unit Plan of Exploration
Revised Exhibit "A" to the Corsair Unit Offshore Operating Agreement
Revised Exhibit "A-1" to the Corsair Unit Offshore Operating Agreement
Revised Exhibit "A-2" to the Corsair Unit Offshore Operating Agreement

cc: Alaska Oil & Gas Conservation Commission
333 W. 7th Avenue, Suite 100
Anchorage, AK 99501



**APPLICATION FOR APPROVAL OF THE FIRST EXPANSION OF THE
CORSAIR UNIT
LOCATED OFFSHORE IN THE COOK INLET, STATE OF ALASKA
DATED MARCH 18, 2008**

Pacific Energy Alaska Operating LLC (Pacific), as designated Unit Operator for the approved Corsair Unit respectfully submits this Application for Approval of the First Expansion of the Corsair Unit. The following information is submitted pursuant to 11 AAC 83.301 through 11 AAC 83.395, specifically 11 AAC 83.306 "Application for Unit Approval" and 11 AAC 83.356 "Unit Area; Contraction and Expansion".

Background

Forest Oil Corporation (Forest) received approval by the Director of the Division of Oil and Gas, as delegated by the Commissioner of the Department of Natural Resources, for the formation of the Corsair Unit on January 31, 2007, in accordance with the criteria of 11 AAC 83.303.

The existing Corsair Unit comprises four individual State of Alaska oil and gas leases, ADLs 389196, 389197, 389198 and 389515, in their entirety, covering an area of approximately 10,185 acres in the upper Cook Inlet. The unit is located approximately 12 miles southwest of the North Cook Inlet Field. At the time of the formation of the Corsair Unit, Forest was the sole working interest owner of the subject leases.

Subsequent to the formation of the Corsair Unit, Pacific acquired the lease holdings of Forest, including the leases of the Corsair Unit, effective August 1, 2007.

New Geological and Geophysical Information.

Pacific has recently acquired an additional 33 lines, totaling approximately 112.7 linear miles, of 2D seismic data through an agreement with Escopeta Oil Company. The reprocessing of this data, in combination with the pre-existing Forest 2D seismic data, totaling approximately 140.9 linear miles, indicates that there is one-undivided structure lying beneath the Pacific and Escopeta leaseholds. This structure has been delineated by Mr. Carl A. Marrullier, an independent professional geoscientist registered in the State of Texas, as well as the staff geologist for Escopeta, Mr. Frank Banar.

This new geological and geophysical information has been further verified by Pacific's staff geophysicist, Ms. Barbara Kruk, and is submitted simultaneously under separate cover. Pacific requests this geological and geophysical data to remain confidential under 38.05.035(a)(9)(C).

Application

This application for the First Expansion of the Corsair Unit is submitted in accordance with Article 13 of the approved Corsair Unit Agreement. The approved Corsair Unit Application, dated January 31, 2007, including all submittals, exhibits, all pertinent geological and geophysical information, and well data, submitted to the DNR by Forest on November 29, 2006, is incorporated herein by reference and is hereby included in this Application for the First Expansion of the Corsair Unit.

All requirements of Articles 5 and 6 of the approved Corsair Unit Agreement have previously been met and approved by the Department of Natural Resources during the acquisition of Forest by Pacific. No other changes to the ownership of the approved Corsair Unit or the leases subject to this unit expansion request have been made or are anticipated.

The proposed Expansion Areas to the Corsair Unit encompasses all or part of a potential gas bearing reservoirs in the Sterling-Beluga sands and all or part of the potential oil bearing reservoirs in the Tyonek-Hemlock, as identified by Pacific and Escopeta in seismic amplitude anomalies located in the center of the Upper Cook Inlet approximately 12 miles southwest of the North Cook Inlet Field. These seismic anomalies are the revised Corsair Prospect area, as interpreted by Pacific and Escopeta. The multiple Corsair features are approximately 4 miles wide and 10 miles long and lie on structural trend with the North Cook Inlet Field. Water depths over the structure range from 80 to 120 feet and average 100 feet.

Pacific currently has a 100% Working Interest in the four (4) additional leases that cover the outward extent of the Corsair Anticline unit expansion areas, which comprise a total of approximately 11,464 additional acres. These leases are described in the Revised Exhibit "A". 11 AAC 83.356(a) provides that a unit must encompass the minimum area required to include all or a part of one or more potential hydrocarbon accumulations. Consequently, Pacific proposes that only these additional four (4) leases be included into the existing Corsair Unit at this time, to cover the seismic amplitude anomalies as interpreted by Pacific and.

As part of this application, Pacific is simultaneously submitting its geological and geophysical data, which Pacific requests be held "**Confidential**" pursuant to AS 38.05.035(a)(9)(C), setting forth the geological, geophysical, engineering and well information, including maps and seismic data and interpretations of these data, describing this potential accumulation.

A complete description of the leasehold interests proposed for inclusion in the expanded Unit Area are described in the Revised Exhibit "A", in accordance with Article 2.2 of the approved Corsair Unit Agreement, and is hereby attached and made a part thereof. A map of the proposed Unit Area comprising the proposed lands and leases to be included in the expanded Unit Area is identified as Revised Exhibit "B", in accordance with Article 2.3 of the approved Corsair Unit Agreement, and is hereby attached and made a part thereof. A revised Initial Plan of Exploration for the Corsair Unit, Revised Exhibit "G", is submitted in accordance with Article 2.8 of the approved Corsair Unit Agreement, and is hereby attached and made a part thereof.

The submittal of the Revised Exhibits "A" and "B" are in advance of the requirement of Article 13.6 of the approved Corsair Unit Agreement, for approval by the Department of Natural Resources, pursuant to 11 AAC 83.341.

As with the original application for approval of the Corsair Unit, and further identified in Articles 2.4, 2.5, 2.6, 2.7 of the approved Unit Agreement, dated January 31, 2007, Exhibits C, D, E and F, respectively, do not apply and are not submitted with this application for expansion.

All requirements of Article 7 of the approved Corsair Unit Agreement have previously been met and approved by the Department of Natural Resources during the acquisition of Forest by Pacific. In accordance with Article 26 of the Corsair Operating Agreement, Exhibit A describing the leases, Exhibit A-1 describing the Area of Mutual Interest (AMI), and Exhibit A-2 depicting the Area of Mutual Interest (AMI) are hereby amended to reflect the addition of the Unit Expansion Areas. No other changes to the Unit Operating Agreement, dated November 1, 2006, of the approved Corsair Unit have been made or are anticipated.

**The Criteria Which the Commissioner of Natural Resources Must Consider
Under 11 AAC 83.303(c) to Approve a Unit Expansion as it Relates to the Corsair Leases**

The state statutes and regulations provide that the Commissioner will approve a proposed expansion of a unit for state oil and gas leases if he makes a written finding that the expansion is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180 (p) and that the proposed unit expansion will (1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area; (2) promote the prevention of economic and physical waste; and (3) provide for the protection of all parties of interest, including the state.

Pacific realizes that it has the burden of demonstrating to the Department of Natural Resources why the Commissioner's approval of the Expansion of the Corsair Unit is necessary or advisable to protect the public interest. In doing so, Pacific will address in this Application each of the criteria applicable in 11 AAC 83.303 (a) and (b), as those criteria relate to the facts surrounding this Application. It will also address the question of why the state should agree to the expansion of the Corsair Unit and the extension the primary terms of the additional leases through unitization, rather than simply waiting for the leases to expire and re-offering them for lease at some later date.

Pacific respectfully submits that approval of the Expanded Corsair Unit Area meets the criteria of 11 AAC 83.303(a), as it will:

- Promote the conservation of oil and gas by providing an efficient, integrated approach to exploring and developing the Corsair structure. Unit expansion will reduce the environmental impact through unitized development of the hydrocarbon accumulations; and

- Promote the prevention of economic and physical waste by setting forth an exploration plan, and allowing for a future development plan, that allows maximization of physical and economic recovery as well as efficient use of unitized facilities; and
- Provide for the protection of the correlative rights of all parties, including the State of Alaska.
- Based upon the record established herein, Pacific believes that approval of the Expansion of the Corsair Unit Area complies with the statutory and regulatory provisions governing unit expansion and will be in the state's best interest. Pacific respectfully requests that the Commissioner consider the following factors in evaluating this Application for Approval of the Expansion of the Corsair Unit, pursuant to the criteria under 11 AAC 83.303(b):

1. Environmental Costs and Benefits of Unitized Exploration or Development from the Corsair Unit.

There are no identifiable environmental costs of unitized development over and beyond the costs entailed in lease-by-lease exploration and development. On the other hand, as described below, unitized operations will both reduce the potential environmental impacts and minimize the surface disturbance associated with the development of the resources underlying the expanded Corsair Unit Area. Both the State of Alaska and Pacific stand to gain from these beneficial effects of unitization.

The state presumably weighed the relatively greater environmental costs of lease-by-lease development carefully in its initial decisions to offer the Corsair leases for sale. The state's selection and incorporation of the specific Mitigation Measures and Plan of Operations permit terms applicable to the Corsair leases reflect a careful consideration of the potential impacts of exploration and development and the steps necessary to minimize or eliminate potential negative impacts. Under the terms of the Cook Inlet Areawide competitive lease sales, the state made the determination that to mitigate the potential adverse social and environmental effects of specific related activities, lease stipulations will be enforced throughout the term of the lease and the measures listed under Plan of Operations permit terms will be imposed through plans of operation and other permits. Any potential development of Corsair Unit leases will be done in accordance with the safeguards previously established by the department and required as a condition of sale. Pacific will be responsible for implementing each of the lease-specific mitigation measures, and will comply with the specified permit terms in its exploration and development of the Corsair Unit leases under the terms of the approved Unit Agreement.

Under the terms of the approved Corsair Unit Agreement, unit plans of exploration and development must be approved by the Commissioner, and no exploration, development or production may be commenced in the unit area except in accordance with an approved plan.

In addition to the mitigation measures and Plan of Operation permit terms incorporated in the leases, the state also has reserved to itself the authority to impose additional mitigation measures should it determine them to be necessary during its review of permit applications for future operations on the leases.

As the state has concluded repeatedly in prior decisions approving requests for approval of unit agreements and unit expansions, unitized exploration and development of the leases will reduce environmental costs and provide benefits for the state, Pacific and for any partners that may join the unit in the future. Unitized exploration and development has long been recognized as beneficial for the environment.

By combining lease interests so that the Corsair Unit leases may be operated as one lease, both the number of facilities and the size of the facilities required for development of the prospect will be reduced. Rational surface-use decisions can be made without consideration of individual lease ownership or expense. As a result, facilities can be located to maximize recovery and to minimize environmental impacts.

During exploration and, if needed, through future development operations of the Corsair Unit, activities will utilize the minimum amount of surface impact consistent with prudent and efficient oil and gas industry practices. Multiple wells drilled from a platform or other offshore drilling structure will provide for the most efficient utilization of land. The probability that the entire structure will be explored and exploited can only be optimized through unitized development. The environmental impacts would be significantly greater if the Corsair structure was developed on a lease-by-lease basis, rather than on an integrated unitized basis with a single operator.

2. Geological and Engineering Characteristics of the Corsair Structure.

The geological and engineering characteristics of the primary reservoir objective in the expanded Corsair Unit are described in detail in Pacific's confidential Geologic and Engineering Report submitted with this Application. Based upon a review of the technical data available at the time of this Application, the expanded Unit Area includes acreage which is believed to have the potential to be productive. In addition, the expanded Unit Area may contain acreage overlying one or more additional potential reservoirs that will be evaluated under Pacific's proposal.

The Revised Initial Unit Plan of Exploration to which Pacific has committed is designed to confirm the commerciality of the gas accumulation in the Sterling-Beluga sands and the oil accumulation in the Tyonek-Hemlock sands, identified by Pacific in seismic amplitude anomalies located in the Corsair Structure, to determine the aerial limits of that reservoir, and to evaluate other potential reservoirs within the boundaries of the expanded Corsair Unit. The attached confidential Geologic and Engineering Report describes the geological and engineering characteristics of the Corsair structure.

3. Prior Exploration Activities in the Proposed Corsair Unit Area.

The prior exploration activities in the expanded Corsair Unit Area were described in detail within the Application for Approval of the Corsair Unit, which was approved by the Director of the Division of Oil and Gas on January 31, 2008.

4. Plans for Exploration and Development of the Proposed Corsair Unit Area.

The Revised Exhibit "G" to the Corsair Unit Agreement sets forth Pacific's revised proposed Initial Unit Plan of Exploration. This Revised Exhibit "G" includes two (2) additional wells, one (1) within the Northern Expansion Area and one (1) within the Southern Expansion Area. The well proposed in the previously approved Initial Unit Plan of Exploration remains unchanged.

