SOUTHERN CROSS UNIT AGREEMENT

APPROVAL OF THE APPLICATION TO

FORM THE SOUTHERN CROSS UNIT

FINDINGS AND DECISION OF THE DIRECTOR

DIVISION OF OIL AND GAS

UNDER DELEGATION OF AUTHORITY FROM THE COMMISSIONER

DEPARTMENT OF NATURAL RESOURCES

STATE OF ALASKA

January 18, 2011

TABLE OF CONTENTS

I. DECISION SUMMARY 3

II. INTRODUCTION AND BACKGROUND 3

III. APPLICATION FOR THE FORMATION OF THE UNIT AREA 4

IV. DISCUSSION OF DECISION CRITERIA 5

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

1. The Environmental Costs and Benefits of Unitized Exploration and Development
2. The Geological and Engineering Characteristics of the Potential Hydrocarbon Accumulations and Prior exploration activities in the Unit Area
3. Plans for Exploration
4. The Economic Costs and Benefits to the State
5. Amendments to the State Only Model Unit Agreement Form and other Relevant Factors.

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

1. Promote the Conservation of All Natural Resources
2. The Prevention of Economic and Physical Waste
3. The Protection of All Parties of Interest, Including the State

V. FINDINGS AND DECISION 11

VI. ATTACHMENTS 13

SOUTHERN CROSS UNIT APPLICATION

I. DECISION SUMMARY

On July 12, 2010, Buccaneer Alaska, LLC (Buccaneer) filed the Southern Cross Unit (SCU) application (Application) with the State of Alaska (State), Department of Natural Resources (DNR). Buccaneer Alaska, LLC submitted confidential and public information as part of the Application, which meets the requirements for a complete application under 11 AAC 83.306. Subsequent to the filing of the Application, Buccaneer Alaska Operations, LLC (Unit Operator) was designated Unit Operator.

The State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) gave notice under 11 AAC 83.311 of the proposed SCU formation on August 15, 2010. The period for public comment closed effective September 14, 2010. No comments were received.

On September 27, 2010, Buccaneer submitted an amended Application, reducing the proposed unit acreage from 10,109 acres to approximately 7,641 acres. On December 13, 2010, Buccaneer again reduced the proposed unit acreage to 6,298.5 acres and also submitted a revised Initial Plan of Exploration (Initial POE). No additional notice under 11 AAC 83.311 was required.

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 SCU promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties.

II. INTRODUCTION AND BACKGROUND

On July 12, 2010, Buccaneer applied for approval of the proposed Southern Cross Unit Agreement (Agreement). Buccaneer Alaska Operations, LLC was subsequently designated Unit Operator. Buccaneer Alaska Operations, LLC is qualified to act as Unit Operator under 11 AAC 83.331 because it is qualified to hold a lease and to fulfill the duties and obligations under the Agreement.

The Agreement proposed to combine for unitized exploration and development all or part of four State of Alaska oil and gas leases, comprising an area of approximately 6,298.5 acres. The proposed SCU is located within the Cook Inlet Basin, at the northern nose of the Middle Ground Shoal structure. The leases in the proposed SCU, and their corresponding lease numbers, acreages, state royalty interests, lease effective dates, lease form, ownership, and current lease expiration dates are shown below in Table I.

Table 1

Proposed Southern Cross Unit Lease Information

ADL	Acres	State Royalty Interest %	Lease Effective Date	Lease Form	Working Interest Owners and Percentage	Lease Expiration Date
17595-2	2466.5	12.5	02/01/1962	DL-1	Buccaneer 100%	NA*
391108	1912	12.5	10/01/2007	200604	Buccaneer 100%	10/01/2014
390379	640	12.5	10/01/2003	200204	Buccaneer 100%	10/01/2010
391107	1280	12.5	10/01/2007	200604	Buccaneer 100%	09/30/2014

- ADL 17595-2 is currently held by an approved Plan of Development

The proposed Agreement is based on the State of Alaska Model Unit Agreement form (Revised April 2009) with modifications to which DNR and Buccaneer agreed. The Agreement provides for plans of exploration, development and operations within the unit area without regard to internal lease boundaries. The proposed Initial POE submitted by Buccaneer sets forth a two-year schedule during which Buccaneer proposes a two well drilling program with the first well to be drilled in 2012 and the second well to be drilled in 2014.

