

**DEWLINE UNIT AGREEMENT**

**APPROVAL OF THE APPLICATION TO  
FORM THE DEWLINE 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

**JUNE 4, 2009**

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## **I. DECISION SUMMARY**

UltraStar Exploration LLC (UltraStar), as the designated Dewline Unit Operator, filed the Dewline Unit formation application (Application) with the State of Alaska (State), Department of Natural Resources (DNR). UltraStar submitted confidential and public information as part of the Application, which meets the requirements for a complete application under 11 AAC 83.306.

The State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) gave notice under 11 AAC 83.311 of the proposed Dewline Unit formation on March 5, 2009. The period for public comment closed effective April 6, 2009. No comments were received.

This Approval constitutes the written findings and decision required under 11 AAC 83.303 and is fully appealable. The Division finds that the approval of the Dewline Unit promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties of interest, including the State. I approve the formation of the Dewline Unit in accordance with the criteria under 11 AAC 83.303.

## **II. BACKGROUND**

UltraStar filed the Application with DNR on behalf of itself as the sole working interest owner (WIO). The proposed unit is located on the North Slope of Alaska, immediately west of the Prudhoe Bay Unit and south of the Northstar Unit and covers approximately 3,253 acres encompassing three State oil and gas leases. Approval of the proposed Dewline Unit Agreement (Agreement) would conform and modify the lease contracts to be consistent with the Agreement, and extend the term of the leases for as long as they are subject to the Agreement.

Two of the leases in the proposed unit area were offered in the North Slope 2001 sale held on October 24, 2001. DNR issued oil and gas leases ADL 389943 and ADL 389944, effective September 1, 2002, with primary terms of seven years that expire on August 31, 2009. The third lease was offered in the North Slope 2003 sale held on October 29, 2003. Oil and gas lease ADL 390419, effective date of May 1, 2004, has a primary term of seven years that expires on April 30, 2011. All leases have a 16.66667 percent royalty to the State.

UltraStar drilled its first exploration well, Dewline #1, in March 2009. The primary objective for the well, as described in the Application, was the Triassic Ivishak sandstone. The unit operator requests confirmation that this well, as a unit well, meets part of the work commitment as set out in the proposed initial Plan of Exploration (initial POE).

### **III. APPLICATION**

UltraStar submitted an initial Application on November 13, 2008 along with an application filing fee of \$5,000, in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(D). On April 8, 2009, the company filed a revised Dewline Unit Agreement that conforms to the new unit agreement model form proposed by the Division. The Application includes a Dewline Unit Agreement, a Unit Operating Agreement, a proposed five-year initial POE, and technical support data.

Public notice of the Application was published in the *Anchorage Daily News* on March 1, 2009 and in the *Arctic Sounder* on March 5, 2009. Copies of the Application and the public notice were provided to interested parties under 11 AAC 83.311, including the North Slope Borough, AOGCC, ASRC, Arctic Slope Native Association, the Village of Barrow, Mayor of the City of Nuiqsut, Alaska Department of Fish and Game, Postmaster of Nuiqsut, KBRW, Mayor of the City of Barrow, Alaska Department of Environmental Conservation, Kuukpik Corporation, Inupiat Community of the Arctic Slope, UIC and the President of the Native Village of Nuiqsut. The public notices invited any person to file written comments on the application by April 6, 2009. No comments were received.

### **IV. DISCUSSION OF DECISION CRITERIA**

AS 38.05.180(p) gives DNR the authority to approve an oil and gas unit. The DNR Commissioner (Commissioner) reviews unit 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 Director of the Division. 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 Unitized Exploration or Development**

The proposed Dewline Unit includes both onshore and offshore lease acreage. Alaska statutes require that DNR give public notice and issue a written finding before disposal of the State's oil and gas resources, AS 38.05.035(e), AS 38.05.945 and 11 AAC 82.415. In preparing a written decision before an oil and gas lease sale, the Commissioner may impose additional conditions or limitations beyond those imposed by law, AS 38.05.035(e). DNR develops lease stipulations through the lease sale process to mitigate the potential environmental, social and cultural impacts from oil and gas activity.

The three leases to be included in the proposed Dewline Unit contain stipulations designed to protect the environment and to address concerns regarding potential impact to fish and game, to wildlife habitats, and to subsistence. Lease conditions address issues such as the protection of primary waterfowl areas, site restoration, construction of

pipelines, seasonal restriction on operations, public access to, or use of, the leased lands, and avoidance of seismic hazards. Including the leases in the proposed Dewline Unit will neither change these protective measures, nor result in addition restrictions or limitations on public access to the lands or to public and navigable water. All lease operations, (both before and after unitization), are subject to an Alaska Coastal Management Program consistency review, and must comply with enforceable policies of both the State and the North Slope Borough.

Ongoing mitigation measures, such as seasonal restrictions on specific activities in certain areas, will reduce the impact on bird, fish, and mammal populations. Designating primary waterfowl areas and restricting activities within these areas is one method of protecting the bird habitat. DNR requires consolidation of facilities to minimize surface disturbances. Regulating waste disposal is another way to limit environmental impacts. With these mitigating measures, the anticipated exploration and development related activity is not likely to significantly impact bird, fish, and mammal populations. The anticipated activity under the Agreement will impact wildlife, habitat and subsistence activity less than if the leases were explored and developed individually because unitized exploration, development and production will minimize the surface footprint of activities thus lessen surface impact.

The approval of the Dewline Unit has no environmental impact because the Commissioner's approval of the unit is an administrative action, which, by itself, does not convey any authority to conduct any operations within the unit. The unit formation does not entail any environmental costs in addition to those that may occur when permits to conduct lease-by-lease exploration or development are issued. Unitization does not waive or reduce the effectiveness of the mitigating measures that condition the lessee's right to conduct operations on these leases. DNR's approval of the initial POE is only one step in the process of obtaining permission to drill a well or wells or develop the potential and known reservoirs within the unit area. The Unit Operator must still obtain approval of a Plan of Operations from the State and permits from various local, state, and federal agencies on State leases before drilling a well or wells or initiating development activities to produce reservoirs within the unit area. 11 AAC 83.346. The unit operator must guarantee full payment for any damage sustained to the surface estate before beginning operations, and the Plan of Operations must include plans for rehabilitation of the unit area. Finally, DNR may further require that the unit operator comply with the lease stipulations and lease advisories developed for the most recent lease in the Dewline Unit or comply with the lease stipulations and lease advisories developed for the most recent lease in the region.

## **2. The Geological and Engineering Characteristics of the Reservoir and Prior Exploration Activities of the Proposed Dewline Unit Area**

### **Introduction**

Under 11 AAC 83.356(a), a unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential

hydrocarbon accumulations. 11 AAC 83.395(5) defines a “potential hydrocarbon accumulation” as “any structural or stratigraphic entrapping mechanism which has been reasonably defined and delineated through geophysical, geological, or other means and which contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas.”

UltraStar submitted the following data in support of the proposed unit that is located directly west of the Pt. McIntyre Participating Area (PA): digital maps of the top Sag River Formation and top Ivishak Sandstone with associated fault files, Kuparuk isochore maps, stratigraphic cross-sections, interpreted seismic lines, a Dewline Unit Area Prospect Evaluation Report with prospect reserve estimates and mean reservoir parameters.

### **Geologic and Engineering Characteristics of the Reservoirs**

The primary exploration targets in the proposed Dewline Unit are the Ivishak Sandstone of the Sadlerochit Group, the Sag River Formation and the Kuparuk River Formation. The proposed unit lies north of the northwest to southeast trending, down-to-the-north, Prudhoe fault that separates the Prudhoe Bay Field from deeper, more complexly faulted structures in the north. Late Jurassic to Early Cretaceous rift related faults and Brookian compressional faults overprint the area north and west of Prudhoe Bay resulting in smaller structural closures at the Ivishak level. Early exploration efforts in this area focused primarily on small, fault associated structural closures in the Ivishak Sandstone. Although the overlying Sag River Formation and the underlying Lisburne Group carbonates were penetrated in most early exploration wells, potential hydrocarbon plays within these reservoirs were not fully evaluated. Historically, structural to combination structural/stratigraphic traps in both the Lower Cretaceous Kuparuk River Formation and the Cretaceous Brookian Sequence were only secondary targets.

The Lisburne Group consists of Mississippian to Pennsylvanian carbonates. The only Lisburne production on the North Slope is located approximately twelve miles east of the proposed unit in the Lisburne Participating Area (PA) of the Prudhoe Bay Unit. The Lisburne is not an exploration target for the proposed unit. Unconformably overlying the Lisburne Group is the Permo-Triassic Sadlerochit Group consisting, in this area, of the shallow marine Kavik Formation which is conformably overlain by the progradational, pro-deltaic to fluvial Ivishak Sandstone, the primary producing formation in Prudhoe Bay Field. The Ivishak Sandstone, in this area, ranges in thickness from 320 feet (North Prudhoe Bay St 1) to 370 feet (Pt. Storkersen #1). Porosity for the sandstone ranges from the teens to 20 percent; whereas, permeability can range up to hundreds of millidarcies. The Sadlerochit Group is unconformably overlain by a transgressive sequence that consists of sandy, marly carbonates to limestones of the Shublik Formation and overlying shelfal sandstones of the Sag River Formation. The Shublik Formation is a known hydrocarbon source rock. It contains minor potential for reservoir quality rock, but has occasionally tested oil. The Sag River Formation is glauconitic, very fine grained, quartz rich shelfal sandstone that contains moderate quality reservoir rock. It is a potential reservoir target in the proposed Dewline Unit. Overlying the Permo-Triassic reservoirs

are the Jurassic Kingak Formation, the Miluveach Formation and the Kuparuk River Formation. A complex, rift shoulder margin depositional setting for the Kuparuk River Formation gives rise to reservoir sandstones that are highly variable in thickness and reservoir quality. Numerous fields surrounding the proposed Dewline Unit produce from the Kuparuk River Formation. The nearest production is at Pt. McIntyre, directly east of the proposed unit. Kuparuk sandstone also produces south and southwest of the proposed unit at Prudhoe Bay Unit (Western Satellites), Kuparuk River Unit and Milne Point Unit.