5. Economic Costs and Benefits to the State.

The overall costs of exploring and developing the Corsair leases, both from the state's and Pacific's perspectives, would be higher on a lease-by-lease basis than it will be under the terms of the Corsair Unit Agreement and the Corsair Unit Offshore Operating Agreement. Investments in drilling and facility's costs will be minimized as a consequence of eliminating the potential for competitive development within the expanded Corsair Unit Area. The locations of individual wells and surface facilities will be determined by rational engineering and reservoir management considerations, and not by competitive pressures.

Reducing costs through unitized operations will expedite development and promote greater ultimate recovery of the oil and gas in the expanded Corsair Unit Area, thus accelerating and extending the state's income stream from severance taxes and royalties. In addition, if the project is a success and profitable, Pacific, and potentially other future working interest owners, will derive revenues from the development that may be reinvested in new exploration and development, as well as in efforts to extend the life of older producing Cook Inlet fields in which they have an ownership interest, including through the supply of fuel gas for unit operations.

Accelerating the development of the Corsair leases benefits both the State of Alaska and Pacific. The importance of this fact cannot be overemphasized. Based upon the history of these leases, and in consideration of the relative maturity of Cook Inlet oil and gas production, the Commissioner's approval of the Expanded Corsair Unit Area is vitally important. As noted earlier, portions of the Corsair leases have been leased, partially explored, relinquished and re-leased over a period of almost forty-five (45) years with no production to show from any of this activity. Meanwhile, both the frequency of new field discoveries and the production of oil and gas from the Cook Inlet basin have continued to decline dramatically.

There have only been three new fields been discovered offshore in the Cook Inlet since 1977, all of which were relatively small as compared to the earlier discoveries in the area. As both the success of Cook Inlet exploration and the volume of oil and gas production have declined, so has the number of companies committed to exploration and continued operation of Cook Inlet fields. Many major oil companies have abandoned Cook Inlet in the last thirty years, and those few that remain have recently rationalized their leasehold interests to focus on what they view to be their respective strengths, rather than continuing to pursue broad based exploration and development of Cook Inlet leases.

Counter to the obvious perceptions of some of these companies, Pacific believes that there are many opportunities remaining for new exploration, exploitation and, hopefully, the development of previously discovered but undeveloped reserves in Cook Inlet. The delineation and development these additional Corsair leases present just such an opportunity. However, that opportunity could be lost or deferred, to the detriment of both the State of Alaska and Pacific, if the expanded Corsair Unit Area is not approved.

While other lessees and potential lessees have been unwilling or unable to develop the Corsair prospect, Pacific, after acquiring Forest only six (6) months ago, is willing to make that commitment. The company has demonstrated its technical and financial competence to undertake this project, as well as its willingness to do so. As an indication of its commitment, Pacific has interpreted over 253 miles of proprietary 2D data acquired in 1997 by Forest's predecessor in interest, Forcenergy Inc, and recently acquired from Escopeta. Furthermore, Pacific has been a catalyst since acquiring Forest in organizing the pursuit of joint Cook Inlet operator commitments for bringing a jack-up rig into Cook Inlet for new exploratory drilling.

Pacific is also committing to a responsible and expedited drilling program to delineate the field, and hopefully, to establish commercial production. However, fulfillment of these commitments and delivery of the benefits which they have the potential to provide, are entirely dependent upon Pacific's ability to explore and develop the expanded Unit Area without the threat of losing one or more of the leases crucial to the exploration and economic development of the prospect. Should any of the four (4) expanded Corsair Unit area leases expire in April or December of 2008, it is uncertain who would be willing to bid on the tracts in subsequent lease sales without the assurance of being able to acquire the entire area encompassed by all eight (8) leases. Drilling against open acreage by any lessee is unlikely to occur. Based upon the technical data developed to date, the oil and gas potential of these four (4) leases alone may be insufficient to entice anyone, excluding Pacific, to make the investments necessary to drill and develop the Corsair reserves. There simply is no quicker way for the state to assure the further evaluation and, hopefully, the development of the entire Corsair prospect.

Through Unit expansion and Pacific's aggressive Revised Initial Unit Plan, the DNR will be provided the earliest identification and development of its natural resources underlying DNR lands in the Unit Area. A primary goal of unitization is the protection of the parties in interest in one or more hydrocarbon accumulations.

The formation of the Corsair Unit and its subsequent expansion will extend these benefits and protections to all leases reasonably proven to be capable of contributing to production from the Corsair feature mapped by Pacific. A fair and equitable allocation of production has been provided for in the Approved Corsair Unit Agreement. Without this expansion, possible future varied ownership interests in the Corsair area make equitable economic development difficult.

The DNR's economic interest is protected by maximizing the physical recovery of hydrocarbons from the Corsair Structure. Maximizing hydrocarbon recovery in turn assures maximized production based revenue accruing to the State. Unitized development of the entire Corsair Structure will increase the economic well being of the State of Alaska and its residents by creating jobs for the construction of facilities and continuous operations of the Unit, thereby helping to ensure timely and crucial oil and gas supplies to the southcentral region of Alaska.

Unitized operations within the expanded Corsair Unit Area will also minimize impacts to the area's cultural, biological, and environmental resources.

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

Pacific respectfully submits that all of the impacts associated with the Commissioner's approval of the expansion of the Corsair Unit Area will be positive. As discussed above, delineation and development of ALL of the Corsair leases will occur earlier than would otherwise be possible absent this expansion.

Under the terms of the approved Unit Agreement, all operations on the leases will be subject to prior review and approval by the State of Alaska, and will continue to be subject to the stipulations in an approved Plan of Operations, the terms of the leases, as well as any additional mitigation measures determined by the state to be necessary.

Development of the Corsair Unit reserves, should the field prove to be commercially viable, will provide additional jobs with increased payrolls and taxes, and will stimulate the state and local economies. In addition, development of the Corsair reserves will provide royalty and severance taxes to the state to help offset the continuing decline of those revenues as North Slope and Cook Inlet production declines.

The lack of diverse ownership interests in the Corsair leases may be a relevant factor in the Commissioner's decision since Pacific may remain the sole Working Interest Owner in the proposed Corsair Unit. The Department of Natural Resources has addressed this issue in at least four previous best interest findings related to applications for approval of unit agreements.

In one instance, it was a primary consideration in the denial of an application filed by ARCO; in two other instances, it was identified as a primary concern in affirmative findings related to a 1990 application filed by Stewart Petroleum Corp. for the West McArthur River Unit Agreement and a 1994 application filed by BP Exploration (Alaska) Inc. (BPX) for the Badami Unit Agreement.

Of concern to the state in all three previous instances, as presumably it will be in this instance, is whether the approval of a single lessee unit agreement is appropriate, should this expansion request be denied. In a June 3, 1975 opinion on this question, former Assistant Attorney General Thomas K. Williams wrote:

"While it is therefore our opinion that "single lessee units" are legal, we should point out that such cases lack an important element normally present in unit proposals; namely, there is no problem in getting lessee agreement when the leases involved all have the same person, corporation or group as lessee. Unitization merely for the convenience of the lessee of the lease does not necessarily benefit the public interest, as required by AS 38.05.180(m) [subsequently revised as AS 38.05.180(p)] and 11 AAC 83.340 [subsequently revised as 11 AAC 83.303]. Accordingly, there should be some clear conservation issue or other justifying factor (e.g., reducing environmental impact or minimizing conflict with other beneficial uses of the land) involved before "single lessee units" are approved."

In his July 27, 1990 approval of the West McArthur River Unit, former director Eason concluded that:

"In the case of Stewart Petroleum's West McArthur River Unit, the division considers Stewart's diligent, good-faith efforts since its acquisition of its leasehold interest in August 1989 as a justifying and relevant consideration in the approval of this unit application ..."

More recently, in her March 13, 1995 approval of BPX's Badami Unit Agreement, Deputy Commissioner Marty Rutherford concluded that:

"In the case of BPX's proposed Badami Unit, the State recognizes that if the Agreement is not approved and certain of the leases were allowed to expire, it could be several years before the state could successfully re-lease the areas overlying a portion of the Badami prospect. It might even be longer before another operator might propose to drill and develop the prospect. Given the current economic climate, the geological risk associated with the drilling of the prospect, the amount of work that would have to be duplicated by a new lessee, and the reduced level of exploratory drilling activity on the North Slope over the last two years, it is in the state's interest to encourage the further exploration of the Badami area by the parties currently willing to take the economic risks involved: BPX and Petrofina."

In light of the department's former affirmative findings in similar circumstances, Pacific believes that its diligent and good-faith efforts to date, as well as its continuing efforts to expedite the evaluation and development of its Corsair leases, are relevant factors which support a finding that approval of the proposed Corsair Unit is necessary or advisable to protect the public interest. Each of the factor's deemed relevant by Deputy Commissioner Rutherford in her decision to approve the Badami Unit Agreement are equally applicable to Pacific's application for the expansion of the Corsair Unit area.

To further protect the public interest, Pacific has incorporated reasonable and equitable terms in the approved Corsair Unit Offshore Operating Agreement which will facilitate the joinder of any other lessees that may desire to join the unit in the future. In providing for the combining of other lease interests in joint operations under the terms of the Unit Agreement and the Corsair Unit Offshore Operating Agreement, all potential working interest owners are assured an equitable allocation of costs and revenues commensurate with the value of their respective lease interests.

**Summary and Request for Written Finding and Approval of the
Expanded Corsair Unit Area and the Revised 5- Year Initial Unit Plan of Exploration**

Based upon the facts outlined in this Application and Pacific's commitment to expedited exploration and development of its leases, Pacific believes that the Commissioner of Natural Resources' approval of the expanded Corsair Unit Area will:

- promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area;
- promote the prevention of economic and physical waste; and
- provide for the protection of all parties of interest, including the state.

Accordingly, Pacific requests that the Commissioner, or his designee, make a written finding that the expansion of Corsair Unit Area is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180(p) and the provisions of 11 AAC 83.303. Based upon that written finding, Pacific further requests that the Commissioner, or his designee, approve the Revised 5-Year Initial Unit Plan of Exploration incorporated therein (attached to the Corsair Unit Agreement as Revised Exhibit "G").

Given the meeting and technical presentation Pacific had with the DNR staff last week, and the subsequent communications, Pacific respectfully requests an expedited determination that this Application is deemed complete and that the DNR immediately proceed with the public notice and Corsair Unit Expansion approval as prescribed under 11 AAC 83.311 and 11 AAC 83.316. If there are any questions, or additional information is required, regarding this Application please contact Vladimir Katic, Executive Chairman, at (562) 628-1526, or Barbara Kruk, Geophysicist, at (907) 868-2113.

