

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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## **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.

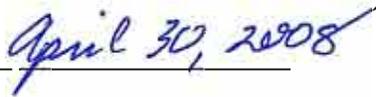
## V. FINDINGS AND DECISION

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. 7<sup>th</sup> Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to [dnr.appeals@alaska.gov](mailto: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.

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

  
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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)

**ATTACHMENT ONE**

Exhibit A, Proposed Expanded Corsair Unit Tracts/leases

**ATTACHMENT TWO**

Exhibit B, Map of the Proposed Expanded Corsair Unit Boundary

**ATTACHMENT THREE**

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

**ATTACHMENT FOUR**

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

**ATTACHMENT FIVE**

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

**ATTACHMENT ONE**

Exhibit A, Proposed Expanded Corsair Unit Tracts/leases

**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
<b>Original Corsair Unit Area, as approved on January 31, 2007</b>							
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						

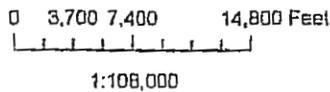
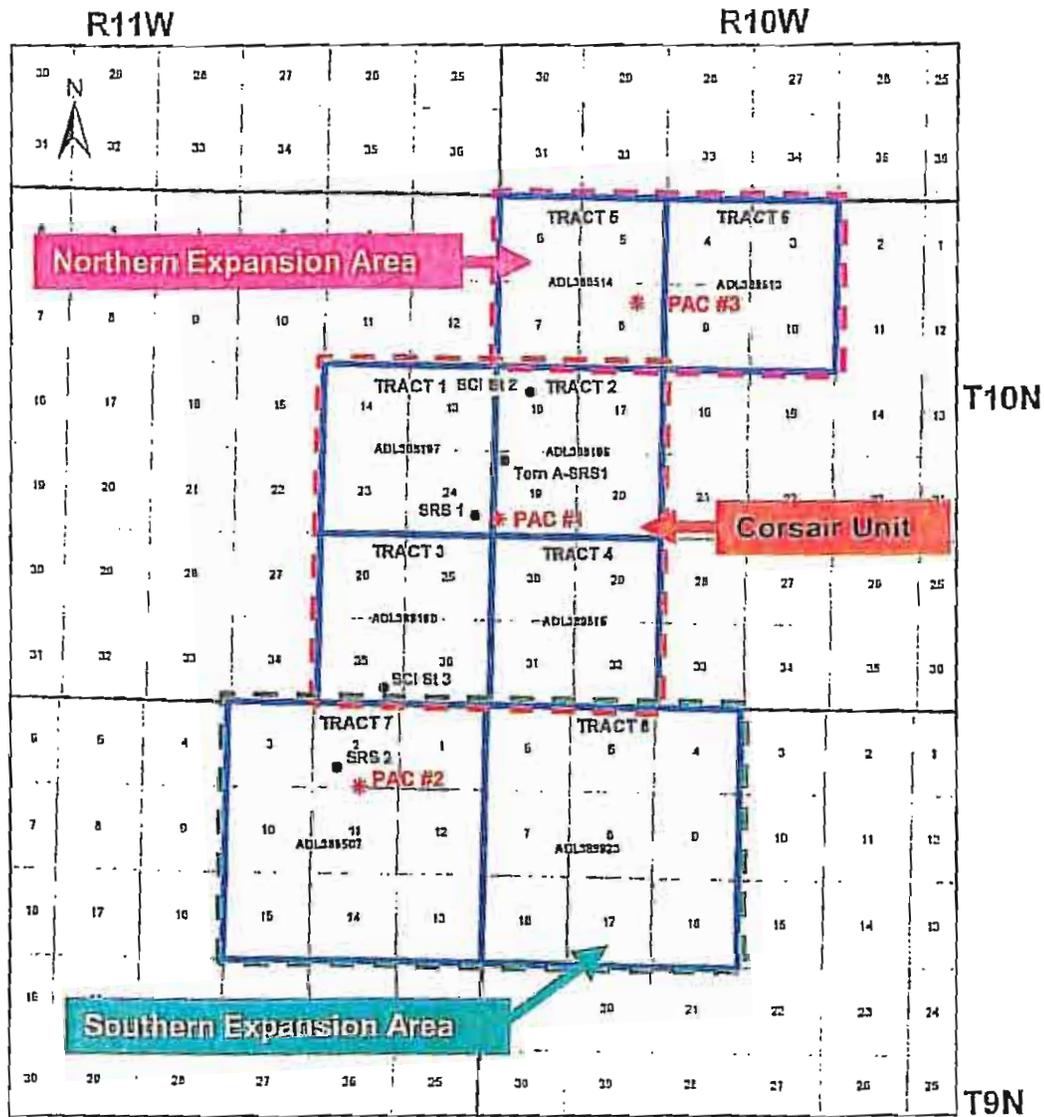
TRACT NO.	LEASE NO.	LEGAL DESCRIPTION	ACRES	ROYALTY	LESSEES OF RECORD	WORKING INTEREST	ORRI
<b>Northern Expansion Area, as submitted on March 18, 2008</b>							
5	ADL-389514	<u>T. 10 N., R. 10 W., S.M.</u> Sec. 05, Protracted, All Sec. 06, Protracted, All Sec. 07, Protracted, All Sec. 08, Protracted, 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						
<b>Southern Expansion Area, as submitted on March 18, 2008</b>							
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				

**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 CI88/89 2D survey (totaling 244 miles of seismic data resulting in 2D line spacing of approximately 1/2 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.

**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 7<sup>TH</sup> 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

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. 7<sup>th</sup> avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1 -907-269-8918, or sent by electronic mail to [dnr.appeals@alaska.gov](mailto: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 a large initial "K" and "B".

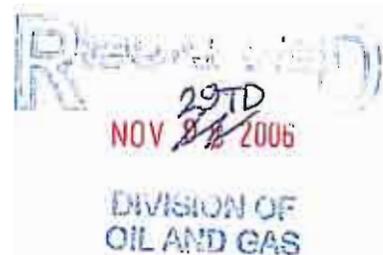
Kevin R. Banks  
Acting Director

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 1<sup>st</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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.

- 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.