### **Prior Exploration Activities**

Numerous major oil companies explored in the area north of Prudhoe Bay Field; however, none of these smaller plays were brought into production. Early exploration wells drilled in the vicinity of the proposed Dewline Unit include Pt Storkersen#1, Kuparuk Delta 51-1 and 51-2, and the Gwydyr Bay State 2 and 2A wells.

The earliest well drilled in the area is the 1969 Hamilton Brothers Pt. Storkersen#1 well. The well penetrated part of the Lisburne Formation and reached a total depth of 11,473 feet measured depth. Seven of eight drill stem tests (DSTs) were conducted in the Sag River Formation and the Ivishak Sandstone. From the completion report, DST#7 and DST#8 recovered 570 feet of oil and 2,800 feet of oil, gas, and gas cut water cushion respectively from the Sag River Formation. DST#1, 10,580 feet measured depth to 10,640 feet measured depth, in the Ivishak Sandstone flowed 315 barrels of oil per day. DST#6, 10,580 feet measured depth to 10,640 feet measured depth, flowed 735 barrels of oil per day from the Ivishak Sandstone; while DST#3, 11,086 feet measured depth to 11,277 feet measured depth, recovered 2,000 feet of water cushion and 450 feet of gas cut mud from the Lisburne. The Kuparuk River Formation, approximately 560 feet thick (TVD), was not tested in the well.

The Kuparuk Delta 51-1 well was drilled after Pt. Storkersen in 1970 by Hamilton Brothers in what was then the Kuparuk Delta Unit. The well reached a total depth of 11,200 feet measured depth in the upper Lisburne Group. Eight drill stem tests were conducted; four are recorded as failed tests in the well completion report. No flow of hydrocarbons were recorded for the three drill stem test conducted in the lower Kuparuk Sandstone (DST#6), Sag River Formation (DST#2) and in the lowermost Shublik D and upper Ivishak Sandstone (DST#8). However, a lower Brookian 'stray sandstone' interpreted as a distal slope turbidite sandstone tested oil in DST#5 from 7,131 feet measured depth to 7,171 feet measured depth. Completion report data indicates this sandstone flowed 32.8° API oil at an initial rate of 2,200 barrels of oil per day, which decreased to 1,500 barrels of oil per day.

In late 1970, Conoco followed this well with the Kuparuk Delta 51-2 well that penetrated the Lisburne Group to a total depth of 13,605 feet measured depth. This well is located approximately 4,500 feet north of the Kuparuk Delta 51-1 well. The completion report indicates that 10 drill stem tests were performed. The first five tests failed. Successful tests of oil were recorded from the Ivishak Sandstone and the Kuparuk River Formation. DST#6 in the Ivishak Sandstone, 11,655 feet measured depth to 11,659 feet measured

depth, flowed 695 barrels of oil per day (33° API) with 1,000 barrels of water per day. DST#7 also in the Ivishak Sandstone, 11,635 feet measured depth to 11,639 feet measured depth, flowed 520 barrels of 39.7° API oil with a 12 percent water cut. DST#8 and DST#9 were conducted in the Kuparuk River Formation from 9,614 feet measured depth to 9,618 feet measured depth. DST#8 did not flow oil to the surface, but reversed out 40 barrels of 25.6° API oil. DST#9 flowed oil to the surface after 460 minutes at an equivalent rate of 350 barrels of 26.7° API oil with no water cut. DST#10 also in the Kuparuk River Formation, 9,363 feet measured depth to 9,367 feet measured depth, reversed out 90 barrels of 23° API oil with no flow to the surface.

Hamilton Brothers turned over unit operation to Conoco and the unit was renamed the Gwydyr Bay Unit. It was not until 1981 that Conoco drilled the Gwydyr Bay 2 and 2A wells, although additional wells were drilled in the Gwydyr area by Mobile and Cities Service. The Conoco Gwydyr Bay 2 well, spudded in late 1980, reached a total depth of 11,365 feet measured depth in the Ivishak Sandstone. The Ivishak was wet. Conoco side tracked the well, but not until a test was conducted in another 'stray' sandstone within the Brookian section. A drill stem test was run from 7,500 feet measured depth to 7,575 feet measured depth. On a final flow test, 80 barrels of 30°-34° API oil was recovered with no formation water and with some gas. Three abandonment plugs were set and the well was sidetracked to drill the Gwydyr 2A wells. This well tested oil from both the Ivishak Sandstone and the Kuparuk River Formation. DST#1B in the Ivishak Sandstone, 11,233 feet measured depth to 11,259 feet measured depth, flowed 3,000 barrels of oil per day with 170 barrels of water per day and 2,700 thousand cubic feet of gas per day (MCFGD).

### **Prospects**

UltraStar has delineated numerous prospects within the proposed Dewline Unit. Several are tilted fault block plays that have the Triassic Ivishak and Sag River formations as reservoir targets; whereas, one prospect is a stratigraphic trap within the Kuparuk D sand. Dewline #1 well drilled the Dewline Deep prospect, a tilted fault block structure, during the spring of 2009. The remaining hydrocarbon prospects are untested.

### **3. Plan of Exploration and Development for the Proposed Dewline Unit**

The WIO provided technical data sufficient to define the remaining four prospects under consideration, committed its lease interests to the proposed unit and submitted a five-year initial POE. The initial POE for the proposed Dewline Unit establishes work obligations that UltraStar must meet in order for the proposed unit to remain in good standing. The terms of the initial POE will require UltraStar to drill two exploratory wells to test the hydrocarbon potential of the Ivishak Formation with secondary targets identified as the Sag River and Kuparuk formations. Adherence to these terms will satisfy the performance standards and due diligence requirements that the Division and UltraStar agreed to as a condition for the approval of the Agreement. UltraStar completed the first obligation of the initial POE with the drilling of the Dewline #1 well. A second

exploration well, North Dewline #1, must be drilled and logged by May 31, 2013 to fulfill all obligations under the initial POE.

Failure to meet the commitments set out in the approved initial POE will result in the automatic termination of the Dewline Unit on May 31, 2013. UltraStar has voluntarily waived the application of the lease extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374.

If all the commitments of the initial POE are met, a second proposed Plan of Exploration or a first proposed Plan of Development must be submitted to the Division on or before October 1, 2013.

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

The Agreement defines the relationship between the Unit Operator, WIO, and the State. It describes the rights and responsibilities, in addition to those imposed by state law and the leases, of the Unit Operator, WIO and the State for exploration of the unit area. It protects the interests of the state and the lessees. It defines the parties' rights and responsibilities in the event of successful or unsuccessful exploration results. DNR may approve the Agreement if the available data suggests that the unit area covers one or more geologic formations that should be developed under a DNR approved plan, and the proposed unit meets the other statutory and regulatory criteria.

Approval of the Agreement in combination with the initial POE will result in both short-term and long-term economic benefits to the state. The assessment of the leases' hydrocarbon potential will create jobs in the short term. If the WIO makes a commercial discovery and begins development/production from the Dewline Unit, the state will earn royalty and tax revenues over the long-term life of the field.

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

UltraStar submitted a revised Unit Agreement Form that conforms to the State's proposed new unit agreement model form. UltraStar made no amendments to the model unit agreement form. However, the company requests that given that the model form is under review and may be amended after further internal analysis by the State or as a result of a public review process that the company be given the opportunity to further amend their unit agreement form if they decide to incorporate any additional changes adopted by the Division. Any such amendment is subject to the Commissioner's approval. 11AAC 83.385.

An additional relevant factor is that lease ADL 390419, issued on form DOG 200204(REV10/03), has a different paragraph 36(b) than the other two leases that were issued on form DOG 200004. UltraStar agreed to amend those two lease, (ADLs 389943 and 389944), with the language in paragraph 36(b) of Lease ADL 390419 in order to

provide clarity to the Agreement language and a consistent field price transportation deduction for the proposed unit. Effective the date of this decision, paragraph 36(b) of ADLs 389943 and 389944 are permanently amended to read as follows:

If oil, gas, or associated substances are sold away from the leased or unit area, the term “field price” in subparagraph (a) above will be the cash value of all consideration received by the lessee or other producer from the purchaser of the oil, gas, or associated substances, less the lessee’s actual and reasonable costs of transportation away from the leased or unit area to the point of sale. The “actual and reasonable costs of transportation” for marine transportation are as defined in 11 AAC 83.229(a), (b)(2), and (c)-(l).

Two of the leases in the proposed unit area will expire on August 31, 2009 if they are not extended by unitization. If the leases expire, the leasehold interest will return to the state. The earliest that the Division could re-offer the land, under the current Five-Year Oil and Gas Lease Sale Schedule, is October 2010. There is no certainty that anyone would bid on the tracts or pursue exploration of this area. If the Division leased the tracts again in 2010, the state would receive bonus payments and rentals for the primary term of the new leases. However, it could be years before the new lessees would propose exploration of the area.

The commitments under the initial POE provide the State with the opportunity to receive royalties from the leases sooner than if the acreage were re-offered in a lease sale. Any additional administrative burdens associated with the formation of the new unit are far outweighed by the additional royalty and tax benefits derived from any production that may occur if the exploration and development activity is successful.

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

**1. Promote The Conservation of All Natural Resources**

DNR recognizes unitization of the leases overlying a reservoir as a prudent conservation mechanism. Unitization is the most efficient method for maximizing oil and gas recovery, while minimizing negative impacts on other resources. Formation of the unit will provide the state with a comprehensive plan for exploring and developing the entire unit area. Formation of the Dewline Unit and implementation of the initial POE will ensure that the WIO prudently explores the acreage included in the unit.