**CORSAIR UNIT AGREEMENT
FIRST EXPANSION OF THE CORSAIR UNIT AREA
STATE OF ALASKA**

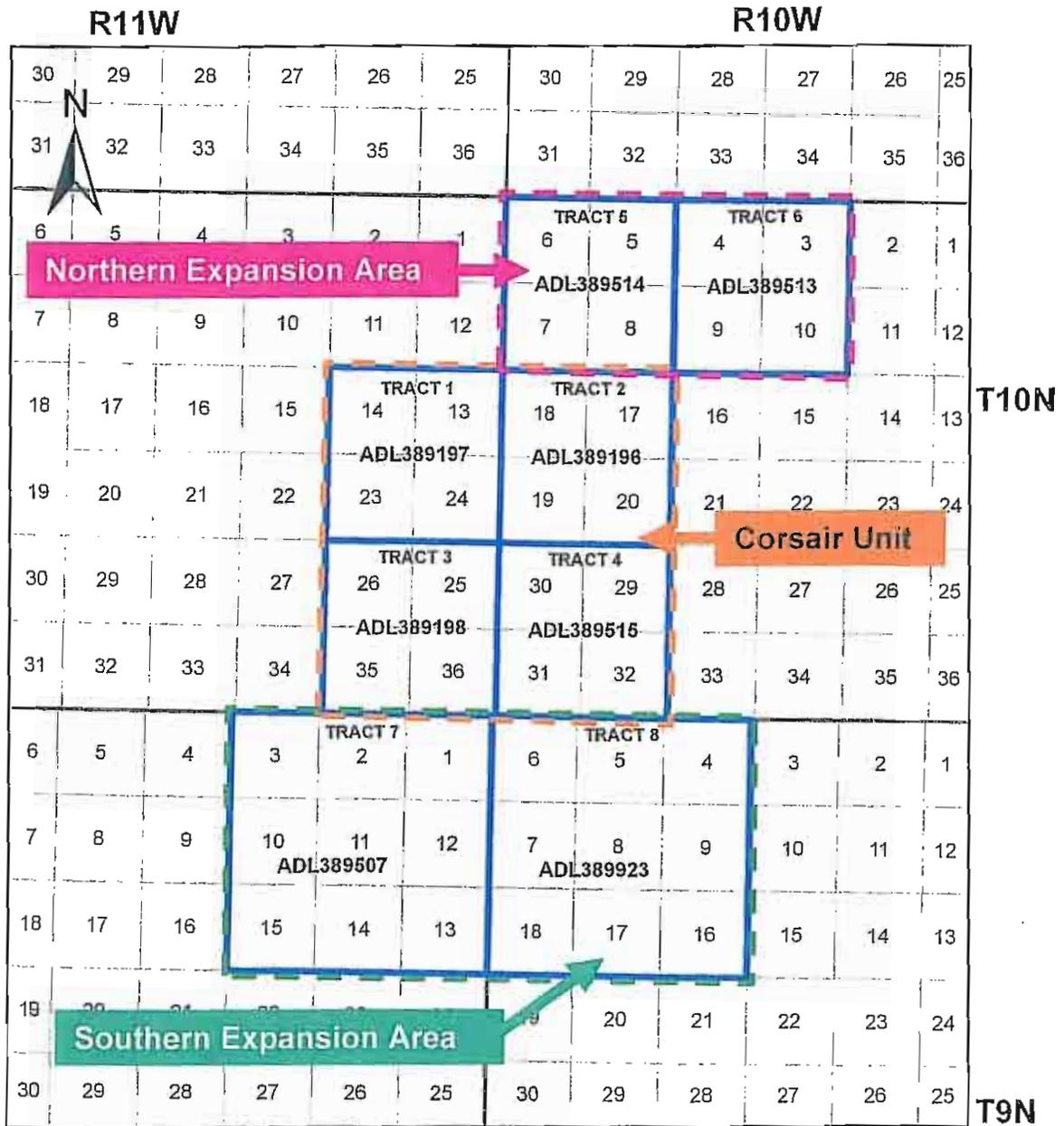
REVISED EXHIBIT "A"
(submitted March 18, 2008)

TRACT NO.	LEASE NO.	LEGAL DESCRIPTION	ACRES	ROYALTY	LESSEES OF RECORD	WORKING INTEREST	ORRI EXPIRATION DATE
Original Corsair Unit Area, as approved on January 31, 2007							
1	ADL-389197	<u>T. 10 N., R. 11 W., S.M.</u> Sec. 13, Protracted, All Sec. 14, Protracted, All Sec. 23, Protracted, All Sec. 24, Protracted, All	2,560	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
		Held by Unit					
2	ADL-389196	<u>T. 10 N., R. 10 W., S.M.</u> Sec. 17, Protracted, All Sec. 18, Protracted, All Sec. 19, Protracted, All Sec. 20, Protracted, All	2,529	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99998
		Held by Unit					
3	ADL-389198	<u>T. 10 N., R. 11 W., S.M.</u> Sec. 25, Protracted, All Sec. 26, Protracted, All Sec. 35, Protracted, All Sec. 36, Protracted, All	2,560	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
		Held by Unit					
4	ADL-389515	<u>T. 10 N., R. 10 W., S.M.</u> Sec. 29, Protracted, All Sec. 30, Protracted, All Sec. 31, Protracted, All Sec. 32, Protracted, All	2,536	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
		Held by Unit					

TRACT NO.	LEASE NO.	LEGAL DESCRIPTION	ACRES	ROYALTY	LESSEES OF RECORD	WORKING INTEREST	ORRI
Northern Expansion Area, as submitted on March 18, 2008							
5	ADL-389514	<u>T. 10 N., R. 10 W., S.M.</u> Sec. 05, Protracted, All Sec. 06, Protracted, All Sec. 07, Protracted, All Sec. 08, Protracted, All	2,560	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	April 30, 2008						
6	ADL-389513	<u>T. 10 N., R. 10 W., S.M.</u> Sec. 03, Protracted, All Sec. 04, Protracted, All Sec. 09, Protracted, All Sec. 10, Protracted, All	2,522	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	April 30, 2008						
Southern Expansion Area, as submitted on March 18, 2008							
7	ADL-389507	<u>T. 09 N., R. 11 W., S.M.</u> Sec. 01, Protracted, All Sec. 02, Protracted, All Sec. 03, Protracted, All Sec. 10, Protracted, All Sec. 11, Protracted, All Sec. 12, Protracted, All Sec. 13, Protracted, All Sec. 14, Protracted, All Sec. 15, Protracted, All	5,736	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	April 30, 2008						
8	ADL-389923	<u>T. 09 N., R. 10 W., S.M.</u> Sec. 04, Protracted, All Sec. 05, Protracted, All Sec. 06, Protracted, All Sec. 07, Protracted, All Sec. 08, Protracted, All Sec. 09, Protracted, All Sec. 16, Protracted, All Sec. 17, Protracted, All Sec. 18, Protracted, All	5,728	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	December 31, 2008						
		TOTAL UNIT ACRES:	26,731				

**CORSAIR UNIT AGREEMENT
FIRST EXPANSION OF THE CORSAIR UNIT AREA
STATE OF ALASKA**

REVISED EXHIBIT "B"
(submitted March 18, 2008)



**CORSAIR UNIT AGREEMENT
FIRST EXPANSION OF THE CORSAIR UNIT AREA
STATE OF ALASKA**

REVISED EXHIBIT "G"
(submitted March 18, 2008)

REVISED INITIAL UNIT PLAN

Pacific Energy Alaska Operating LLC ("Pacific"), as a result of its work interpreting approximately 126 miles of proprietary 2D data acquired in 1997 by Forest Oil Corporation, through its predecessor Forcenergy Inc, in combination with Digicon's CI88/89 2D survey (totaling 244 miles of seismic data resulting in 2D line spacing of approximately ½ mile in both the dip and strike directions), and an additional 113 miles of proprietary 2D data acquired from Escopeta Oil Company LLC ("Escopeta"), identified large seismic amplitude anomalies located in the center of the Upper Cook Inlet approximately 12 miles southwest of the North Cook Inlet Field. This seismic anomaly is the Expanded Corsair Prospect, as interpreted by Pacific and Escopeta.

The Corsair feature is approximately 4 miles wide and 10 miles long and lies on structural trend with the North Cook Inlet Field. Water depths over the structure range from 80 to 120 feet and average 100 feet. Production from the North Cook Inlet Field is primarily dry gas from the lower Sterling and upper Beluga formations and oil production from the mid-Tyonek Sunfish and Hemlock sands. In the Corsair Prospect these are the primary objectives.

Pacific currently has a 100% Working Interest in eight (8) Leases near or on the Corsair Anticline which comprise a total of approximately 26,731 acres. Forest established the Corsair Unit to include Leases ADL-389196, ADL-389197, ADL-389198 and ADL-389515 which comprise a total of 10,185 acres. The additional four (4) Leases, comprising a total of 15,546 acres, cover the outward extent of the seismic amplitude anomaly as interpreted by Pacific and Escopeta with currently available data.

Pacific, as the sole Working Interest Owner of the four Leases to be included within the approved Corsair Unit, proposes an initial five-year (5-year) Plan of Exploration and Plan of Development (Initial Unit Plan) for the Corsair Unit. During the term of this Initial Unit Plan, Pacific, in its capacity as the Corsair Unit Operator, plans to (1) drill three exploration wells, (2) if drilling data indicates it to be appropriate, test portions of the Tyonek, Beluga, Sterling and Hemlock intervals in the exploration well (location of seismic amplitude anomalies) within the Corsair Anticline, (3) if warranted by well test data, confirm through extended testing of the exploration well if commercial quantities of oil or gas are present in the seismic amplitude anomalies, (4) submit an application for approval of an Initial Participating Area (Initial PA) within the Corsair Unit, and (4) commence construction of pipelines and other infrastructure to allow commercial oil and/or gas production.

As justification for an extension beyond the end of the primary term of the additional Leases ADL-389507, ADL-389513 and ADL-389514 from April 30, 2008, and of Lease ADL-389923 from December 31, 2008, Pacific, as the Corsair Unit Operator, will undertake the following exploration plan:

Year 1/Year 2: Within the first two years of this Initial Unit Plan, before **December 31, 2009**, the Corsair Unit Operator will commit to and drill an three (3) Exploration Wells within the Unit Area. These wells are depicted on Attachment No. 1 of this Revised Initial Plan of Exploration.

- I. By **March 31, 2007**, the Unit Operator will provide evidence to the satisfaction of the Commissioner of a rig/drilling commitment by the Unit Operator that would enable the Unit Operator to drill a well within the Corsair Unit no later than **December 31, 2008**.

- II. By **December 31, 2009** the Unit Operator will drill three (3) Exploration Wells that meets the following minimum criteria:
 - A. Drill a well to the lower Sterling and upper Beluga gas sands, stratigraphically equivalent to the gas producing intervals at the North Cook Inlet Field; or to the bottom of the oil bearing sands of either the Tyonek or Hemlock formations;
 - B. Drill to a bottom hole location within Tracts 1, 6 and 7, ADLs 389197, 389513 and 389507, respectively;
 - C. Log the wells (GR or SP, Resistivity and Neutron/Density or Porosity: appropriate triple combo log); and
 - D. Complete, suspend, or abandon the wells.

- III. If the Unit Operator fails to provide evidence by **December 31, 2008** satisfactory to the Commissioner of its commitment to drill the three (3) Exploration Wells as described in Section I above by **December 31, 2009**:
 - A. The Expanded Corsair Unit will automatically terminate;
 - B. All Leases in the Expanded Corsair Unit will terminate effective **January 1, 2009**;
 - C. The Working Interest Owners shall pay the State of Alaska a payment equal to \$25.00/acre x expired State Lease acreage within the Expanded Corsair Unit; and
 - D. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan of Exploration.

- IV. If the Unit Operator fails to drill the three (3) Exploration Wells described in Section II above, by **December 31, 2009**:
 - A. The Expanded Corsair Unit will terminate;
 - B. All Leases in the Expanded Corsair Unit will terminate effective **January 1, 2010**;
 - C. The Working Interest Owners will pay the State of Alaska a payment equal to \$35.00/acre x expired State Lease acreage within the Expanded Corsair Unit; and
 - D. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan of Exploration.

Year Three: During the third year of this Revised Initial Unit Plan of Exploration, before **December 31, 2010**, if the Expanded Corsair Unit has not been terminated pursuant to this Revised Initial Unit Plan of Exploration, the Unit Operator will determine through well test data that the seismic amplitudes are related to commercial oil and/or gas sands and seek to obtain approval of a Participating Area within the Corsair Unit.

- I. Following completion of the Exploration Wells, if drilling data indicates it to be appropriate, the Unit Operator will test the appropriate oil and/or gas bearing intervals in the Exploration Wells (location of seismic amplitude anomaly) within the Corsair Anticline.
- II. If warranted by well test data, the Unit Operator will confirm through extended testing of the Exploration Wells if commercial quantities of oil and/or gas are present in the seismic amplitude anomaly within the Corsair feature.
- III. The Unit Operator will submit by **December 31, 2010** an application containing all information necessary to obtain approval from the proper authorities to establish a Participating Area (PA) within the Expanded Corsair Unit.
- IV. If the Unit Operator fails to submit a complete application by **December 31, 2010** to establish a PA within the Expanded Corsair Unit, containing all information necessary to obtain approval from the proper authorities:
 - A. The Expanded Corsair Unit will automatically terminate;
 - B. All Leases in the Corsair Unit will terminate effective January 1, 2011;
 - C. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan of Exploration.

Year Four: During the fourth year of this Initial Unit Plan, before **December 31, 2011**, the Unit Operator plans to consider drilling a 4th Exploration Well within the Expanded Corsair Unit. The Unit Operator will submit a revised Initial Unit Plan of Exploration that will include a Unit Plan of Development describing activities to be conducted on lands within the PA and a Plan of Exploration describing exploration activities to be conducted on other Corsair leases and on lands not within any PA in the Unit Area during the remaining two years of the Initial Unit Plan.

Year Five: During the fifth year of this Initial Unit Plan, before **December 31, 2012**, the Unit Operator will submit the necessary applications to obtain approvals, including a Unit Plan of Operations, that will allow construction of pipelines and infrastructure to permit commercial production of oil and/or gas from the Corsair Unit Participating Area(s).