III. APPLICATION FOR THE FORMATION OF THE UNIT AREA

Buccaneer submitted an Application on July 12, 2010 along with an application filing fee of $5,000 in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(D). The Application included: the Southern Cross Unit Agreement; an Exhibit A, describing the proposed unit area, its leases, and ownership interests; an Exhibit B, a map of the proposed unit area; an Exhibit G, the proposed Initial POE; and the Unit Operating Agreement. The Application also included confidential geological, geophysical and engineering information supporting the Application. Supplemental information to complete the Application was submitted by Buccaneer on August 4, 2010. The Division deemed the Application complete and issued public notice of the Application.

Public notice of the Application was published in the *Anchorage Daily News* and in the *Peninsula Clarion* on August 15, 2010. The public notice and a copy of the Application were posted to the Division website on August 10, 2010. Copies of the Application and public notice were provided to interested parties under 11 AAC 83.311. The Division provided public notice to the Kenai Peninsula Borough, Alaska Department of Environmental Conservation, Kenai Post Office, Cook Inlet Region Inc., Village of Tyonek, Tyonek Native Corporation, Kenai Native Association, Alaska Department of Fish and Game, City of Kenai, Kenai Community Library, Salamatoff Native Association, Kenai Chamber of Commerce, Tyonek Post Office, Kenaitze Indian Tribe, Alaska Mental Health Trust, Alaska Department of Natural Resources Division of Mining, Land and Water, Kenai City Council, Soldotna Post Office, KDLL-FM, KSRM, Inc., Tebughna School, and Buccaneer Alaska, LLC. The public notices invited any person to

submit written comments by 4:30 p.m. September 14, 2010. No comments were received from the public notices.

On September 27, 2010, Buccaneer submitted an amended Application, reducing the proposed unit acreage from 10,109 acres to approximately 7,641 acres. On December 13, 2010, Buccaneer again reduced the proposed unit acreage to 6,298.5 acres, and also submitted a revised Initial POE for the drilling of one exploratory well by September 30, 2012. No additional notice under 11 AAC 83.311 was required.

IV. DISCUSSION OF DECISION CRITERIA

AS 38.05.180(p) gives DNR the authority to approve an oil and gas unit. 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 AA 11C 83.303(b)

1. The Environmental Costs and Benefits of Unitized Exploration

The proposed SCU is located offshore within the Cook Inlet. Alaska statutes require that DNR provide 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 four leases to be included in the proposed SCU 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. Unitization will neither change these protective measures, nor result in additional restrictions or limitations. 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 the State and the Kenai Peninsula Borough.

2. The Geological and Engineering Characteristics of the Potential Hydrocarbon Accumulation and Prior exploration activities in the Unit Area

Introduction

The Southern Cross prospect is located in the middle of upper Cook Inlet, approximately 60 miles southwest of Anchorage, Alaska, beneath water with an average depth of 100 feet. The prospect lies on a trend with the Middle Ground Shoal geologic structure. Buccaneer provided the Division with geological and geophysical data to support the evaluation of the Southern Cross prospect. The geological data Buccaneer provided consists of structural contour maps of the Tyonek and Hemlock horizons, net sand isopach maps of Tyonek and Hemlock formations, digital and paper copies of wireline logs from eight wells, and two cross sections through the prospect. The geophysical data Buccaneer provided consists of two interpreted seismic lines (one dip and one strike) over the heart of the prospect.

Regional Tectonic Setting and Structural Geology

The Cook Inlet basin is an elongate, northeast-southwest trending, fault-bounded forearc basin that extends from Matanuska Valley southward along the Alaska Peninsula. Numerous northeast-southwest trending anticlinal folds exist within this basin due to extensive right lateral and dip slip motion along the northern and northwestern basin-bounding faults. The Middle Ground Shoal structure is a long, linear, tightly folded anticline that has produced oil from the Tyonek and Hemlock sands for four decades. Gas has been tested and produced from the upper Tyonek sands in the northern portion of the structure.