The Agreement will promote the conservation of both surface and subsurface resources through unitized (rather than lease-by-lease) development. Unitization allows the Unit Operator to explore the area as if it were one lease. Without the Agreement, the lessee would be compelled to seek permits to drill wells on each individual lease in order to extend the leases beyond their primary terms. Unitization reduces both the number of facilities required to develop reserves that may be discovered and the aerial extent of land required to accommodate those facilities. Review and approval of exploration and development permits under a unit agreement will also ensure that rational surface-use

decisions are made without consideration of individual lease ownership or expense. After unitization, facilities can be designed and located to maximize recovery and to minimize environmental impact, without regard to lease ownership. Although the applicant has not determined the extent of any oil and gas contained in the prospective reservoir(s), the Agreement will ensure that the acreage is explored and recovery from the leases is maximized if a commercial hydrocarbon accumulation is discovered.

## **2. The Prevention of Economic and Physical Waste**

The unit will prevent economic and physical waste because the Unit Operator must have a coordinated exploration plan, and if a commercial discovery is made, a comprehensive reservoir depletion model. 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.

Unitized operations improve development of reservoirs beneath leases that may have variable or unknown productivity. Marginally economic reserves, which otherwise would not be produced on a lease-by-lease basis, can be produced through unitized operations in combination with more productive leases. Facility consolidation lowers capital costs and promotes optimal reservoir management. Pressure maintenance and secondary recovery procedures are easier to design and achieve through joint, unitized efforts than would otherwise be possible. In combination, these factors allow less profitable areas of a reservoir to be developed and produced in the interest of all parties, including the State.

The total cost of exploring and developing the Dewline Unit leases would be higher on a lease-by-lease basis than it would be under unitization terms. Drilling and facilities investment costs will be minimized as a consequence of eliminating a need for numerous sites within the unit area. Locations of individual wells and surface facilities will be selected to optimize ultimate oil and gas recovery, while minimizing or completely avoiding adverse impacts to the environment. Reducing costs and environmental impacts through unitized operations will expedite development of any reserves discovered and will promote greater ultimate recovery of any oil and gas from the unit area. This will increase and extend the State's income stream from production taxes and royalties. The revenues to the lessees and Unit Operator may be reinvested in new exploration and development in the State. Unitization means reduced costs and increased benefits to all interested parties. It benefits the local and state economy, and provides revenues to the State's general, school, constitutional budget reserve, and permanent funds.

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

The Agreement, in combination with the initial POE, promotes the State's economic interests because exploration will likely occur earlier than without unitization. Diligent exploration under a single approved unit plan without the complications of competing operators is in the State's best interest. It advances evaluation of the state's petroleum resources, while minimizing impacts to the region's cultural and environmental

resources. A commercial discovery will stimulate the state's economy with production-based revenue, oil and gas related jobs, and service industry activity.

The Agreement provides for accurate reporting and record keeping, state approval of plans of exploration and development and operating procedures, royalty settlement, in-kind taking, and emergency storage of oil and gas, all of which will further the State's interest. The lease forms and Agreement also provide that the State's royalty share will be free and clear of all lease expenses, unit expenses and participating area expenses. The Agreement will further UltraStar's interest by providing clear provisions for the operation of the Dewline Unit. The modifications to the varying provisions of the leases will economically benefit the state, and reduce the administrative burdens of operating and regulating this unit.

## **V. FINDINGS AND DECISION**

### **A. The Conservation of All Natural Resources**

1. The Agreement will conserve all natural resources, including hydrocarbons, gravel and sand, water, wetlands, and valuable habitat.
2. The unitized development and operation of the leases in this proposed unit will reduce the amount of land and fish and wildlife habitat that would otherwise be disrupted by individual lease development. This reduction in environmental impacts and preservation of subsistence access is in the public interest.
3. If the exploration activities under the initial POE result in the discovery of a commercially producible reservoir, there may be environmental impacts associated with reservoir development. All unit development must proceed according to an approved plan of development. Additionally, before undertaking any specific operations, the Unit Operator must submit a unit Plan of Operations to the Division and other appropriate local, state and federal agencies for review and approval. The lessees may not commence any drilling or development operations until all agencies have granted the required permits. DNR may condition its approval of a unit Plan of Operations and other permits on performance of mitigation measures in addition to those in the modified leases and the Agreement, if necessary or appropriate. Compliance with mitigation measures will minimize, reduce or completely avoid adverse environmental impacts.

### **B. The Prevention of Economic and Physical Waste**

1. UltraStar submitted geological, geophysical and engineering data to the Division in support of the Application. Division technical staff determined that the Dewline Unit area encompasses all or part of one or more potential hydrocarbon accumulations. The available geological, geophysical and

engineering data justify including the proposed lands, described in Exhibit A to the Application, in the Dewline Unit.

2. The initial POE, subject to the terms and conditions discussed in Section IV.A.3., provides for the reasonable exploration of potential hydrocarbon accumulations in the unit area during the initial term of the Agreement. If the WIO discovers oil or gas in commercial quantities, the Agreement will prevent the waste of oil and gas, and increase the probability of recovering more hydrocarbons from the unit area. The Division must approve a plan of development before the Unit Operator produces any hydrocarbons in commercial quantities.

### **C. The Protection of All Parties in Interest, Including the State**

1. UltraStar provided evidence of reasonable effort to obtain joinder of any proper party to the Agreement.
2. UltraStar, the sole WIO in the Dewline Unit, holds sufficient interest in the unit area to give reasonably effective control of operations, and three State of Alaska leases are proposed for the Dewline Unit.
3. The Agreement, conditioned upon the performance of the initial POE, adequately and equitably protects the public interest, and is in the State's best interest.
4. The Agreement meets the requirements of 11 AAC 83.303.
5. The Division complied with the public notice requirements of 11 AAC 83.311.
6. The Agreement will not diminish access to public and navigable waters beyond those limitations (if any) imposed by law or already contained in the oil and gas leases covered by this Agreement.
7. The Agreement provides for expansions and contractions of the unit area in the future, as warranted by data obtained by exploration or otherwise. The Agreement thereby protects the public interest, the rights of the parties, and the correlative rights of adjacent landowners.
8. The initial POE, subject to the terms and conditions discussed in Section IV.A.3, meets the requirements of 11 AAC 83.303 and 11 AAC 83.341. The initial five-year POE, (Exhibit G to the Agreement), is approved through December 31, 2013. Furthermore, the Dewline #1 exploratory well, drilled under the provisions of what was then a proposed POE, is considered a unit well and as such meets part of the work commitment as set out in the approved initial POE. The Unit Operator shall conduct the proposed

exploration activities in accordance with the timelines specified in the plan. The initial POE describes the performance standards and diligence requirements that the State requires.

9. The Unit Operator shall submit an annual status report on the initial POE to the Division. The annual status report must describe the status of projects undertaken and the work completed, as well as any proposed changes to the plan. The annual status report on the initial POE will be due at least 60 days before the anniversary date of the initial POE, or by October 1<sup>st</sup> of each applicable year.
10. The Dewline Unit will expedite exploration and potential development of the unit area. With the formation of the Dewline Unit, economic benefits to the state outweigh the economic costs of extending the primary term of the state leases committed to the unit.

For the reasons discussed in this Findings and Decision, I hereby approve the Dewline Unit Agreement subject to the conditions set out in this decision.

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, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to [dnr.appeals@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.



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

June 4, 2009  
Effective Date

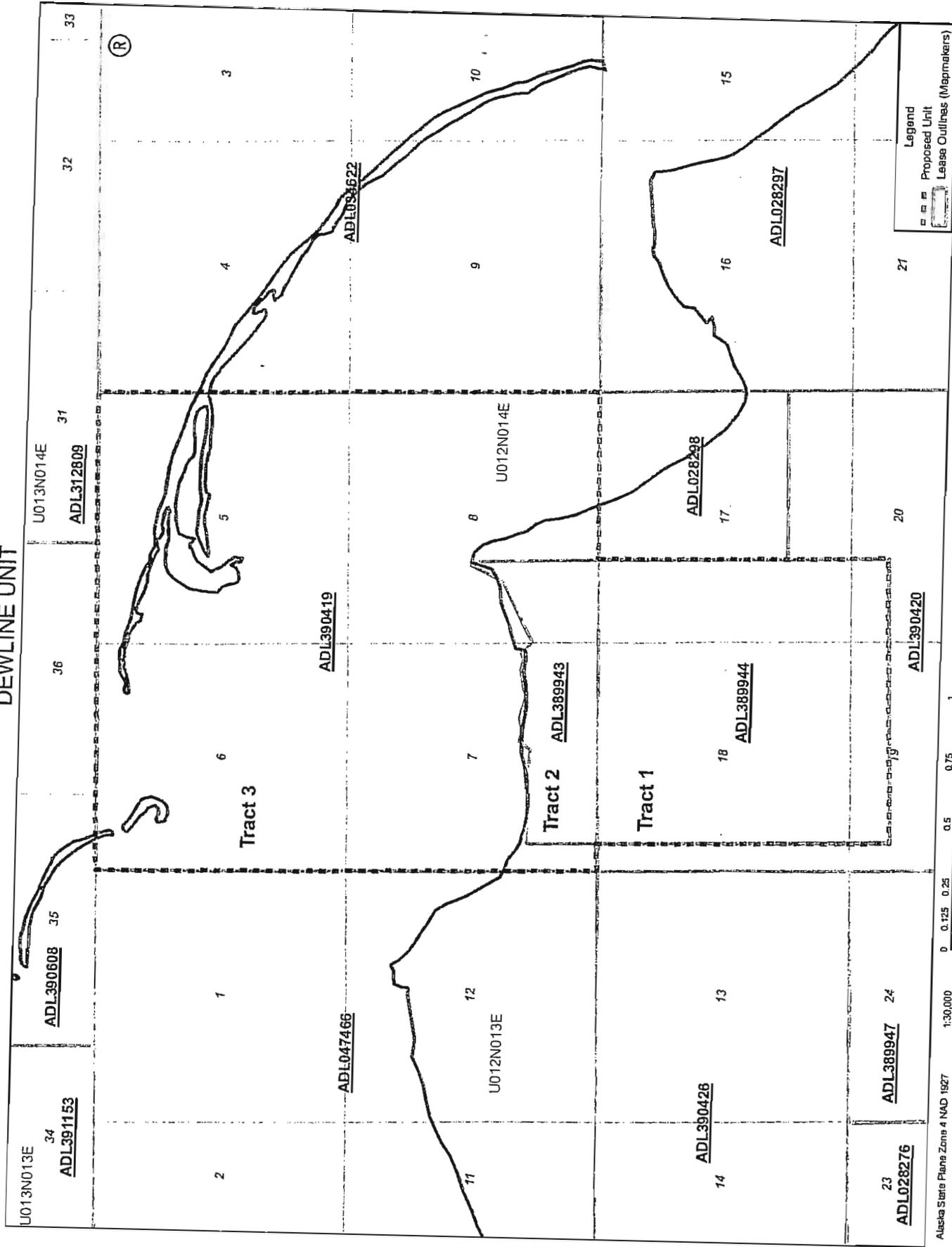
## VI. ATTACHMENTS

- 1) Exhibit A, Dewline Unit Tracts/leases
- 2) Exhibit B, Map of the Dewline Unit Boundary
- 3) Exhibit G, Dewline Plan of Exploration (Initial POE)
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**EXHIBIT A  
DEWLINE UNIT**