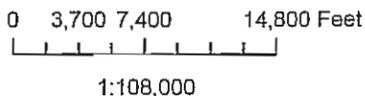
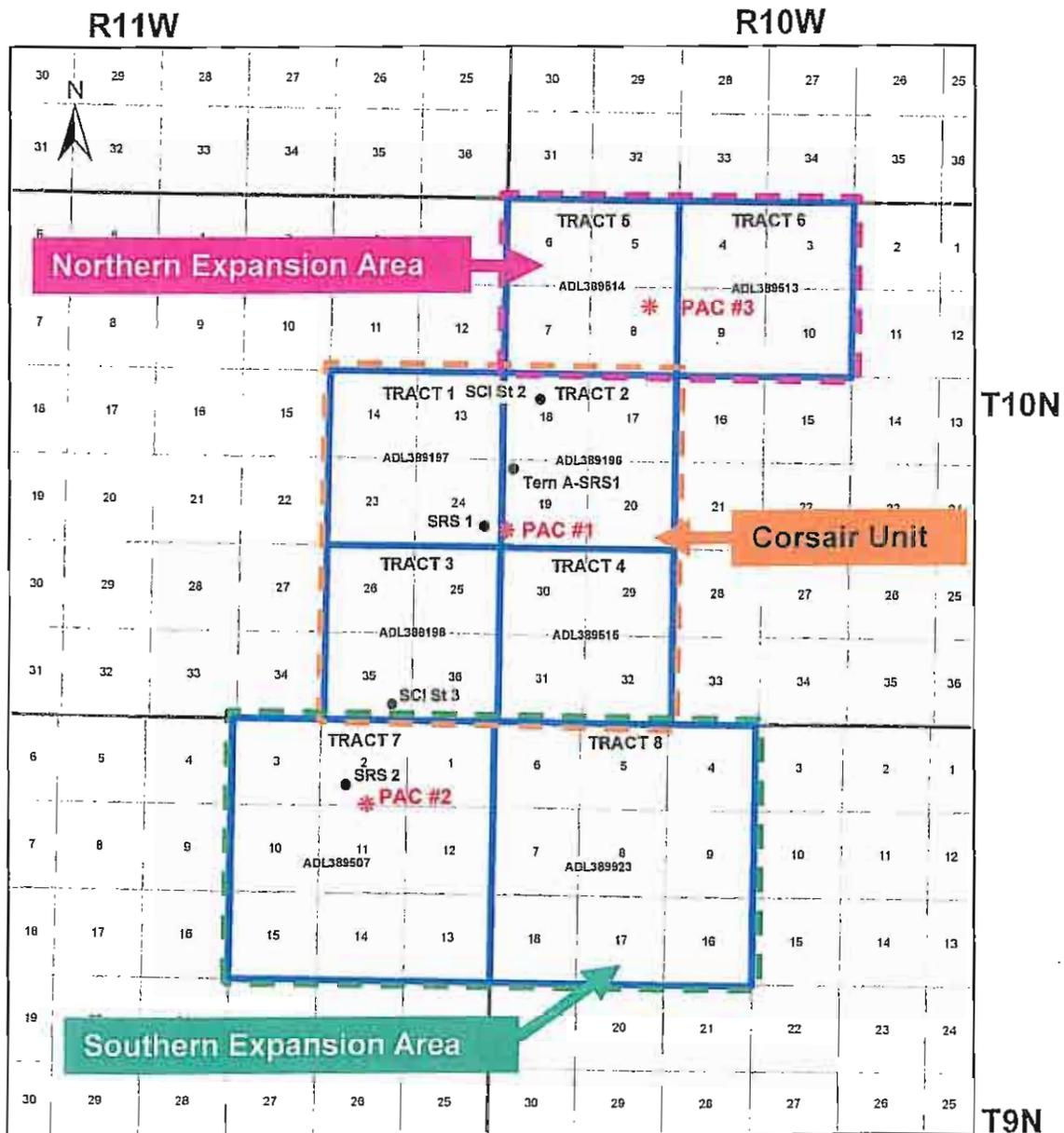
Initial Unit Plan General Provisions:

- I. If the Expanded Corsair Unit terminates for failure to fulfill any of the commitments in this Revised Initial Unit Plan, the Working Interest Owner(s) will automatically surrender all expired State acreage within the Expanded Unit Area, effective the day the Unit terminates.

- II. After fulfilling all of the obligations in this Revised Initial Unit Plan, any Tract not having a portion of the Lease included in an approved Participating Area by **January 31, 2013** shall contract out of the Expanded Unit Area, unless there is a well certified capable of producing in paying quantities located on that Tract, and all portions of the Lease remaining in the Expanded Unit Area shall be subject to the terms and provisions of the approved Corsair Unit Agreement.
- III. If acreage contracts out of the Expanded Corsair Unit Area for failure to fulfill any of the commitments in this Revised Initial Unit Plan of Exploration, the Working Interest Owner(s) shall automatically surrender all expired State acreage that contracts out of the Expanded Corsair Unit, effective the day the Unit contracts. The Commissioner may delay contraction of the Unit area if warranted.
- IV. The Working Interest Owner(s) waive(s) the extension provision of 11 AAC 83.140 and Article 16.2 of the approved Corsair Unit Agreement, and the notice and hearing provisions of 11 AAC 83.374 applicable to default and/or termination of the Expanded Corsair Unit.

EXPANDED CORSAIR UNIT REVISED PLAN OF EXPLORATION

ATTACHMENT NO. 1
(submitted March 18, 2008)



- TRACT BOUNDARY
- NORTHERN EXPANSION AREA
- CORSAIR UNIT
- SOUTHERN EXPANSION AREA
- * PROPOSED WELL LOCATIONS
- EXISTING WELL LOCATIONS

CORSAIR UNIT AGREEMENT

DENIAL OF THE APPLICATION FOR
THE FIRST EXPANSION CORSAIR UNIT

Findings and Decision of the Director
of the Division Of Oil and Gas,
Under Delegation of Authority
from the Commissioner of the State of Alaska
Department of Natural Resources

APRIL 30, 2008

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	5.	Exhibit G, Initial Corsair Plan of Exploration

I. DECISION SUMMARY

Pacific Energy Resources Limited (PERL), the Corsair Unit Operator, filed an application for the First Expansion of the Corsair Unit (Application) with the State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division). PERL submitted sufficient confidential and public information to meet the requirements for a complete application under 11 AAC 83.306. The Division deemed the Application complete effective March 26, 2008. The public comment period closed on April 29, 2008. DNR received one comment on Tuesday April 29, 2008.

The Division finds that the Corsair expansion is not in the public interest because it does not promote 1) conservation of natural resources or 2) the prevention of economic and physical waste any more than non-unitized development of the individual leases and 3) does not provide for the protection of all parties of interest, including the state. The expansion would not provide for the development of the acreage any sooner than non-unitized development. Thus, I disapprove the proposed First Expansion of the Corsair Unit under 11 AAC 83.303.

II. BACKGROUND

PERL filed the Application with DNR as the unit's sole working interest owner (WIO). The Corsair Unit is located in the center of upper Cook Inlet, approximately 12 miles southwest of North Cook Inlet Field. The existing unit area covers approximately 10,185 acres including four State of Alaska oil and gas leases. The proposed expansion includes four additional State oil and gas Leases, ADLs 389513, 389514, 389507 and 389923 covering approximately 16,546 acres. Two leases border the northern boundary and two leases border the southern boundary of the existing unit area.

Three of the expansion area leases were offered in the Cook Inlet 2000 Sale held on August 16, 2000. DNR issued oil and gas leases ADLs 389513, 389514, and 389507, effective May 1, 2001, on lease form DOG 200004, which provides a seven-year primary term and reserves a fixed royalty rate of 12.5 percent to the State. The primary terms of these three leases expire on April 30, 2008. The fourth lease, ADL 389923, was offered in the Cook Inlet 2000 Sale, held on May 9, 2001. DNR issued oil and gas lease ADL 389923, effective January 1, 2002, also on lease form DOG 200004. The primary term of this lease expires on December 31, 2008.

III. APPLICATION

The Division received the Application on March 19, 2006, and the \$500.00 unit expansion application filing fee under 11 AAC 83.306 and 11 AAC 05.010(a)(10)(D), respectively. The Application includes: Exhibit A describing the proposed unit expansion area, its leases, and ownership interests; Exhibit B, a map of the proposed expanded unit; and Exhibit G, the proposed Revised Initial Plan of Exploration (Revised Initial POE) (Attachments 1-3, respectively).

I discuss the Revised Initial POE in Section IV.A.3. The Application also includes geophysical, geological, and engineering data in support of the Application that is held confidential under AS 38.05.035(a)(9)(C).

The Division determined that the Application was complete on March 26, 2008, and published a public notice in the "Anchorage Daily News" and in the "Frontiersman" on March 30, 2008, under 11 AAC 83.311. The Division provided copies of the Application and the public notice to the following--the Alaska Department of Environmental Conservation, the DNR Office of Habitat, Management and Permitting, the Kenai Peninsula Borough, the Native Village of Tyonek, the City of Kenai, the Tyonek Village Corporation, Cook Inlet Regional Corporation, the Tyonek Postmaster, the Soldotna Postmaster, and the radio station KSRM in Kenai. The Division also published the notice on the State of Alaska Public Notice website and the Division's website. The public notices invited interested parties and members of the public to submit comments by April 29, 2008.

On April 29, 2008, DNR received one comment on the Application, from Renaissance Alaska, LLC, (Renaissance). Renaissance holds eleven leases located adjacent to both the existing Corsair Unit and the proposed corsair expansion area. Renaissance does not object to the proposed expansion of the Corsair Unit, but states that they "have identified certain oil reservoirs and potential hydrocarbon accumulations that may extend onto the proposed area to be included in the Corsair Unit". Renaissance offers to submit confidential information to "aide the state in its required review". Since this decision denies the expansion of the Corsair Unit, the comment is not relevant to the decision at this time. However, the division welcomes submittal and discussion of any data relating to potential hydrocarbon accumulations.

IV. DISCUSSION OF DECISION CRITERIA

AS 38.05.180(p), AS 38.05.020(b)(4), and Article 13.1 of the Corsair Unit Agreement give DNR the authority to consider an oil and gas unit expansion. The Commissioner of DNR (Commissioner) reviews unit expansion applications under 11 AAC 83.301 – 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 Division Director. The Division's review of the Application is based on the criteria set out in 11 AAC 83.303 (a) and (b). A discussion of the subsection (b) criteria, as they apply to the Application, is set out directly 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 the Expansion

The Corsair Unit lies completely offshore in the center of upper Cook Inlet, east of the village of Tyonek. This area is habitat for a variety of marine mammals, waterfowl, and fish. Area residents may use this area for subsistence hunting and fishing. Oil and gas

activity in the proposed unit area may affect some wildlife habitat and some subsistence activity.

The proposed expansion leases contain mitigation measures designed to protect the environment and address concerns regarding impacts to the area's fish and wildlife species and to habitat and subsistence activities. They address issues such as the protection of primary waterfowl areas, site restoration, construction of pipelines, seasonal restrictions on operations, public access to, or use of, the leased lands, and avoidance of seismic hazards.

The environmental costs associated with oil and gas exploration and development will not increase significantly by expanding the Corsair Unit. Including the leases in the unit will neither change the protective measures contained in the lease mitigation measures, nor result in additional restrictions or limitations to public access to the lands or to public and navigable waters. Regardless of unitization, operations on leases are subject to a coastal zone consistency determination, and must comply with the terms of both the State Coastal Management Program and Kenai Peninsula Borough Coastal Management Plan. Lease and unit operations also require State approval of a Plan of Operations application.

Unitization may lessen environmental risks by reducing redundant facilities. Lessees operate under a unit agreement that includes a plan of exploration or development covering the entire unit area rather than individual leases. In order to drill any exploratory wells in the existing unit or the proposed expansion area PERL must use a rig capable of drilling offshore without platform support, i.e., a so-called jack-up rig. Under the Initial POE, PERL has committed to drill a well by June 30, 2009 within the existing Corsair Unit regardless of unit expansion. Unit expansion will not decrease the need for such a drill rig.

Provided PERL fulfills their Initial POE drilling commitment for the existing Corsair Unit, a jack-up rig will be working in Cook Inlet by June 2009. If DNR does not approve the unit expansion, and expansion leases expire, a party other than PERL could obtain the acreage at the May 2009 Cook Inlet Areawide Lease Sale. Due to the significant capital investment required to bring a jack-up rig to Cook Inlet, and the long lead time for scheduling a suitable heavy lift vessel for transport of the rig, it is very unlikely that multiple jack-up rigs would be delivered to Cook Inlet. Indeed there has not been a jack-up rig in Cook Inlet since the early 1990's. Once the jack-up has arrived at Cook Inlet, Operators wishing to drill offshore wells will most likely contract for that rig. Until there is a commercial discovery within the existing or proposed expanded Corsair Unit no platform is required.