Tract #	Legal Description	Lease #	Acreage	Royalty Owner & Percentage	Working Interest Owners	W/O Percentage	Overriding Royalty Interests	ORRI Percentage
1	T. 12 N., R. 14 E., U.M. Sec. 17: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section; Sec. 18: Surveyed, That portion of U.S. Survey 4044, Lots 1 & 2, lying within the section; Sec. 19: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section; Sec. 20: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section;	ADL - 389944	816.56	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
2	T. 12 N., R. 14 E., U.M. Sec. 7: Surveyed, That portion of U.S. Survey 4044, Lots 1 & 2, lying within the section; Sec. 8: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section;	ADL - 389943	201.91	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
3	T. 12 N., R. 14 E., U.M. Sec. 5: Unsurveyed, All tide and submerged lands; Sec. 6: Unsurveyed, All tide and submerged lands; Sec. 7: Unsurveyed, All tide and submerged lands; Sec. 8: Unsurveyed, All tide and submerged lands; T. 12 N., R. 14 E., Tract B, U.M. Sec. 7: Unsurveyed, All uplands excluding U.S. Survey 4044, Lots 1 & 2; Sec. 8: Unsurveyed, All uplands excluding U.S. Survey 4044, Lot 2; Special Surveys U.S. Survey 9137, That portion located in Sections 5 & 6.	ADL - 390419	2235.09	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
<b>TOTALS</b>		<b>3,253.56</b>	<b>acres</b>		<b>ULTRASTAR EXPLORATION LLC</b>	<b>100.00%</b>		

# EXHIBIT B DEWLINE UNIT



Alaska State Plane Zone 4 NAD 1927 1:30,000 0 0.125 0.25 0.5 0.75 1 Miles

Legend  
 [Solid Line] Lease Outlines (Mapmakers)  
 [Dashed Line] Proposed Unit

10/17/08

**EXHIBIT G**  
**DEWLINE UNIT**

**Revised Initial Unit Plan of Exploration**

**Revised as of May 18, 2009**

The Dewline Unit is composed of three State of Alaska oil & gas leases: ADLs 389943, 389944, & 390419. ULTRASTAR EXPLORATION LLC, as Unit Operator, commits to the following Revised Initial Plan of Exploration.

The Unit Operator will drill, or cause to be drilled, two exploration wells during this five-year plan. The first well, the Dewline #1, will be drilled to penetrate the Ivishak formation within the Dewline Deep Prospect, with the Sag River and Kuparuk formations identified as secondary targets in the prospect area. The second well, the North Dewline #1, will be drilled to penetrate the Ivishak formation within the North Dewline Deep Prospect, with the Sag River and Kuparuk formations identified as potential secondary targets in the prospect area.

The unit operator is endeavoring to drill and complete the Dewline #1 well in the first half of 2009. An ice road was built to the well location and an ice pad was built to serve as a drilling location. The rig was moved onto location and rigged up. The well was spudded on March 9, 2009. Drilling of the well is underway.

**Stage 1**

1. By May 31, 2009 the unit operator plans to have drilled and logged the Dewline #1 well.
2. If drilling of the Dewline #1 well has to be continued into the 2009-2010 winter drilling season due to unforeseen circumstances, then the well will be drilled and logged by May 31, 2010.

**Stage 2**

1. By May 31, 2013 the unit operator will have drilled and logged a second exploration well

If the Stage 1 commitments are not met, the Dewline Unit will terminate effective the deadline date of the later unmet Stage 1 commitment (May 31, 2010), with ULTRASTAR EXPLORATION LLC waiving the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the unit that are beyond their primary term.

If the Stage 2 commitment is not met, the Dewline Unit will terminate effective May 31, 2013, with ULTRASTAR EXPLORATION LLC waiving the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the unit that are beyond their primary term.

**EXHIBIT G**  
**DEWLINE UNIT**

**Revised Initial Unit Plan of Exploration**

If all the commitments in Stages 1 and 2 are met, a Second Plan of Exploration or a First Plan of Development is due on October 1, 2013.

The unit operator requests that the Commissioner determine that the Dewline #1 well is a Unit Well as defined in the unit agreement.



April 8, 2009

Cammy Taylor, Petroleum Land Manager  
Division of Oil and Gas  
550 West 7<sup>th</sup> Avenue, Suite 800  
Anchorage, AK 99501

RE: Dewline Unit Agreement Application  
Revised Unit Agreement Form

Dear Ms Taylor:

Enclosed is a revised signed copy of the Dewline Unit Agreement. This revised agreement conforms to the new unit agreement model form recently proposed by the division. I have made no amendments to the model unit agreement form that you provided to me. The revised agreement also contains a revised plan of exploration that reflects the drilling of a unit well this past winter season.

Given that the model form is still under review and may be amended after further internal analysis by the division or as a result of a public review process that I understand that the division is considering, I ask that I be given the opportunity to further amend the unit agreement form if I would like to incorporate any additional changes adopted by the division from this date forward.

Please call me if you have any questions concerning this revised agreement.

Sincerely,

A handwritten signature in blue ink, appearing to read "James D. Weeks", is written over a light blue rectangular background.

James D. Weeks  
Managing Member

**RECEIVED**

**APR 08 2009**

**DIVISION OF  
OIL AND GAS**

Enclosure

3111 C Street, Suite 500  
Anchorage, Alaska 99503

907-258-2969  
Fax: 907-258-5092

**DEWLINE UNIT AGREEMENT**

(Revised as of April 8, 2009)

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## RECITALS

The purpose of this Agreement is to effect efficient and timely production of oil and gas.

The Working Interest Owners who are parties to the Agreement are owners of interest in oil and gas leases subject to this Agreement.

The Commissioner of the Department of Natural Resources, State of Alaska, is authorized by Alaska Statute 38.05.180(p) and (q) and applicable regulations to consent to and approve oil and gas unit agreements to explore, develop and produce state oil and gas resources.

## AGREEMENT

In consideration of the mutual promises in this Agreement, the parties commit their respective interests in the Unit Area defined in Exhibit A and depicted in Exhibit B to this Agreement, and agree as follows:

### ARTICLE 1: DEFINITIONS

1.1 **Alaska Oil and Gas Conservation Commission (AOGCC)** means the independent quasi-judicial agency of the State of Alaska established by the Alaska Oil and Gas Conservation Act, Alaska Statute 31.05.

1.2 **Approved Unit Plan** means a plan of exploration or plan of development that the Commissioner has approved under Article 8 of this Agreement.

1.3 **Commissioner** means the Commissioner of the Department of Natural Resources, State of Alaska, or the Commissioner's authorized representative.

1.4 **Effective Date** means the time and date this Agreement becomes effective under Article 14.1 of this Agreement.

1.5 **Lease or Leases** means one or more oil and gas leases subject to this Agreement.

1.6 **Oil and Gas Rights** means the rights to explore, develop, and produce Unitized Substances.

1.7 **Outside Unit Substances** means oil, gas, and other hydrocarbons and non-hydrocarbon substances obtained from outside the Unit Area and injected into a Reservoir in the Unit Area with the Commissioner's approval.

1.8 **Outside PA Substances** means oil, gas, and other hydrocarbons and non-hydrocarbon substances obtained from one Participating Area in the Unit Area and injected into a Reservoir in a different Participating Area in the Unit Area with the Commissioner's approval.

1.9 **Overriding Royalty Interest** means an interest in the value of oil and gas produced at the surface. An Overriding Royalty is derived from a Working Interest. It is exclusively a revenue interest and provides no control over or right to notice of the operations of the Lease.

1.10 **Participating Area** means all Unit Tracts and parts of Unit Tracts designated as a Participating Area under the provisions of Article 9 of this Agreement to allocate Unitized Substances produced from a Reservoir.

1.11 **Participating Area Expense** means all costs, expenses or indebtedness, incurred by the Unit Operator under this Agreement or the Unit Operating Agreement for or on account of production from or operations in a Participating Area and allocated solely to the Unit Tracts in that Participating Area.

1.12 **Paying Quantities** means a quantity of Unitized Substances sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss. The quantity is insufficient to yield a return in excess of operating costs unless it will produce sufficient revenue, not considering transportation and marketing, to induce a prudent operator to produce it.

1.13 **Reservoir** means that part of the Unit Area containing an accumulation of Unitized Substances which has been discovered by drilling and evaluated by testing a well or wells, and which is geologically separate from and not in hydrocarbon communication with any other oil and gas accumulation.

1.14 **Royalty Interest** means an ownership right to or interest in the amount or value of Unitized Substances other than a Working Interest and excludes Overriding Royalty Interest.

1.15 **State** means the State of Alaska acting in this Agreement through the Commissioner.

1.16 **Sustained Unit Production** means continuing production of Unitized Substances from a well in the Unit Area into production facilities and transportation to market, but does not include testing, evaluation, or pilot production.

1.17 **Unit Area** means the "state land" or "land", as defined in AS 38.05.965, subject to this Agreement, described in Exhibit A and shown in Exhibit B to this Agreement.

1.18 **Unit Equipment** means all personal property, Lease and well equipment, plants, platforms and other facilities and equipment used, taken over or otherwise acquired for use in Unit Operations.

1.19 **Unit Expense** means all costs, expenses or indebtedness incurred by the Unit Operator for Unit Operations, except for Participating Area Expense.

1.20 **Unit Operating Agreement** means any and all agreements entered into by the Unit Operator and the Working Interest Owners, as described in Article 7 of this Agreement.

1.21 **Unit Operations** means all operations conducted under this Agreement in accordance with a Unit Plan approved under Article 8 of this Agreement.

1.22 **Unit Operator** means the party designated by the Working Interest Owners and approved by the Commissioner to conduct Unit Operations.

1.23 **Unit Plan** means a unit plan of exploration, development, or operation as described in Article 8 of this Agreement.

1.24 **Unit Tract** means each separate parcel of land that is described in Exhibit A and given a Unit Tract number.

1.25 **Unit Tract Participation** means the percentage of Unitized Substances allocated to a Unit Tract in a Participating Area.

1.26 **Unit Well** means a well drilled within the Unit Area after the effective date of this Agreement unless specifically authorized by the Commissioner.

1.27 **Unitized Substances** means all oil, gas and associated substances produced from the Unit Area.

1.28 **Working Interest** means the interest held in lands by virtue of a Lease, operating agreement, fee title or otherwise, under which the owner of the interest is vested with the right to explore for, develop and produce minerals; the right delegated to a Unit Operator by a unit agreement is not a working interest.

1.29 **Working Interest Owner** means a party who owns a Working Interest.

## **ARTICLE 2: EXHIBITS**

2.1 When this Agreement is submitted for approval, only Exhibits A, B, and G must be attached and are made a part of this Agreement. Exhibit F is also required when this Agreement is submitted if the Unit Area includes net profit share leases. Exhibits C, D, E, and F are required when a Participating Area application is submitted for approval and are, upon approval by the Commissioner, made a part of this Agreement. The Unit Operator shall supply all Exhibits.

2.2 Exhibit A is a table that identifies and describes each Unit Tract, and displays: the Unit Tract numbers, legal descriptions, Lease numbers, Working Interest ownership, Royalty Interest ownership, initial Overriding Royalty Interest ownership, and the applicable royalty and net profit share rates applicable to each Unit Tract. Within 30 days after approval by the

Commissioner of any expansion or contraction of the Unit Area under Article 13 of this Agreement, or any change of the Working Interest, Royalty Interest, or an additional separation creating a new Overriding Royalty Interest in any Unit Tract, the Unit Operator shall submit a revised Exhibit A to the Commissioner.

2.3 Exhibit B is a map that shows the boundary lines of the Unit Area and of each Unit Tract, identified by Unit Tract number and Lease number. Within 30 days after the Commissioner approves any expansion or contraction of the Unit Area under Article 13 of this Agreement, the Unit Operator shall submit a revised Exhibit B to the Commissioner.

2.4 Exhibit C is comprised of a table for each Participating Area established under this Agreement. The Exhibit C table for each Participating Area must display the Unit Tract numbers, legal descriptions, Lease numbers, Working Interest ownership, Royalty Interest ownership, initial Overriding Royalty Interest ownership, and the Unit Tract Participation for that Participating Area. Exhibits must be prepared for each Participating Area established in the Unit Area. The Unit Operator shall submit an initial or revised Exhibit C to the Commissioner within 30 days of: 1) the effective date of any Participating Area; 2) any expansion or contraction of a Participating Area; 3) any division of interest or allocation formula establishing or revising the Unit Tract Participation of any Unit Tract or Unit Tracts in a Participating Area; or 4) any change of the Working Interest, Royalty Interest or an additional separation creating a new Overriding Royalty Interest in any Unit Tract.

2.5 Exhibit D is comprised of a map for each Participating Area. Each Exhibit D map must show the boundary lines of the Unit Area, a Participating Area and the Unit Tracts in that Participating Area identified by Unit Tract number and Lease number. Within 30 days after approval by the Commissioner of a Participating Area or any expansion or contraction of a Participating Area under Article 9 of this Agreement, the Unit Operator shall submit a revised Exhibit D to the Commissioner.

2.6 Exhibit E is comprised of a table for each Participating Area that displays the allocation of Participating Area Expense to each Unit Tract in the Participating Area, identified by Unit Tract number and Lease number. Exhibits must be prepared for each Participating Area established in the Unit Area. The Unit Operator shall submit an initial or revised Exhibit E to the Commissioner whenever an initial or revised Exhibit C is required.

2.7 Exhibit F is a table that displays the allocation of Unit Expense to each Unit Tract in the Unit Area, identified by Unit Tract number and Lease number. The Unit Operator shall submit an initial or revised Exhibit F to the Commissioner whenever an initial or revised Exhibit A is required if the Unit Area includes net profit share leases. The Unit Operator may submit a revised Exhibit F anytime, but any revisions to Exhibit F are not effective until approved by the Commissioner.

2.8 Exhibit G is the unit plan of exploration or unit plan of development described in Article 8 of this Agreement.

### **ARTICLE 3: CREATION AND EFFECT OF UNIT**

3.1 All Oil and Gas Rights in and to the lands described in Exhibit A and shown in Exhibit B are subject to this Agreement.

3.2 Except as otherwise provided in this Agreement, where only a portion of a lease is committed to this Agreement, that commitment constitutes a severance of the lease into unitized and non-unitized portions. The portion of the leased area not committed to this Agreement will be treated as a separate and distinct lease and may be maintained only in accordance with the terms and conditions of the lease, statutes, and regulations. Any portion of the leased area not committed to this Agreement will not be affected by the unitization, by operations in the Unit Area, or by a suspension approved or ordered by the Commissioner.

3.3 Production of Unitized Substances from any part of a Participating Area will be considered production from each Unit Tract in the Participating Area as if a well were producing from each Unit Tract in the Participating Area.

3.4 The provisions of a Lease committed to this Agreement and of any other agreement regarding that Lease are modified to conform to the provisions of this Agreement but only to the extent that there is conflict in provisions and only for so long as the Lease remains committed to this Agreement. Otherwise, the provisions of such a Lease and agreements will remain in full force and effect.

3.5 This Agreement is not intended to transfer title to Oil and Gas Rights by any party to any other party or to the Unit Operator.

3.6 All data and information determined by the Commissioner to be necessary for the administration of this Agreement or for the performance of statutory responsibilities must be provided by the Unit Operator, or Working Interest Owners, or both, upon written request. All data and information provided to the Commissioner shall be protected from disclosure if the data or information is of a type entitled to confidentiality protection under the applicable law.

### **ARTICLE 4: DESIGNATION OF UNIT OPERATOR**

4.1 UltraStar Exploration LLC is designated as the Unit Operator until such time, if any, that a successor Unit Operator is designated under the terms and provisions of this Agreement. UltraStar Exploration LLC agrees to accept the rights and obligations of the Unit Operator to conduct Unit Operations and to explore for, develop and produce Unitized Substances as provided in this Agreement.

4.2. Except as otherwise provided in this Agreement, including but not limited to Article 7.4, and subject to the terms and conditions of Approved Unit Plans, the exclusive rights and obligations of the Working Interest Owners to conduct operations to explore for, develop and produce Unitized Substances in the Unit Area are delegated to and shall be exercised by the Unit Operator. This delegation does not relieve a lessee of the obligation to comply with all Lease terms. The Unit Operator shall notify the other Working Interest Owners and the Commissioner of actions taken by the Unit Operator under this Agreement as may be required under a Lease, this Agreement, the Unit Operating Agreement, or applicable laws or regulations. The Unit Operator shall minimize and consolidate surface facilities to minimize surface impacts.

## **ARTICLE 5: RESIGNATION OR REMOVAL OF UNIT OPERATOR**

5.1 The Unit Operator will have the right to resign at any time; however, the resignation will not become effective until: 1) 60 days have passed since the Unit Operator delivers a written notice of an intention to resign to the Working Interest Owners and the Commissioner; and 2) all artificial islands, installations and other devices, including wells, used for operations in the Unit Area are in a condition satisfactory to the Commissioner for suspension or abandonment of operations. However, if a successor Unit Operator is designated and approved under Article 6 of this Agreement, the resignation is effective when approved by the Commissioner.

5.2 The Unit Operator may be removed as provided in the Unit Operating Agreement. This removal will not be effective until: 1) the Working Interest Owners notify the Commissioner and the Unit Operator; and 2) the Commissioner approves a successor Unit Operator.

5.3 The resignation or removal of the Unit Operator will not release it from liability for any failure to meet obligations that accrued before the effective date of the resignation or removal.

5.4 The resignation or removal of the Unit Operator does not terminate its rights, title, interest or obligations as a Working Interest Owner or other interest in the Unit Area. A termination of the Unit Operator's rights, title, interest or obligations may occur independently under the terms of the Leases and governing law. When the resignation or removal of the Unit Operator becomes effective, the Unit Operator shall relinquish possession of all Unit Equipment, artificial islands, wells, installations, devices, records, and any other assets used for conducting Unit Operations, whether or not located in the Unit Area, to the successor Unit Operator.

## **ARTICLE 6: SUCCESSOR UNIT OPERATOR**

6.1. Whenever the Unit Operator tenders its resignation as Unit Operator or is removed as provided in Article 5 of this Agreement, a successor Unit Operator may be designated as provided in the Unit Operating Agreement. The successor Unit Operator shall accept the rights and obligations of a Unit Operator in writing. The successor Unit Operator will file an executed copy of the designation of successor with the Commissioner. The designation of successor Unit Operator will not become effective until approved by the Commissioner.

6.2. If no successor Unit Operator is designated within 60 days after notice to the Commissioner of the resignation or removal of a Unit Operator, the Commissioner may designate another Working Interest Owner as successor Unit Operator, or declare this Agreement terminated.