2. The Geological and Engineering Characteristics of the Reservoir and Prior Exploration Activities of the Corsair Unit Area

Introduction

The Corsair Unit is located in the middle of upper Cook Inlet to the northwest of East Forelands and northeast of the Middle Ground Shoal field. The prospect lies on trend with the North Cook Inlet gas field approximately 12 miles to the northeast and the Cannery Loop and Kenai gas fields to the south. Water depths vary from 80 to 120 feet over the structure. PERL provided the Division with geological and geophysical data to support the Application. The geological data consists of structural contour maps of the Beluga, Tyonek, and Hemlock horizons and a diagrammatic structural cross section through the prospect. The geophysical data consists of a map of the regional seismic lines and several interpreted paper seismic lines over the heart of the prospect.

Regional Tectonic Setting and Structural Geology

The Cook Inlet basin is an elongate, northeast-southwest trending, fault-bounded forearc basin that extends from Matanuska Valley southward along the Alaska Peninsula. The Corsair prospect is an asymmetric, doubly plunging anticline with a more steeply dipping western limb. It is located south of North Cook Inlet anticline and east of Middle Ground Shoal anticline, both of which are basement-involved fault propagation folds that have successfully trapped hydrocarbons. The structure at the Corsair prospect, also known as the SRS anticline, mimics the North Cook Inlet structure and demonstrates four-way closure.

Depositional Systems and Stratigraphic Framework

Tertiary clastic sediments, consisting of gravel, sandstone, siltstone, and mudstone were deposited into the Cook Inlet Basin as two major non-marine depositional systems consisting of alluvial-fan and axial-fluvial systems. Alluvial-fan systems occur along the margins of the basin and were sourced from adjacent highlands created by the basin-bounding faults. Sediment is shed off the highlands perpendicular to the river valley orientation as conical, lobate deposits of predominantly coarse-grained sediments emplaced by water and gravity-induced density flows. Migrating axial-fluvial systems occupy the central portion of the basin along the axis of the river valleys, resulting in the thick accumulation of sandstone, siltstone and coal in the basin center. The elongated axial fluvial deposits interfinger with the cone-shaped fans towards the basin margin. The sedimentary accumulations of these two systems are regionally time transgressive and represent laterally equivalent facies deposited across the basin. The Corsair prospect lies in the center of the basin and consists mainly of the axial-fluvial facies that were deposited in the river valleys.

Area Wells

There are six Cook Inlet exploration wells useful for evaluating the Corsair prospect: Shell SRS State #1, Shell SRS State #2, Phillips Tern A-1, Arco South Cook Inlet State #2, Arco South Cook Inlet State #3, and East Middle Ground Shoal State 18751 #1. The Tern A-1 well was drilled to test gas in the Sterling and Beluga formations, while the other five were drilled to test for oil potential in the Tyonek and Hemlock formations.

The East Middle Ground Shoal State 18751 #1 also tested for gas in the Middle Ground Shoal Sands.

Corsair Expansion Prospect

The Corsair prospect is the large NNE-SSW trending doubly plunging, SRS anticline with four-way dip closure. It is located in the middle of Cook Inlet approximately 12 miles southwest of the ConocoPhillips Tyonek platform in water depths that vary from 80 to 120 feet over the structure. The structure is approximately 2.5 miles wide and 9 miles long. It lies on trend with the North Cook Inlet gas field to the north and roughly with the Cannery Loop and Kenai gas fields to the south. The anticline is asymmetric with steep dips on the western limb and shallow dips of generally less than 15 degrees on the east. Other folds in the general area exhibit a similar asymmetry. The steep western flank is bounded on the west by a deep-seated thrust fault that extends slightly into the lower Tertiary strata. The anticline is cut by several normal faults oriented perpendicular to the fold axis, resulting in the compartmentalization of the reservoir into separate fault blocks. The seismic data over the Corsair Prospect demonstrates four way closure through the entire Tertiary section.

The Corsair Unit as currently configured contains two types of hydrocarbon prospects. The primary target consists of Sterling and Beluga gas sands; a secondary target is the deeper Tyonek oil sands. In the acreage under consideration for expansion (both northern and southern leases) only a single hydrocarbon target is viable, the Tyonek oil sands. Maps provided by PERL show the expansion acreage underlain by oil-bearing sandstones of the Tyonek Formation. The gas cap located in the crestal region of the anticline is absent in both the northern and southern expansion acreage.

3. Plan of Exploration and Development for the Proposed Expanded Corsair Unit

The Corsair Unit Initial POE (Initial POE) required, among other things, that PERL submit a satisfactory drilling rig contract by December 31, 2007 (Attachment 5). PERL did not fulfill this commitment. On December 31, 2007, the Division notified PERL that the unit was in default and granted PERL a 90-day period, until April 1, 2008, to cure the default or the unit would terminate. Effective April 1, 2008, the Division approved PERL's default cure, subject to the conditions set out in the Division's April 1, 2008, default cure decision (Attachment 4). On January 29, 2008, the Division also granted PERL a six-month extension, until June 30, 2009, to the December 31, 2008, well drilling requirement set out in the Initial POE, subject to PERL curing the default by April 1, 2008. The Division's January 29, 2008, and April 1, 2008, decisions amended the Initial POE.

PERL has proposed a Revised Initial POE (Attachment 3) as part of the Application, which provides for work commitments similar to those in effect under the Initial POE, as amended by the Division's decisions, but proposes extensions to the work commitment dates.

In the Revised Initial POE, PERL proposes drilling three wells by December 31, 2009, extending the current June 30, 2009, requirement for the first well by six months. PERL neither requests an extension nor provides discussion of the justification to extend that requirement to December 31, 2009.

PERL proposes submitting an application for an initial participating area (PA) by December 31, 2010—eleven months later than the submittal date, January 31, 2010, set out in the Initial POE.

The Initial POE proposed the drilling of a second exploration well during the fourth year of the POE, by January 31, 2011. The Revised Initial POE, which proposes to drill three wells by December 31, 2009, proposes a drilling commitment date of December 31, 2011 for a fourth well. In both POEs, PERL commits to submit the necessary applications to obtain approvals to allow construction of pipelines and infrastructure to permit commercial production from the PA. The Initial POE requires the submittals by January 31, 2012, the Revised Initial POE delays the submittal date to December 31, 2012.

The Initial POE required the Operator to timely conduct exploration, evaluation, and development activities that would result in production, if a commercial resource were found, sooner than if the unit were not formed and sooner than would occur under any individual lease exploration effort. The Initial POE approved with the Corsair Unit Formation Decision committed the Operator to drill a well within twenty three months after unit formation, by December 31, 2008. The state exchanged the value of re-leasing the soon to expire acreage for a promise that the original Corsair Unit leases would be drilled within two years. Given the prolonged contracting and scheduling efforts required to bring a jack-up to Cook Inlet, unitizing the leases under the approved Initial POE would result in production of a commercial resource, if found, sooner than allowing the leases to expire

PERL has applied to expand the existing Corsair Unit to include four additional leases, three of which are due to expire in less than six weeks from the Application submittal date. The fourth lease is due to expire in less than nine months from the Application submittal date. PERL proposes that the promise to drill multiple wells on the expansion leases justifies the expansion of the existing unit area and the extension of these leases beyond the primary term. The Operator has yet to drill the original Corsair Unit leases within the leases' primary terms. Approval of this proposed expansion, extending the primary term of the proposed expansion leases, amounts to warehousing of the proposed expansion lease acreage. The goal of unitization is to effect production, not to enable a single Operator to hold acreage beyond primary lease terms. Failure to conduct activity to delineate a prospect within the primary term of a lease does not justify the extension of the primary term by unitization. The prospect described by PERL in the Application underlies the existing Corsair Unit as well as the proposed expansion leases. Delineation and production of the existing current leases is dependent upon fulfillment of the Initial

POE obligations, securing contracts for the use and mobilization of a suitable rig, not upon unitization.

If the expansion is not approved, the leases will expire and the acreage will be available in the May 2009 Cook Inlet Areawide Lease Sale. Provided PERL fulfills the commitment in the Initial POE, a jack-up rig will be working in Cook Inlet by June 30, 2009. At that time PERL or any other successful bidder will have the opportunity to contract for the rig and conduct exploration and delineation drilling on any offshore lease. If the rig does not arrive, then no drilling by any party will occur on any offshore leases, regardless of unitization.

The Division relied on adherence to the terms in the Initial POE to satisfy the performance standards and diligence requirements that the Division and Forest Oil Corporation (Forest), PERL's predecessor-in-interest, agreed to as a condition for approval of the Corsair Unit Agreement. PERL acquired interest in the Corsair Unit with full understanding of the commitments and agreed to the terms and conditions of the Unit Agreement, which includes the Initial POE, upon their acceptance of designation by Forest as the Successor Unit Operator, on November 27, 2007.

The Division has already granted a six month extension for the first well drilling commitment, which is now due on June 30, 2009. PERL must drill that well in Tract 1 or 3, which are in the original unit area. PERL now proposes to postpone that commitment by an additional six months, until December 31, 2009, and commits to drill two additional wells in the proposed expansion area, on Tracts 6 and 7, within the same timeframe. The Division's April 1, 2008, decision imposed additional obligations on PERL, including obligations pertaining to the rig contract, which must be met by April 30, 2008, or the unit terminates and obligations pertaining to a heavy lift vessel, which must be met by July 31, 2008, or the unit terminates.

4. The Economic Costs and Benefits to the State and Other Relevant Factors

Approval of the unit expansion as proposed postpones current unit commitments and delays development. Denial of the unit expansion application will result in the expiration of the leases. The leases will then be available at the May 2009 Cook Inlet Sale. The competitive lease sale program provides opportunity to all potential lessees to acquire interest in acreage and to explore that acreage within the primary term of the lease.

5. Amendments to the State Only Model Unit Agreement Form and Other Relevant Factors

Neither DNR nor PERL proposed revisions to the existing Corsair Unit Agreement

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

1. Promote The Conservation of All Natural Resources

PERL has not demonstrated that approval of the proposed unit expansion would achieve one of the principal goals of unitization, which is to promote the conservation of natural resources. Although unitized operation of the expansion leases would not detract from the conservation of all natural resources, it has not shown that approval of the unit expansion, in and of itself, will promote conservation relative to non-unitized operations.

2. The Prevention of Economic and Physical Waste

Unitization prevents economic and physical waste by eliminating redundant expenditures for a given level of production, and by avoiding loss of ultimate recovery with the adoption of a unified reservoir management plan. Since no prospect has yet been delineated by the drilling of a well within the existing or proposed expanded unit, no redundant expenditures are contemplated. The fulfillment of the first well commitment by June 30, 2009, is not dependent upon approval of the proposed unit expansion. The prospect described by PERL in the Application may be delineated within the existing unit area and PERL has an opportunity to obtain the proposed expansion acreage at the May 2009 Cook Inlet Sale.

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

The expansion leases have nearly run their entire primary term without drilling by any lessee. The use of unitization merely to extend the primary term is not in the best interest of the State. If it were to approve this expansion based on a promise to drill two wells in the expansion area, the State foregoes the opportunity to receive the bids from the future sale of the acreage. Competitive lease sales offer the opportunity for lessees, including PERL, to acquire leases and explore for commercial resources within the primary term. The State's interest is best served by promoting competition for the acreage offered in the lease sales, not by allowing extensions to primary terms in exchange for a promise to drill additional wells—promises given by a lessee that has not timely fulfilled its existing commitments.

It is not in the public interest to expand the Corsair Unit under the terms set out in the Revised Initial POE. Three of the four expansion leases expire on April 30, 2008, and the fourth expires on December 31, 2008. The Division will not extend these leases beyond their primary terms based solely on promises to drill two wells in the future, when PERL did not meet its drilling rig contract commitment and will not meet its original well drilling commitment. In addition, it is not in the public interest to expand the Corsair Unit now, given that the unit could terminate automatically on April 30 or July 31, 2008, or June 30, 2009, if PERL fails to meet its current obligations under the Initial POE, as amended by the Division's January 29 and April 1, 2008, decisions.