## **ARTICLE 7: UNIT OPERATING AGREEMENT**

7.1 The Working Interest Owners and the Unit Operator shall enter into a Unit Operating Agreement. It shall apportion all costs and liabilities incurred in maintaining or conducting Unit Operations among the Working Interest Owners. The Unit Operating Agreement shall also apportion the benefits, which will accrue from Unit Operations among the Working Interest Owners.

7.2 Any allocation described in the Unit Operating Agreement will not bind the State in determining or settling royalties and net profit share payments. Allocations of Unit Expense, Participating Area Expense, or Unitized Substances for determining, settling and paying royalties and net profit share payments will be based on Exhibits C, E and F of this Agreement, and must be approved by the Commissioner in writing before taking effect. An original or revised conforming Exhibit C and F shall be submitted to the Commissioner within 30 days of any change in the division of interest or allocation formula establishing or revising the Unit Tract Participation of any Unit Tract or Unit Tracts in a Participating Area.

7.3 The Working Interest Owners and the Unit Operator may establish, through the Unit Operating Agreement and amendments, including any other agreement between the Working Interest Owners concerning Unit Operations, other rights and obligations between the Unit Operator and the Working Interest Owners, in addition to those set out in Article 7.1 of this Agreement. The Unit Operating Agreement must not modify any term of this Agreement. If the terms of this Agreement and the Unit Operating Agreement conflict, this Agreement will prevail.

7.4 With the approval of the Commissioner, any Working Interest Owner is entitled to drill a well on the unitized portion of its Lease when the Unit Operator declines to drill that well. A Working Interest Owner shall have an approved permit to drill before

commencement of drilling operations and the well must be part of an Approved Unit Plan. If the Commissioner determines any such well to be capable of producing Unitized Substances in Paying Quantities, the land upon which that well is situated must be included in a Participating Area. The Participating Area will be formed or an existing Participating Area enlarged as provided in this Agreement. The Unit Operator shall thereafter operate the well in accordance with this Agreement and the Unit Operating Agreement.

7.5 The Unit Operator shall file a copy of the Unit Operating Agreement with the Commissioner when this Agreement is submitted for approval. The copy of the Unit Operating Agreement is for informational purposes only. Approval of the Unit Agreement is not approval of the Unit Operating Agreement. Complete copies of any amendments to the Unit Operating Agreement, including all other agreements between the Working Interest Owners that affect the rights and duties of some or all of the parties to this Agreement, must also be filed with the Commissioner within 30 days of execution and at least 30 days before their effective dates.

## **ARTICLE 8: PLANS OF EXPLORATION, DEVELOPMENT AND OPERATIONS**

8.1. Any Unit Plan and any amendment to a Unit Plan will not be effective until the Commissioner approves it. Unit Plans are incorporated into this Agreement and become effective on the date of their approval.

8.1.1. Unless a unit plan of development is filed under 11 AAC 83.343, a unit plan of exploration ("Plan of Exploration") shall be filed for approval with the Commissioner. Plans of Exploration must comply with 11 AAC 83.341 and any successor regulation.

8.1.2. A unit plan of development ("Plan of Development") shall comply with 11 AAC 83.343 and any successor regulation.

8.1.3. A unit plan of operations ("Plan of Operations") shall comply with 11 AAC 83.346 and any successor regulation.

8.1.4. When this Agreement is submitted to the Commissioner for approval, the Unit Operator shall submit an initial Plan of Development or an initial Plan of Exploration (collectively called the "Initial Unit Plan") for approval by the Commissioner.

8.2. The Unit Operator shall not explore, develop or produce on the Unit Area except in accordance with an Approved Unit Plan. The Unit Operator shall obtain a Plan of Operations approval, and any other permits and approvals required before operations begin. A Plan of Operations approval must be consistent with the mitigation measures and lessee advisories developed for the most recent State areawide lease sale in the region that includes the Unit Area as deemed necessary by the Commissioner to protect the resources of the State. The Unit Operator shall submit a complete copy of all such applications to the Commissioner. The Unit

Operator shall give the Commissioner written notice before beginning testing, evaluation, or pilot production from a well in the Unit Area.

8.3. After Sustained Unit Production in Paying Quantities begins, Unit Operations shall be maintained with lapses of no more than 90 days per lapse between operations. The lapse may be longer if suspension of operations or production has been ordered or approved by the Commissioner. Approved Unit Plans may provide for a suspension of Unit Operations.

8.4. After giving written notice to the Unit Operator and an opportunity to be heard, the Commissioner may require the Unit Operator to modify from time-to-time the rate of prospecting and development and the quantity and rate of production.

8.5. The Commissioner may approve any injection of Outside Unit Substances or Outside PA Substances within the Unit Area. Any injection of Outside Unit Substances or Outside PA Substances within the Unit Area must be part of an Approved Unit Plan.

## **ARTICLE 9: PARTICIPATING AREAS**

9.1. The Unit Operator shall submit a request for approval of the proposed initial Participating Area to the Commissioner at least 90 days before Sustained Unit Production from a Reservoir in the Unit Area. A Participating Area shall include only land that is reasonably known to be underlain by Unitized Substances and known or reasonably estimated through the use of geological, geophysical and engineering data to be capable of producing or contributing to production of Unitized Substances in Paying Quantities. The Unit Operator must receive approval from the Commissioner of a Participating Area before commencement of Sustained Unit Production. The Unit Operator shall notify the Commissioner before the commencement of Sustained Unit Production from each Participating Area.

9.2. Each application for approval of a Participating Area shall include Exhibits C, D, E, and G. Exhibit F is also required if the Unit Area includes net profit share leases. If approved by the Commissioner, the area described in Exhibit C and shown in Exhibit D will be a Participating Area, and the allocation of Participating Area Expenses and Unit Expenses described in Exhibits E and F will be effective on the effective date of the Participating Area.

9.3. A separate Participating Area shall be established for each Reservoir in the Unit Area. If one Reservoir underlies another Reservoir in whole or in part, separate Participating Areas may be created for each Reservoir. Any two or more Reservoirs or Participating Areas may be combined into one Participating Area if approved by the Commissioner.

9.4. At the Unit Operator's election or if so directed by the Commissioner, the Unit Operator shall apply to expand or contract the Participating Area if expansion or contraction is warranted by geological, geophysical, or engineering data. Each application for expansion or contraction shall include Exhibits C, D, E, and G. Exhibit F is also required if the Unit Area includes net profit share leases. The application must be submitted to the Commissioner for

approval. Before any directed expansion or contraction of the Participating Area, the Commissioner will give the Unit Operator reasonable notice and an opportunity to be heard.

9.5. The Commissioner will establish the effective date of the initial Participating Area. That effective date will be no later than the date of the first Sustained Unit Production. The Commissioner will establish the effective date of each later Participating Area.

9.6. Land in a Participating Area shall remain in that Participating Area even if its Unitized Substances are depleted.

9.7. If the Working Interest Owners cannot agree on the fair, reasonable and equitable allocation of production or costs, the Commissioner will prescribe an allocation.

9.8. A Unitized Substance produced from one Participating Area (“Originating Participating Area”) may be used as an Outside PA Substance (“Injected Substance”) for repressuring, recycling, storage or enhanced recovery purposes in another Participating Area (“Receiving Participating Area”) only if the State is paid royalty as if the Unitized Substance was saved, removed, or sold by the Working Interest Owners, except as follows.

9.8.1. If the Commissioner consents to the transfer of Unitized Substances between Participating Areas without immediate payment of royalties, the Unit Operator shall provide monthly reports to the State of the transferred Unitized Substance volumes in both the Originating and Receiving Participating Areas as specified in 11 AAC 04. These monthly reports shall reflect the volumes of any Unitized Substance transferred and the British thermal units (“Btus”) in any natural gas Unitized Substance transferred as an Outside PA Substance during the preceding month.

9.8.2. If the Commissioner consents to the transfer of Unitized Substances between Participating Areas without immediate payment of royalties, the royalties shall be paid when the Injected Substances are produced and sold from the Receiving Participating Area. The first natural gas Unitized Substances produced and sold from the Receiving Participating Area shall be considered to be the Injected Substances until a volume of natural gas containing Btus equal to the Btus contained in the Injected Substances is produced and sold from the Receiving Participating Area. All the Unitized Substances produced and sold from a Receiving Participating Area that are considered to be the Injected Substance shall be allocated to the Originating Participating Area. The Working Interest Owners shall pay the State royalties on Injected Substances produced and sold from a Receiving Participating Area as if those Injected Substances were produced and sold from the Originating Participating Area when they were produced from the Receiving Participating Area.

9.9. All liquid hydrocarbons removed in any equipment or facility in Alaska from produced Injected Substances and not used for fuel shall be allocated to the Receiving Participating Area. If liquid hydrocarbons are removed from the natural gas, the Btu content of the natural gas shall be measured after liquid hydrocarbons are removed.

9.10. The Commissioner's approval must be obtained for the proposed recovery rate and commencement date for recovery before any Outside Unit Substance is injected within the Unit Area.

9.11. After giving written notice to the Unit Operator and an opportunity to be heard, the Commissioner may require the Unit Operator to modify from time-to-time the rate of prospecting and development and the quantity and rate of production from a Participating Area.

9.12. Underground storage will be covered by separate agreement with the Commissioner.

## **ARTICLE 10: OFFSET WELLS**

10.1. Whenever there is a risk of drainage from production operations on property outside the Unit Area, the Unit Operator shall drill wells to protect the State from loss by reason of drainage. The Commissioner may issue a written demand if oil or gas is produced in Paying Quantities, as defined in 11 AAC 83.105, for 30 consecutive days in a well on other land not owned by the State or on which the State receives a lower rate of royalty than under any Lease in the Unit Area, and that well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this Agreement. If, after notice to the Unit Operator and an opportunity to be heard, the Commissioner finds that production from that well is draining lands then subject to this Agreement, the Unit Operator shall within 30 days after written demand by the Commissioner, begin in good faith and diligently prosecute drilling operations for an offset well on the Unit Area. In lieu of drilling any well required by this paragraph, the Working Interest Owners must compensate the State in full each month for the estimated loss of royalty through drainage in the amount determined by the Commissioner.