V. FINDINGS AND DECISION

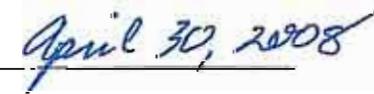
1. No drilling has occurred within the primary term of the proposed expansion leases.
2. PERL neither fulfilled the Initial POE drilling work commitment by December 31, 2008, nor has it yet fulfilled the June 30, 2009, drilling commitment.
3. Unitization is meant to facilitate efficient reservoir production, not to enable warehousing of acreage. Given the unit's recent history, Corsair Unit expansion will not guarantee delineation and production of the prospect sooner than lease-by-lease development by any lessee.
4. Unitization is not necessary to promote the development of a single resource by multiple working interest owners, as there is only one working interest owner, PERL, in the existing Corsair Unit and the proposed expanded Corsair Unit.
5. The Revised Initial POE would extend the Initial POE, as amended, drill-by date of June 30, 2009 until December 31, 2009. This is an unacceptable delay in drilling this unit's prospects.

For all the reasons discussed above, approval of the Application for the First Expansion of the Corsair Unit is not in the public interest. Thus, I disapprove the Application.

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 Tom Irwin, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.



Kevin R. Banks,
Acting Director
Division of Oil and Gas



Date

VI. ATTACHMENTS

- 1) Exhibit A, Proposed Expanded Corsair Unit Tracts/leases
- 2) Exhibit B, Map of the Proposed Expanded Corsair Unit Boundary
- 3) Exhibit G, proposed Revised Corsair Plan of Exploration (Revised Initial POE)
- 4) April 1, 2008, DNR Letter, Cure of Default of the Corsair Unit
- 5) Exhibit G, Initial Corsair Plan of Exploration (Initial POE)

**CORSAIR UNIT AGREEMENT
FIRST EXPANSION OF THE CORSAIR UNIT AREA
STATE OF ALASKA**

REVISED EXHIBIT "A"
(submitted March 18, 2008)

TRACT NO.	LEASE NO.	LEGAL DESCRIPTION	ACRES	ROYALTY	LESSEES OF RECORD	WORKING INTEREST	ORRI
1	ADL-389197	<u>Original Corsair Unit Area, as approved on January 31, 2007</u> T. 10 N., R. 11 W., S.M. Sec. 13, Protracted, All Sec. 14, Protracted, All Sec. 23, Protracted, All Sec. 24, Protracted, All	2,560	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
2	ADL-389196	T. 10 N., R. 10 W., S.M. Sec. 17, Protracted, All Sec. 18, Protracted, All Sec. 19, Protracted, All Sec. 20, Protracted, All	2,529	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99998
3	ADL-389198	T. 10 N., R. 11 W., S.M. Sec. 25, Protracted, All Sec. 26, Protracted, All Sec. 35, Protracted, All Sec. 36, Protracted, All	2,560	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
4	ADL-389515	T. 10 N., R. 10 W., S.M. Sec. 29, Protracted, All Sec. 30, Protracted, All Sec. 31, Protracted, All Sec. 32, Protracted, All	2,536	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999

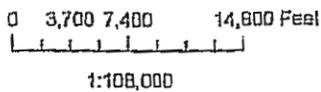
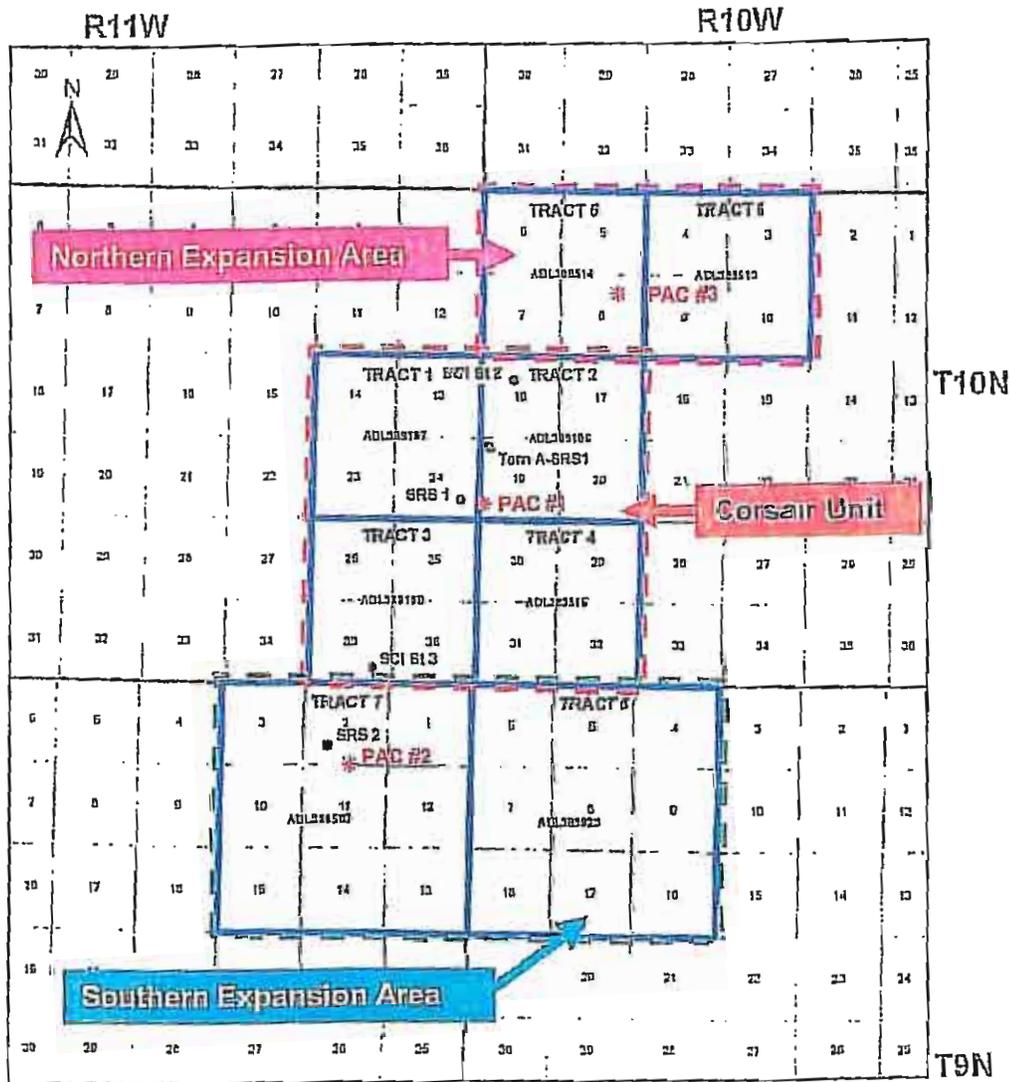
TRACT NO.	LEASE NO.	LEGAL DESCRIPTION	ACRES	ROYALTY	LESSEES OF RECORD	WORKING INTEREST	ORRI
EXPIRATION DATE							
<u>Northern Expansion Area, as submitted on March 18, 2008</u>							
5	ADL-389514	T. 10 N., R. 10 W., S.M. Sec. 05, Protracted, All Sec. 06, Protracted, All Sec. 07, Protracted, All Sec. 08, Protracted, All	2.560	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	April 30, 2008						
6	ADL-389513	T. 10 N., R. 10 W., S.M. Sec. 03, Protracted, All Sec. 04, Protracted, All Sec. 09, Protracted, All Sec. 10, Protracted, All	2.522	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	April 30, 2008						
<u>Southern Expansion Area, as submitted on March 18, 2008</u>							
7	ADL-389507	T. 09 N., R. 11 W., S.M. Sec. 01, Protracted, All Sec. 02, Protracted, All Sec. 03, Protracted, All Sec. 10, Protracted, All Sec. 11, Protracted, All Sec. 12, Protracted, All Sec. 13, Protracted, All Sec. 14, Protracted, All Sec. 15, Protracted, All	5.736	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	April 30, 2008						
8	ADL-389923	T. 09 N., R. 10 W., S.M. Sec. 04, Protracted, All Sec. 05, Protracted, All Sec. 06, Protracted, All Sec. 07, Protracted, All Sec. 08, Protracted, All Sec. 09, Protracted, All Sec. 16, Protracted, All Sec. 17, Protracted, All Sec. 18, Protracted, All	5.728	12.50%	Pacific Energy AK Op. LLC	100.00%	4.99999
	December 31, 2008						
			TOTAL UNIT ACRES:		26.731		

ATTACHMENT TWO

Exhibit B, Map of the Proposed Expanded Corsair Unit Boundary

**EXPANDED CORSAIR UNIT
REVISED PLAN OF EXPLORATION**

ATTACHMENT NO. 1
(submitted March 18, 2008)



- TRACT BOUNDARY
- NORTHERN EXPANSION AREA
- CORSAIR UNIT
- SOUTHERN EXPANSION AREA
- * PROPOSED WELL LOCATIONS
- EXISTING WELL LOCATIONS

ATTACHMENT THREE

Exhibit G, proposed Revised Corsair Plan of Exploration (Revised Initial POE)

CORSAIR UNIT AGREEMENT
FIRST EXPANSION OF THE CORSAIR UNIT AREA
STATE OF ALASKA

REVISED EXHIBIT "G"
(submitted March 18, 2008)

REVISED INITIAL UNIT PLAN

Pacific Energy Alaska Operating LLC ("Pacific"), as a result of its work interpreting approximately 126 miles of proprietary 2D data acquired in 1997 by Forest Oil Corporation, through its predecessor Forcenergy Inc, in combination with Digicon's C188/89 2D survey (totaling 244 miles of seismic data resulting in 2D line spacing of approximately ½ mile in both the dip and strike directions), and an additional 113 miles of proprietary 2D data acquired from Escopeta Oil Company LLC ("Escopeta"), identified large seismic amplitude anomalies located in the center of the Upper Cook Inlet approximately 12 miles southwest of the North Cook Inlet Field. This seismic anomaly is the Expanded Corsair Prospect, as interpreted by Pacific and Escopeta.

The Corsair feature is approximately 4 miles wide and 10 miles long and lies on structural trend with the North Cook Inlet Field. Water depths over the structure range from 80 to 120 feet and average 100 feet. Production from the North Cook Inlet Field is primarily dry gas from the lower Sterling and upper Beluga formations and oil production from the mid-Tyonek Sunfish and Hemlock sands. In the Corsair Prospect these are the primary objectives.

Pacific currently has a 100% Working Interest in eight (8) Leases near or on the Corsair Anticline which comprise a total of approximately 26,731 acres. Forest established the Corsair Unit to include Leases ADL-389196, ADL-389197, ADL-389198 and ADL-389515 which comprise a total of 10,185 acres. The additional four (4) Leases, comprising a total of 15,546 acres, cover the outward extent of the seismic amplitude anomaly as interpreted by Pacific and Escopeta with currently available data.

Pacific, as the sole Working Interest Owner of the four Leases to be included within the approved Corsair Unit, proposes an initial five-year (5-year) Plan of Exploration and Plan of Development (Initial Unit Plan) for the Corsair Unit. During the term of this Initial Unit Plan, Pacific, in its capacity as the Corsair Unit Operator, plans to (1) drill three exploration wells, (2) if drilling data indicates it to be appropriate, test portions of the Tyonek, Beluga, Sterling and Hemlock intervals in the exploration well (location of seismic amplitude anomalies) within the Corsair Anticline, (3) if warranted by well test data, confirm through extended testing of the exploration well if commercial quantities of oil or gas are present in the seismic amplitude anomalies, (4) submit an application for approval of an Initial Participating Area (Initial PA) within the Corsair Unit, and (4) commence construction of pipelines and other infrastructure to allow commercial oil and/or gas production.

As justification for an extension beyond the end of the primary term of the additional Leases ADL-389507, ADL-389513 and ADL-389514 from April 30, 2008, and of Lease ADL-389923 from December 31, 2008, Pacific, as the Corsair Unit Operator, will undertake the following exploration plan:

Year 1/Year 2: Within the first two years of this Initial Unit Plan, before December 31, 2009, the Corsair Unit Operator will commit to and drill an three (3) Exploration Wells within the Unit Area. These wells are depicted on Attachment No. 1 of this Revised Initial Plan of Exploration.

- I. By March 31, 2007, the Unit Operator will provide evidence to the satisfaction of the Commissioner of a rig/drilling commitment by the Unit Operator that would enable the Unit Operator to drill a well within the Corsair Unit no later than December 31, 2008.

- II. By December 31, 2009 the Unit Operator will drill three (3) Exploration Wells that meets the following minimum criteria:
 - A. Drill a well to the lower Sterling and upper Beluga gas sands, stratigraphically equivalent to the gas producing intervals at the North Cook Inlet Field; or to the bottom of the oil bearing sands of either the Tyonek or Hemlock formations;
 - B. Drill to a bottom hole location within Tracts 1, 6 and 7, ADLs 389197, 389513 and 389507, respectively;
 - C. Log the wells (GR or SP, Resistivity and Neutron/Density or Porosity: appropriate triple combo log); and
 - D. Complete, suspend, or abandon the wells.