## **ARTICLE 11: ALLOCATION OF PRODUCTION**

11.1 Production and costs will be allocated under 11 AAC 83.371 and any successor regulation. The Unit Operator shall submit a proposed allocation plan, with supporting data, to the Commissioner for approval. The Commissioner may revise the proposed allocation plan if it does not equitably allocate production and costs from the Reservoir. The Commissioner will give the Unit Operator and Working Interest Owners reasonable notice and an opportunity to be heard before revising the Unit Operator's proposal. The allocation plan must be revised whenever a Participating Area is expanded or contracted. Within 30 days after approval by the Commissioner of any division of interest or allocation formula establishing or revising the Unit Tract Participation of any Unit Tract or Unit Tracts in a Participating Area, the Unit Operator shall submit revised Exhibits C and F to the Commissioner. The Unit Operator may submit a revised Exhibit F anytime, but any revisions to Exhibit F are not effective until approved by the Commissioner.

11.2 The Working Interest Owners shall pay royalties for each Unit Tract in proportion to each Working Interest Owner's ownership in that Unit Tract. The amount of Unitized Substances allocated to each Unit Tract will be deemed to have been produced from that Unit Tract.

11.3 The Working Interest Owners may allocate Unitized Substances, Participating Area Expense, and Unit Expense differently than described in Exhibits C, E and F. However, that allocation will not be effective for determining royalty or net profit share payments. The Unit Operator shall submit any allocation that is different than the allocations required in Exhibit C, E or F to the Commissioner under 11 AAC 83.371(b) for the State's information within 10 days of its effective date with a statement explaining the reason for the different allocation.

11.4 Royalties will not be due or payable to the State for the portion of Unitized Substances unavoidably lost or used in the Unit Area for development and production in accordance with prudent industry practices. Gas that is flared for any reason other than safety purposes as allowed by the AOGCC will not be deemed to be unavoidably lost, and the Working Interest Owners shall pay royalties for such flared gas as if it had been produced. This exemption does not apply to Unitized Substances that are sold, traded or assigned, including sales, transactions, or assignments among the Working Interest Owners.

11.5 If a Lease provides for a discovery royalty rate reduction for the first discovery of oil or gas, that Lease provision will not apply to a well spudded after the Effective Date.

## **ARTICLE 12: LEASES, RENTALS AND ROYALTY PAYMENTS**

12.1 The Working Interest Owners shall pay rentals and royalty payments due under the Leases. Payments to the State must be made under 11 AAC 04 and 11 AAC 83.110 and any successor regulations.

12.2 Each month, the Unit Operator shall furnish a schedule to the Commissioner. That schedule shall specify, for the previous month: 1) the total amount of Unitized Substances produced; 2) the amount of Unitized Substances used for development and production or unavoidably lost; 3) the total amount of Unitized Substances allocated to each Unit Tract; 4) the amount of Unitized Substances allocated to each Unit Tract and delivered in kind as royalty to the State; and 5) the amount of Unitized Substances allocated to each Unit Tract for which royalty is to be or has been paid to the State. If any of the Leases subject to this Agreement require net profit share payments, the operator shall provide the schedule of development costs in accordance with 11 AAC 83.219.

12.3 Each Working Interest Owner shall pay its share of royalties to the State on Unitized Substances as provided in the Lease, except that any reference in the Lease to the "leased area" will mean the Unit Area and any reference to "oil, gas, or associated substances" will mean "Unitized Substances."

12.4. Notwithstanding any contrary Lease term, royalties and the share of Unitized Substances attributable to royalties and any payment due must be paid free and clear of all Lease expenses, Unit Expenses and Participating Area Expenses. These excluded expenses include, but are not limited to, separating, cleaning, dehydration, saltwater removal, processing, compression, pumping, and manufacturing costs. These excluded expenses include the costs of preparing the Unitized Substances for transportation off the Unit Area and gathering and transportation costs incurred before the Unitized Substances are delivered to a common carrier. No lien for any expenses will attach to royalty Unitized Substances. The royalty share will bear a proportionate part of any gas shrinkage that occurs during gas processing and blending.

12.5 Notwithstanding any contrary Lease term or provision in 11 AAC 83.228—11 AAC 83.229, all royalty deductions for transportation, including, but not limited to, marine, truck and pipeline, transportation, from the Unit Area to the point of sale are limited to the actual and reasonable costs incurred by the Working Interest Owners. Transportation deductions are only allowed for sales quality oil. These transportation costs must be determined by taking into account all tax benefits applicable to the transportation.

12.6. The Unit Operator shall give the Commissioner notice of the anticipated date for commencement of production at least six months before the commencement of Sustained Unit Production from a Participating Area. The Commissioner may take the State's share of Unitized Substances in-kind in accordance with the following. The Commissioner will give the Unit Operator 90 days written notice of the State's initial election to take all or a portion of its share of Unitized Substances in-kind. After taking has commenced, the Commissioner may increase or decrease the amount of Unitized Substances taken in-kind.

12.6.1. The Commissioner may elect to specify the Unit Tracts from which Unitized Substances taken in-kind are to be allocated. If the Commissioner does not specify any Unit Tracts in the written notice to the Unit Operator, the Unitized Substances taken in-kind will be allocated to all Unit Tracts in accordance with the Unit Tract Participation shown on Exhibit C to this Agreement.

12.6.2 The Unit Operator shall deliver the State's royalty Unitized Substances at the custody transfer meter at a common carrier pipeline capable of carrying those substances, or at any other mutually agreeable place. The State may designate any individual, firm or corporation to accept delivery.

12.6.3. The State's share of Unitized Substances delivered in-kind shall be delivered in good and merchantable condition and be of pipeline quality. Those substances will be free and clear of all Lease expenses, Unit Expenses, and Participating Area Expenses, and free of any lien for these excluded expenses. These excluded expenses include, but are not limited to, separating, cleaning, dehydration, saltwater removal, processing, compression, pumping, and manufacturing costs. These excluded expenses include the costs of preparing the Unitized Substances for transportation off the Unit Area and gathering and transportation costs incurred before the Unitized Substances are delivered to a

common carrier. If a Working Interest Owner processes the Unitized Substances to separate, extract or remove liquids from a Working Interest Owner's share of natural gas Unitized Substances, the State may require that a Working Interest Owner also process the State's share of natural gas being taken in-kind in the same manner without cost to the State. Under these circumstances, the State, or its buyer, shall only pay any tariffed transportation costs and shrinkage of the volume of gas resulting from processing.

12.6.4 Each Working Interest Owner shall furnish storage in or near the Unit Area for the State's share of Unitized Substances to the same extent that the Working Interest Owner provides storage for its own share of Unitized Substances.

12.7. If a purchaser of the State's share of Unitized Substances does not take delivery of Unitized Substances, the State may elect, without penalty, to underlift for up to six months. The State may underlift all or a portion of those substances. The State's right to underlift is limited to the portion of those substances that the purchaser did not take delivery of or what is necessary to meet an emergency condition. The State will give the Unit Operator written notice 30 days before the first day of the month in which the underlifted Unitized Substances are to be recovered. The State may recover at a daily rate not exceeding 25 percent of its share of daily production, unless otherwise agreed.

12.8. The Unit Operator shall maintain records, and shall keep and have in its possession books and records including expense records, of all exploration, development, production, and disposition of all Unitized Substances and Outside Unit Substances and Outside PA Substances. Each Working Interest Owner shall maintain records of the disposition of its portion of the Unitized Substances and Outside Unit Substances and Outside PA Substances including sales prices, volumes, and purchasers. The Unit Operator and the Working Interest Owners shall permit the Commissioner to examine those books and records at all reasonable times. Upon request by the Commissioner, the Unit Operator and the Working Interest Owners shall make the books and records available to the Commissioner at the Commissioner's designated office. They may provide these books and records in a mutually agreeable electronic format. These books and records of exploration, development, production, and disposition must employ methods and techniques that will ensure the most accurate figures reasonably available. The Unit Operator and the Working Interest Owners shall use generally accepted and internally consistent accounting procedures.

12.9. To the extent that the rental provision of a Lease is inconsistent with AS 38.05.180(n), the Lease is amended and rentals will be calculated under AS 38.05.180(n) and paid under 11 AAC 04. If a Lease requires payment of minimum royalty, the Lease is amended to delete that minimum royalty obligation.

12.10. All rights and obligations relating to the State's net profit share will be determined under 11 AAC 83.201 – 11 AAC 83.295. The State may audit the net profit share reports or payments due for any Lease within 10 years of the year of production. The period of limitations for the State to file a lawsuit relating to an audit of a net profit share report or payment will be three years longer than the audit period. The Working Interest Owners holding interests in net profit share Leases shall maintain the records relevant to determination of net profit share for 13 years.

## **ARTICLE 13: UNIT EXPANSION AND CONTRACTION**

13.1. The Unit Operator, at its own election may, or at the direction of the Commissioner shall, apply to expand the Unit Area to include any additional lands determined to overlie a Reservoir that is at least partially within the Unit Area, or to include any additional lands that facilitate production. The Unit Operator shall notify the Working Interest Owners of any expansion proposed by the Unit Operator or any third party, or proposed or directed by the Commissioner. Any Unit Area expansion will not be effective until approved by the Commissioner.

13.2. Ten years after Sustained Unit Production begins, the Unit Area must be contracted to include only those lands then included in an approved Participating Area and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. The Commissioner may, after considering the provisions of 11 AAC 83.303, delay contraction of the Unit Area if the circumstances of a particular unit warrant. If any portion of a Lease is included in the Participating Area, the portion of the Lease outside the Participating Area will neither be severed nor will it continue to be subject to the terms and conditions of this Agreement. The portion of the Lease outside the Participating Area will continue in full force and effect so long as production is allocated to the unitized portion of the Lease and the lessee satisfies the remaining terms and conditions of the Lease.