- III. If the Unit Operator fails to provide evidence by December 31, 2008 satisfactory to the Commissioner of its commitment to drill the three (3) Exploration Wells as described in Section I above by December 31, 2009:
 - A. The Expanded Corsair Unit will automatically terminate;
 - B. All Leases in the Expanded Corsair Unit will terminate effective January 1, 2009;
 - C. The Working Interest Owners shall pay the State of Alaska a payment equal to \$25.00/acre x expired State Lease acreage within the Expanded Corsair Unit; and
 - D. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan of Exploration.

- IV. If the Unit Operator fails to drill the three (3) Exploration Wells described in Section II above, by December 31, 2009:
 - A. The Expanded Corsair Unit will terminate;
 - B. All Leases in the Expanded Corsair Unit will terminate effective January 1, 2010;
 - C. The Working Interest Owners will pay the State of Alaska a payment equal to \$35.00/acre x expired State Lease acreage within the Expanded Corsair Unit; and
 - D. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan of Exploration.

Year Three: During the third year of this Revised Initial Unit Plan of Exploration, before December 31, 2010, if the Expanded Corsair Unit has not been terminated pursuant to this Revised Initial Unit Plan of Exploration, the Unit Operator will determine through well test data that the seismic amplitudes are related to commercial oil and/or gas sands and seek to obtain approval of a Participating Area within the Corsair Unit.

- I. Following completion of the Exploration Wells, if drilling data indicates it to be appropriate, the Unit Operator will test the appropriate oil and/or gas bearing intervals in the Exploration Wells (location of seismic amplitude anomaly) within the Corsair Anticline.
- II. If warranted by well test data, the Unit Operator will confirm through extended testing of the Exploration Wells if commercial quantities of oil and/or gas are present in the seismic amplitude anomaly within the Corsair feature.
- III. The Unit Operator will submit by December 31, 2010 an application containing all information necessary to obtain approval from the proper authorities to establish a Participating Area (PA) within the Expanded Corsair Unit.
- IV. If the Unit Operator fails to submit a complete application by December 31, 2010 to establish a PA within the Expanded Corsair Unit, containing all information necessary to obtain approval from the proper authorities:
 - A. The Expanded Corsair Unit will automatically terminate;
 - B. All Leases in the Corsair Unit will terminate effective January 1, 2011;
 - C. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan of Exploration.

Year Four: During the fourth year of this Initial Unit Plan, before December 31, 2011, the Unit Operator plans to consider drilling a 4th Exploration Well within the Expanded Corsair Unit. The Unit Operator will submit a revised Initial Unit Plan of Exploration that will include a Unit Plan of Development describing activities to be conducted on lands within the PA and a Plan of Exploration describing exploration activities to be conducted on other Corsair leases and on lands not within any PA in the Unit Area during the remaining two years of the Initial Unit Plan.

Year Five: During the fifth year of this Initial Unit Plan, before December 31, 2012, the Unit Operator will submit the necessary applications to obtain approvals, including a Unit Plan of Operations, that will allow construction of pipelines and infrastructure to permit commercial production of oil and/or gas from the Corsair Unit Participating Area(s).

Initial Unit Plan General Provisions:

1. If the Expanded Corsair Unit terminates for failure to fulfill any of the commitments in this Revised Initial Unit Plan, the Working Interest Owner(s) will automatically surrender all expired State acreage within the Expanded Unit Area, effective the day the Unit terminates.

- II. After fulfilling all of the obligations in this Revised Initial Unit Plan, any Tract not having a portion of the Lease included in an approved Participating Area by January 31, 2013 shall contract out of the Expanded Unit Area, unless there is a well certified capable of producing in paying quantities located on that Tract, and all portions of the Lease remaining in the Expanded Unit Area shall be subject to the terms and provisions of the approved Corsair Unit Agreement.
- III. If acreage contracts out of the Expanded Corsair Unit Area for failure to fulfill any of the commitments in this Revised Initial Unit Plan of Exploration, the Working Interest Owner(s) shall automatically surrender all expired State acreage that contracts out of the Expanded Corsair Unit, effective the day the Unit contracts. The Commissioner may delay contraction of the Unit area if warranted.
- IV. The Working Interest Owner(s) waive(s) the extension provision of 11 AAC 83.140 and Article 16.2 of the approved Corsair Unit Agreement, and the notice and hearing provisions of 11 AAC 83.374 applicable to default and/or termination of the Expanded Corsair Unit.

ATTACHMENT FOUR

April 1, 2008, DNR letter, Cure of Default of the Corsair Unit

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8838

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

April 1, 2008

Vladimir Katic
Executive Chairman & Chief Operating Officer
Pacific Energy Resources Ltd.
111 West Ocean Blvd.
Suite 1240
Long Beach, CA
90802

Subject: Corsair Unit Default Cure

Dear Mr. Katic:

In a December 31, 2007, letter the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division), notified Pacific Energy Resources, Ltd. (PERL), Operator of the Corsair Unit, that the unit was in default because PERL failed to provide evidence of a drilling rig commitment that would enable PERL to drill a well within the unit no later than December 31, 2008, as required under the Corsair Unit Initial Plan of Exploration (Corsair Initial POE). The Division granted PERL a 90-day period, until April 1, 2008, to

provide evidence satisfactory to the Division of a rig/drilling commitment by the Unit Operator that would enable the Unit Operator to drill a well within the Corsair Unit no later than December 31, 2008.

On January 29, 2008, the Division granted PERL a six-month extension, until June 30, 2009, to the December 31, 2008, drilling requirement, subject to PERL curing the current default by April 1, 2008.

On March 14, 2008, PERL submitted a signed rig contract, which is confidential under AS 38.05.035(a)(9). Upon further discussion and submittal of additional confidential contract information, the Division approves the submittal as satisfactory evidence of a rig contract by the Unit Operator that would enable the Unit Operator to drill a well within the Corsair Unit no later than June 30, 2009.

This approval is subject to the following conditions, which PERL has agreed to.

"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."

First, by April 30, 2008, the Unit Operator shall provide evidence of:

1. notification to Blake Offshore, LLC (Blake) of the Unit Operator's intent to sign the rig contract;
2. payment of the earnest money deposit as set out in the contract and invoiced by Blake; and
3. Blake having accepted the deposit and reserved the rig for the Unit Operator thereby committing Blake to provide a rig to the Unit Operator that would enable the Unit Operator to drill a well within the Corsair Unit no later than June 30, 2009.

Second, if the Unit Operator fails to fulfill the April 30, 2008, commitment described above, then the:

1. Corsair Unit will automatically terminate and all leases in the Corsair Unit beyond their primary term will expire;
2. Working Interest Owners shall pay the State of Alaska a payment equal to \$25.00/acre x expired state lease acreage within the Corsair Unit; and
3. Unit Operator and the Working Interest Owners will be released from all further obligations in the Corsair Unit Initial POE.

Third, by July 31, 2008, the Unit Operator shall provide the Division with a copy of the signed contract for the heavy lift vessel capable of transporting the Blake 151 rig to Cook Inlet Alaska and will provide evidence of payment of the 50 percent deposit required to commence that contract. That contract must specify a departure date for the heavy lift vessel with the Blake 151 rig to Cook Inlet Alaska that will allow the Unit Operator to fulfill the June 30, 2009, drilling commitment date. Upon departure, the Unit Operator shall provide the Division with an affidavit confirming the departure date.

Fourth, if the Unit Operator fails to fulfill the July 31, 2008, commitment described above, then the:

1. Corsair Unit will automatically terminate and all leases in the Corsair Unit beyond their primary term will expire;
2. Working Interest Owners shall pay the State of Alaska a payment equal to \$35.00/acre x expired state lease acreage within the Corsair Unit; and
3. Unit Operator and the Working Interest Owners will be released from all further obligations in the Corsair Unit Initial POE.

As set out above, this decision modifies the Initial Corsair Plan of Exploration for Years One and Two.

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 Tom Irwin, Commissioner, DNR, 550 W. 7th avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1 -907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

If you have any questions regarding this decision, contact Temple Davidson with the Division at 907-269-8784.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin R. Banks". The signature is fluid and cursive, with the first name "Kevin" being the most prominent part.

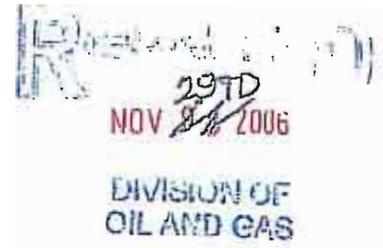
Kevin R. Banks
Acting Director

Cc: Jeff Landry, DOL

ATTACHMENT FIVE

Exhibit G, Initial Corsair Plan of Exploration (Initial POE)

Corsair Unit Agreement
EXHIBIT "G"



INITIAL UNIT PLAN

Forest Oil Corporation ("Forest"), as a result of its work interpreting approximately 126 miles of proprietary 2D data acquired in 1997 by Forcenergy Inc in combination with Digicon's CI88/89 2D survey (totaling 244 miles of seismic data resulting in 2D line spacing of approximately ½ mile in both the dip and strike directions), identified large seismic amplitude anomalies located in the center of the Upper Cook Inlet approximately 12 miles southwest of the North Cook Inlet Field. This seismic anomaly is the Corsair Prospect, as interpreted by Forest. The Corsair feature is approximately 2.5 miles wide and 9 miles long and lies on structural trend with the North Cook Inlet Field. Water depths over the structure range from 80 to 120 feet and average 100 feet. Production from the North Cook Inlet Field is primarily dry gas from the lower Sterling and upper Beluga formations with a minor amount of oil production from the mid-Tyonek Sunfish sands. In the Corsair Prospect the primary objectives are the Sterling-Beluga sands that are stratigraphically equivalent to the gas producing interval at the North Cook Inlet Field.

Forest currently has a 100% Working Interest in eight (8) Leases near or on the Corsair Anticline which comprise a total of approximately 26,880 acres. Forest proposes establishing the Corsair Unit to include Leases ADL-389196, ADL-389197, ADL-389198 and ADL-389515 which comprise a total of 10,185 acres. These four (4) Leases cover the extent of the seismic amplitude anomaly as interpreted by Forest with currently available data.

Forest Oil Corporation ("Forest"), as the sole Working Interest Owner of the four Leases to be included within the Corsair Unit, proposes an initial five-year (5-year) Plan of Exploration and Plan of Development (Initial Unit Plan) for the Corsair Unit. During the term of this Initial Unit Plan, Forest, in its capacity as the Corsair Unit Operator, plans to (1) drill an exploration well, (2) if drilling data indicates it to be appropriate, test the lower Sterling - upper Beluga interval in the exploration well (location of seismic amplitude anomaly) at the culmination of the Corsair Anticline, (3) if warranted by well test data, confirm through extended testing of the exploration well if commercial quantities of gas are present in the seismic amplitude anomaly, (4) submit an application for approval of an Initial Participating Area (Initial PA) within the Corsair Unit, and (4) commence construction of pipelines and other infrastructure to allow commercial gas production.

As justification for an extension beyond the end of the primary term of Leases ADL-389196, ADL-389197 and ADL-389198 from January 31, 2007, and of Lease ADL-389515 from April 30, 2008, Forest, as the Corsair Unit Operator, will undertake the following exploration plan:

Year 1/Year 2: Within the first two years of this Initial Unit Plan, before **December 31, 2008**, the Corsair Unit Operator will commit to and drill an Exploration Well within the Unit Area.

- I. By **December 31, 2007**, the Unit Operator will provide evidence to the satisfaction of the Commissioner of a rig/drilling commitment by the Unit Operator that would enable the Unit Operator to drill a well within the Corsair Unit no later than **December 31, 2008**.

- II. By **December 31, 2008** the Unit Operator will drill an Exploration Well that meets the following minimum criteria:
 - A. Drill a well to the lower Sterling and upper Beluga gas sands, stratigraphically equivalent to the gas producing intervals at the North Cook Inlet Field;
 - B. Drill to a bottom hole location within Tract 1 or Tract 3, ADL-389197 or ADL-389198;
 - C. Log the well (GR or SP, Resistivity and Neutron/Density or Porosity: appropriate triple combo log); and
 - D. Complete, suspend, or abandon the well.