13.3. Not sooner than 10 years after the effective date of this Agreement, the Commissioner will, in the Commissioner's discretion, contract the Unit Area to include only that land covered by an Approved Unit Plan, or that area underlain by one or more oil or gas Reservoirs or one or more potential hydrocarbon accumulations and lands that facilitate production. Before any contraction of the Unit Area under this Article 13.3, the Commissioner will give the Unit Operator, the Working Interest Owners, and the Royalty Interest owners of the Leases or portions of Leases being excluded reasonable notice and an opportunity to be heard.

13.4. The Unit Area may be contracted with the Commissioner's approval and an affirmative vote of the Working Interest Owners.

13.5. Within 30 days after approval by the Commissioner of any expansion or contraction of the Unit Area, the Unit Operator shall submit revised Exhibits A and B to the Commissioner.

## **ARTICLE 14: UNIT EFFECTIVE DATE, TERM AND TERMINATION**

14.1. Upon Commissioner's approval, this Agreement is effective as of 12:01 a.m. on the date the Commissioner designates. At least one copy of this Agreement shall be filed with the Department of Natural Resources, Anchorage, Alaska and one copy shall be filed with the AOGCC.

14.2. Subject to the terms and conditions of the Approved Unit Plan, this Agreement automatically terminates five years from the Effective Date unless:

14.2.1. a Unit Well in the Unit Area has been certified as capable of producing Unitized Substances in Paying Quantities under 11 AAC 83.361, in which case this Agreement will remain in effect for so long as Unitized Substances are produced in Paying Quantities from the Unit Area; or

14.2.2. for so long as Unitized Substances can be produced in Paying Quantities and Unit Operations are being conducted in accordance with an Approved Unit Plan; or

14.2.3. should production cease, for so long thereafter as diligent operations are in progress to restore production and then so long after as Unitized Substances are produced in Paying Quantities; or

14.2.4. exploration operations are being conducted under an Approved Unit Plan and the unit term is extended by the Commissioner. No single extension will exceed five years.

14.3. If the Commissioner orders or approves a suspension of production or other Unit Operations, this Agreement will continue in force during the authorized suspension.

14.4. Nothing in this Article holds in abeyance the obligations to pay rentals, royalties, or other production or profit-based payments to the State from operations or production in any part of the Unit Area. Any seasonal restriction on operations or production or other condition required in the Lease is not a suspension of operations or production required by law or force majeure.

14.5. This Agreement may be terminated by an affirmative vote of the Working Interest Owners and the Commissioner's approval.

## **ARTICLE 15: EFFECT OF CONTRACTION AND TERMINATION**

15.1. If a Lease or portion of a Lease is contracted out of the Unit Area under this Agreement, then it will be maintained only in accordance with State law and the Lease.

15.2. Each Lease committed to this Agreement on the day that this Agreement terminates will remain in force for an extension period of 90 days, or any longer period that the Commissioner may approve. After the extension period expires, the Lease will be maintained only in accordance with State law and the Lease.

15.3. Upon the expiration or earlier termination of this Agreement, the Unit Operator will have the right at any time within a period of one year after the termination, or any extension

of that period as may be granted by the Commissioner, to remove from the Unit Area all machinery, equipment, tools, and materials. Upon the expiration of that period or extension of that period and at the option of the Commissioner, any machinery, equipment, tools, and materials that the Unit Operator has not removed from the Unit Area become the property of the State or may be removed by the State at the Working Interest Owners' expense. At the option of the State, improvements such as roads, pads, and wells must either be abandoned and the sites rehabilitated by the Unit Operator to the satisfaction of the State, or be left intact and the Unit Operator absolved of all further responsibility as to their maintenance, repair, and eventual abandonment and rehabilitation. Subject to the above conditions, the Unit Operator shall deliver up the Unit Area in good condition.

## **ARTICLE 16: COUNTERPARTS**

16.1. The signing of counterparts of this Agreement will have the same effect as if all parties had signed a single original of this Agreement. Within 30 days after approval by the Commissioner of any change of the Working Interest ownership of Oil and Gas Rights in any Unit Tract, the Unit Operator shall submit a revised Exhibits A and C to the Commissioner.

## **ARTICLE 17: LAWS AND REGULATIONS**

17.1. This Agreement is subject to all applicable State and federal statutes and regulations in effect on the Effective Date of this Agreement, and insofar as is constitutionally permissible, to all statutes and regulations placed in effect after the Effective Date of this Agreement. A reference to a statute or regulation in this Agreement includes any change in that statute or regulation whether by amendment, repeal and replacement, or other means. This Agreement does not limit the power of the State of Alaska or the United States of America to enact and enforce legislation or to promulgate and enforce regulations affecting, directly or indirectly, the activities of the parties to this Agreement or the value of interests held under this Agreement. In case of conflicting provisions, statutes and regulations take precedence over this Agreement.

## **ARTICLE 18: APPEARANCES AND NOTICES**

18.1. If the State gives the Unit Operator a notice or order relating to this Agreement it will be deemed given to all Working Interest Owners and all persons whose interest in the Unit Area derived from a Working Interest. All notices required by this Agreement shall be given in writing and delivered personally, or by United States mail or by facsimile machine to the Unit Operator at the address or facsimile number listed below. All notices actually received will also be deemed properly given. The Unit Operator shall change its notice address by giving 30 days written notice to the State and the other Working Interest Owners. The State will change its notice address by giving 30 days written notice to the Unit Operator.

**Address of the Unit Operator:**

James D. Weeks  
UltraStar Exploration LLC  
1629 W 11<sup>th</sup> Avenue  
Anchorage, AK 99501  
907-258-2969

Fax: 907-258-5092

**Address of the State:**

Commissioner, Department of Natural Resources  
550 West Seventh Avenue, Suite 1400  
Anchorage, Alaska 99501-3554  
Fax: (907) 269-8918

with a copy to:

Director, Division of Oil and Gas  
550 West Seventh Avenue, Suite 1100  
Anchorage, Alaska 99501-3560  
Fax: (907) 269-8938

**ARTICLE 19: JOINDER**

19.1. The Commissioner may order or, upon request, approve a joinder to this Agreement under the expansion provisions of Article 13 of this Agreement. The Unit Operator shall submit a request for joinder with a signed counterpart of this Agreement and a notice of proposed expansion under Article 13 of this Agreement. A joinder is subject to the requirements of the Unit Operating Agreement. However, the Commissioner may modify any provision in a Unit Operating Agreement, which the Commissioner finds discriminates against parties who request joinder. The Commissioner will give notice and an opportunity to be heard to the Unit Operator before modifying the Unit Operating Agreement.

**ARTICLE 20: DEFAULT**

20.1 The Commissioner may determine that failure of the Unit Operator or the Working Interest Owners to comply with any of the terms of this Agreement, including any Approved Unit Plan or Plan of Operations, is a default under this Agreement. The failure to comply because of force majeure, if granted by the Commissioner under 11 AAC 83.336(b), is held in abeyance.

20.2 The Commissioner will give notice to the Unit Operator and the Working Interest Owners of the default. The notice will describe the default, and include a demand to cure the default by a certain date. The cure period will be at least 30 days for a failure to pay rentals or royalties and 90 days for any other default.

20.3 If there is no Unit Well capable of producing Unitized Substances in Paying Quantities under 11 AAC 83.361 at the time of default, and a default is not cured by the date indicated in the demand, the Commissioner may terminate this Agreement after giving the Unit Operator notice and an opportunity to be heard. The Commissioner will give notice, by mail, of the termination, which is effective upon mailing the notice.

20.4 If there is a Unit Well capable of producing Unitized Substances in Paying Quantities under 11 AAC 83.361 at the time of default, and the operations to cure the default are not completed by the date indicated in the demand, the Commissioner may terminate this Agreement by judicial proceedings.

20.5 This Article's remedies are in addition to any other administrative or judicial remedy provided for by Lease, this Agreement, or federal or State law.

IN WITNESS OF THE FOREGOING, the parties have executed this Dewline Unit Agreement on the dates opposite their respective signatures.

**WORKING INTEREST OWNERS**

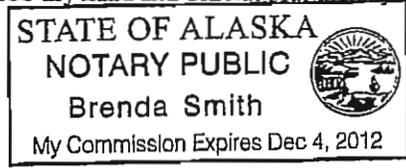
By: James W Weeks Date: 4-8-09  
MANAGING MEMBER  
ULTRASTAR EXPLORATION LLC

(Company Name, signatory's printed name and title)

STATE OF ALASKA )  
 )ss.  
THIRD JUDICIAL DISTRICT )

This certifies that on the 8<sup>th</sup> of April, 2009, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared James Weeks, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.



Brenda Smith  
NOTARY PUBLIC in and for Alaska  
My Commission Expires: 12-4-2012

By: \_\_\_\_\_ Date: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Company Name, signatory's printed name and title)

STATE OF ALASKA )  
 )ss.  
THIRD JUDICIAL DISTRICT )

This certifies that on the \_\_\_\_\_ of \_\_\_\_\_, 20\_\_\_\_, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared \_\_\_\_\_, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska

My Commission Expires: \_\_\_\_\_

BY SIGNING BELOW, the Overriding Royalty Interest owners in the oil and gas leases committed to the Dewline Unit acknowledge the terms and conditions of this Dewline Unit Agreement on the dates opposite their respective signatures.

**OVERRIDING ROYALTY INTEREST OWNERS**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Company Name, signatory's printed name and title)

STATE OF ALASKA                    )  
  )ss.  
THIRD JUDICIAL DISTRICT        )

On this the \_\_\_\_\_ of \_\_\_\_\_, 20\_\_\_\_, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing document, and who acknowledged to me that he signed the same freely and voluntarily for the uses and purposes therein mentioned.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My Commission Expires: \_\_\_\_\_

By: \_\_\_\_\_ Date: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Company Name, signatory's printed name and title)

STATE OF ALASKA                    )  
  )ss.  
THIRD JUDICIAL DISTRICT        )

On this the \_\_\_\_\_ of \_\_\_\_\_, 20\_\_\_\_, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing document, and who acknowledged to me that he signed the same freely and voluntarily for the uses and purposes therein mentioned.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My Commission Expires: \_\_\_\_\_