- III. If the Unit Operator fails to provide evidence by **December 31, 2007** satisfactory to the Commissioner of its commitment to drill the 1st Exploration Well as described in Section I above by **December 31, 2008**:
 - A. The Corsair Unit will automatically terminate;
 - B. All Leases in the Corsair Unit will terminate effective January 1, 2008, including ADL-389515 even though it will not expire until 5/01/2008;
 - C. The Working Interest Owners shall pay the State of Alaska a payment equal to \$25.00/acre x expired State Lease acreage within the Corsair Unit; and
 - D. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan.

- IV. If the Unit Operator fails to drill the 1st Exploration Well described in Section II above, by **December 31, 2008**:
 - A. The Corsair Unit will terminate;
 - B. All Leases in the Corsair Unit will terminate effective January 1, 2009;
 - C. The Working Interest Owners will pay the State of Alaska a payment equal to \$35.00/acre x expired State Lease acreage within the Corsair Unit; and
 - D. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan.

Year Three: During the third year of this Initial Unit Plan, before **January 31, 2010**, if the Corsair Unit has not been terminated pursuant to this Initial Unit Plan, the Unit Operator will determine through well test data that the seismic amplitudes are related to commercial gas sands and seek to obtain approval of a Participating Area within the Corsair Unit.

- I. Following completion of the 1st Exploration Well, if drilling data indicates it to be appropriate, the Unit Operator will test the lower Sterling - upper Beluga interval in the Exploration Well (location of seismic amplitude anomaly) at the culmination of the Corsair Anticline.

- II. If warranted by well test data, the Unit Operator will confirm through extended testing of the Exploration Well if commercial quantities of gas are present in the seismic amplitude anomaly within the Corsair feature.

DEPARTMENT OF
NATURAL RESOURCES

NOV 28 2007

COMMISSIONER'S OFFICE
ANCHORAGE



PACIFIC ENERGY

November 26, 2007

RECEIVED

NOV 27 2007

DIVISION OF
OIL AND GAS

Commissioner Tom Irwin
Department of Natural Resources
550 West Seventh Avenue, Suite 1400
Anchorage, Alaska 99501-3554

Re: Acceptance as Successor Unit Operator for
the Corsair Unit

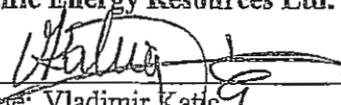
Dear Commissioner Irwin:

This letter is to notify you that Pacific Energy Resources Ltd., a Delaware corporation, hereby accepts and assumes all rights and obligations as Successor Unit Operator for the Corsair Unit pursuant to Article 6 of the Unit Agreement for the Corsair Unit.

Forest Oil Corporation resigned as the Unit Operator for the Corsair Unit, pursuant to Article 5 of the Unit Agreement and designated Pacific Energy Resources Ltd., as Successor Unit Operator pursuant to Article 6 of the Unit Agreement. The resignation of Forest Oil Corporation as Unit Operator and designation of Pacific Energy Resources Ltd., as Successor Unit Operator, were set forth in a letter signed by Forest Oil Corporation on November 14, 2007, and filed with your office on November 14, 2007.

Pacific Energy Resources Ltd., shall serve as the Successor Unit Operator for the Corsair Unit upon the approval of the Department of Natural Resources Commissioner.

Very truly yours,
Pacific Energy Resources Ltd.

By: 

Name: Vladimir Katic

Title: Executive Chairman & Chief Operating Officer

cc: Forest Oil Corporation (Attn: Land Administration)
Director Kevin Banks (Department of Natural Resources)

Pacific Energy Resources Ltd., 111 West Ocean Blvd., Suite 1240, Long Beach, CA 90802
Ph: 562-628-1526 Fax: 562-628-1536

- III. The Unit Operator will submit by **January 31, 2010** an application containing all information necessary to obtain approval from the proper authorities to establish a Participating Area (PA) within the Corsair Unit.
- IV. If the Unit Operator fails to submit a complete application by **January 31, 2010** to establish a PA within the Corsair Unit, containing all information necessary to obtain approval from the proper authorities:
 - A. The Corsair Unit will automatically terminate;
 - B. All Leases in the Corsair Unit will terminate effective February 1, 2010;
 - C. The Unit Operator and the Working Interest Owners will be released from all further obligations in this Initial Unit Plan.

Year Four: During the fourth year of this Initial Unit Plan, before **January 31, 2011**, the Unit Operator plans to consider drilling a 2nd Exploration Well within the Corsair Unit. The Unit Operator will submit a revised Initial Unit Plan that will include Plan of Development describing activities to be conducted on lands within the PA and a Plan of Exploration describing exploration activities to be conducted on leases ADL-389196 and ADL-389515 and on lands not within any PA in the Unit Area during the remaining two years of the Initial Unit Plan.

Year Five: During the fifth year of this Initial Unit Plan, before **January 31, 2012**, the Unit Operator will submit the necessary applications to obtain approvals, including a plan of operation, that will allow construction of pipelines and infrastructure to permit commercial production of gas from the Corsair Unit Participating Area(s).

Initial Unit Plan General Provisions:

- I. If the Corsair Unit terminates for failure to fulfill any of the commitments in this Initial Unit Plan, the Working Interest Owner(s) will automatically surrender all expired State acreage within the Unit Area, effective the day the Unit terminates.
- II. After fulfilling all of the obligations in this Initial Unit Plan, any Tract not having a portion of the Lease included in an approved Participating Area by January 31, 2012 shall contract out of the Unit Area, unless there is a well certified capable of producing in paying quantities located on that Tract, and all portions of the Lease remaining in the Unit Area shall be subject to the terms and provisions of the Corsair Unit Agreement.
- III. If acreage contracts out of the Corsair Unit area for failure to fulfill any of the commitments in this Initial Unit Plan, the Working Interest Owner(s) shall automatically surrender all expired State acreage that contracts out of the Corsair Unit, effective the day the Unit contracts. The Commissioner may delay contraction of the Unit area if warranted.
- IV. The Working Interest Owner(s) waive(s) the extension provision of 11 AAC 83.140 and Article 16.2 of the Corsair Unit Agreement, and the notice and hearing provisions of 11 AAC 83.374 applicable to default and/or termination of the Corsair Unit.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

April 1, 2008

Vladimir Katic
Executive Chairman & Chief Operating Officer
Pacific Energy Resources Ltd.
111 West Ocean Blvd.
Suite 1240
Long Beach, CA
90802

Subject: Corsair Unit Default Cure

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AAC 02.040 (c) and (d), and may be mailed or delivered to Tom Irwin, Commissioner, DNR, 550 W. 7th avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1 -907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

If you have any questions regarding this decision, contact Temple Davidson with the Division at 907-269-8784.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin R. Banks". The signature is written in a cursive style and is positioned above the printed name and title.

Kevin R. Banks
Acting Director

Cc: Jeff Landry, DOL



PACIFIC ENERGY

April 25, 2008

VIA E-MAIL AND FACSIMILE

Blake Offshore, LLC
P.O. Box 6080
Metairie, Louisiana 70009

Attention: Mr. Paul Butler

Re: Offshore Daywork Drilling Contract dated March 7, 2008 by and between Blake Offshore, LLC, as Contractor, and Pacific Energy Alaska Operating LLC, as Operator, as amended by Letter Agreements dated March 13, 2008 and April 7, 2008, Corsair Unit, Cook Inlet, Alaska

Dear Paul:

Reference is made to that certain Offshore Daywork Drilling Contract dated March 7, 2008, by and between Blake Offshore, LLC, as Contractor, and Pacific Energy Alaska Operating LLC, as Operator (the "Drilling Contract"), as amended by those certain letter agreements dated March 13, 2008 and April 7, 2008 (the "Letter Agreements"). This shall letter constitute notice and acceptance of all of the terms and conditions of the Drilling Contract and Letter Agreements. Specifically, the Operator confirms and accepts the following conditions and terms:

- 1) **Nomination of Rig:** The Operator hereby nominates the Blake Rig 151, or other suitable 250 foot class independent leg jack-up rig provided by Contractor for delivery to Operator to enable the drilling of a well in the Corsair Unit, Cook Inlet, Alaska no later than June 30, 2009.

- 2) **Earnest Money Deposit:** Operator shall, upon acceptance by Contractor of this notice letter, wire an earnest money deposit of \$100,000 (the "Deposit") to Contractor at Whitney National Bank, New Orleans, Louisiana, ABA 065000171, Account Number 714167649. Notwithstanding anything to the contrary, the Deposit shall be delivered to Contractor on or before April 30, 2008 and is non-refundable. Upon receipt of the wire transfer, on or before April 30, 2008, confirmation of such wire shall be delivered to Operator as evidence of the payment of the Deposit.

3) Rig Commitment:

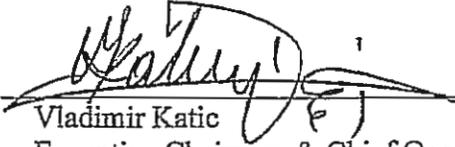
By execution of this notice letter by a duly authorized officer of Contractor and the acceptance of the Deposit, Contractor commits to provide a rig to Operator that would enable Operator to drill a well within the Corsair Unit no later than June 30, 2009, upon satisfaction by Operator of all other terms and conditions under the Drilling Contract and Letter Agreements. Notwithstanding any other agreements or terms to the contrary, Contractor's obligations to Operator are contingent upon verification, acceptable to Contractor, of Operator's ability to perform pursuant to the terms contained in the Drilling Contract referenced above.

If the foregoing represents the understanding and agreement of the parties, please execute in the space provided hereinbelow your acceptance of these terms and conditions and return an original to the undersigned.

Very truly yours,

PACIFIC ENERGY ALASKA OPERATING LLC

By: _____

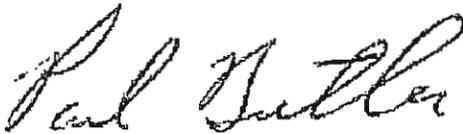

Vladimir Katic

Executive Chairman & Chief Operating Officer

AGREED TO AND ACCEPTED

ON THIS 28th DAY OF APRIL, 2008

BLAKE OFFSHORE, LLC



By: _____

Name: Paul Butler

Title: Chief Operating Officer



CALIFORNIA BUSINESS BANKING GROUP
CUSTOMER MANAGEMENT TEAM
LOS ANGELES METRO DIVISION (800) 932-1891

FACSIMILE TRANSMITTAL SHEET

TO: Jennifer Kuritz	FROM: Franciscus Wiryawan Business Relationship Manager
COMPANY:	DATE: 4/25/2008 11:43 AM
FAX NUMBER: 562 628 1536	TOTAL NO. OF PAGES INCLUDING COVER: 3
PHONE NUMBER:	MY PHONE NUMBER: 800-932-1891 Ext. 3389
RE:	MY FAX NUMBER: 415-357-3371

URGENT FOR REVIEW PLEASE COMMENT PLEASE RETURN SIGNED COPIES

NOTES/COMMENTS:

This message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential, and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone at 800-932-1891 Ext 3389. Thank you

CONFIDENTIAL

4/25/2008

Search | Sales | Banker Toolbox | Administration | Main | Sign Off

 Customer List (0)

 Clear List

ocf-hw-000171/prod/prxt_svp_23104_a

Wire Transfer

Inquire

[Inquire](#) | [Review/Approve](#) | [Grant](#) | [Create Bank Transfer](#) | [ARA/RIG Search](#) | [Operator Security](#)

Wire Detail

[Basic](#) | [Beneficiary](#) | [Originator](#) | [Bank](#) | [Accounting](#) | [Foreign Wires](#)

Basic

[Back to Top](#)

Wire Transfer# 080424-086231
Status SENT 04/24/2008
Amount \$100,000.00
Wire Type OUTGOING FED
Source FTS
Create AU 00624
Created on 04/24/2008 04:30pm

Beneficiary

[Back to Top](#)

Beneficiary blake offshore llc
Account/IBAN 714167649
Reference # FED 002797

Originator

[Back to Top](#)

Originator CARNEROS ENERGY, INC
1717 28TH ST
BAKERSFIELD CA 93301-1902
Account 0496161357 CKG
Reference #
Originator to Beneficiary Information blake rig 151

Bank

[Back to Top](#)

Beneficiary Bank 065000171
WHITNEY NATIONAL BANK
new orleans, louisiana
NEW ORLEANS LA
Originating Bank
Originator Reference # FW00624115435876
Sending Bank
Sending Bank Reference # FW00624115435875
Bank to Bank Information acct 714167649
Intermediary Bank 1
Intermediary Bank 2

Accounting

[Back to Top](#)

Debit Name CARNEROS ENERGY, INC
Debit Account 0496161357 CKG
Debit Charge Yes
Credit Name WHITNEY NATIONAL BANK
Credit Account 0272905005 G/L