Depositional Systems and Stratigraphic Framework

Mesozoic and Tertiary sediments make up the basin fill. The underlying Mesozoic formations form an angular unconformity with the overlying Tertiary sediments. In general, Jurassic aged rocks underlie the Tertiary sediments on the west side of the basin and Cretaceous aged rocks underlie the Tertiary on the east side of the basin. The Tertiary clastic sediments were deposited into the Cook Inlet Basin as two major non-marine depositional systems consisting of alluvial-fan and axial-fluvial systems. Alluvial-fan systems occur along the margins of the basin and were sourced from adjacent highlands created by the basin-bounding faults. Migrating axial-fluvial systems occupy the central portion of the basin and interfinger with the fans towards the basin margin. These fluvial systems result in the thick accumulation of sandstone, siltstone and coal in the basin center. The sedimentary accumulations of these two systems are regionally time transgressive and represent laterally equivalent facies deposited across the basin. The Southern Cross prospect lies in the center of the basin and has both depositional systems present in the well.

Southern Cross Prospect and Area Wells

The majority of the Southern Cross Prospect is north of the area that can be reached from the Baker platform, the northernmost platform in Middle Ground Shoal field. The primary targets of the Southern Cross Prospect are gas within the Upper and Lower Tyonek and oil within the Hemlock and basal

Tyonek. Buccaneer highlighted four wells that have found hydrocarbons within the proposed Southern Cross Prospect through a DST, mud log show, and/or production test. MGS ST 17595 1, which was the discovery well for the Middle Ground Shoal field, blew out while drilling to a depth of 5,216 feet due to natural gas. MGS ST 18743 had a drill stem test within the lower Tyonek sands that produced 3.4 MMCFD and mud log oil shows in the Lower Tyonek formation. MGS ST 17959 2 had DST results that indicated 3,556' of gas cut mud, oil and seawater. A second DST recovered 3,792' of oil and seawater. MGS ST 17595 3 had mud log oil shows in the basal Tyonek and Hemlock formations and DST results that indicated traces of oil and gas cut water. The deepest successful DST on this well for the interval from 8,690' to 8,730' yielded 230' of oil and 1,080' of mud cut oil and 580' of mud cut water. Shallower intervals yielded 3,250' to 6,000' of gas cut water.

3. Plan of Exploration for the Proposed Southern Cross Unit

Buccaneer provided technical data sufficient to delineate two hydrocarbon prospects under consideration, committed their lease interest to the proposed unit, and submitted a two-year Initial POE. For administration purposes, the proposed SCU is divided into two exploration blocks, Block A and Block B, as described below. See Attachment 3.

Exploration Block A:

Tract 1: ADL 17595-2

Exploration Block B:

Tract 2: ADL 390379
Tract 3: ADL 391107
Tract 4: ADL 391108

The two-year Initial POE, Exhibit G, for the proposed SCU establishes the work obligation that Buccaneer must meet in order for the proposed unit to remain in good standing. The term of the Initial POE commences on the effective date of the SCU Agreement, September 30, 2010, and ends on September 30, 2012. The terms of the Initial POE will require the Unit Operator to drill one exploration well as follows:

The Unit Operator shall have drilled and logged on or before September 30, 2012 the Southern Cross No. 1 well within Exploration Block A that meets the following minimum criteria:

1. Drill a well to the Pre-Tertiary interval stratigraphically equivalent to the Jurassic interval from 9042' MD to TD in the Shell MGS SRS Ste. #1 well;
2. Drill to a bottom hole location in ADL 17595-2.
3. Log the well (GR or SP, Resistivity and neutron/density or porosity: appropriate triple combo log); and
4. Complete, suspend, or abandon the well.

If the Unit Operator fails to drill the first Unit exploration well as described above by September 30, 2012:

1. The SCU will automatically terminate;
2. ADL 390379 and ADL 17595-2 in the SCU will terminate effective October 1, 2012; and
3. Buccaneer and the Unit Operator will be released from all further obligations.

The Unit Operator shall submit to the Division the Second POE at least sixty days prior to the expiration of the Initial POE. The Second POE will describe plans for the drilling of the second unit exploration well within Exploration Block B by September 30, 2014. The Unit Operator agrees that:

1. Failure to drill the second unit exploration well within Exploration Block B by September 30, 2014, shall result in the automatic contraction of Exploration Block B out of the SCU (less any acreage included in either an approved or pending application for a participating area); and
2. If acreage contracts out of the SCU, Buccaneer shall automatically surrender all expired State acreage that contracts out of the SCU, effective the day the unit contracts.

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

The assessment of the hydrocarbon potential on State lands will create jobs and in-state economic activity in the short-term and, if the exploration activity is successful, the State and its residents will enjoy royalty and tax revenues, and increased employment opportunities over the long term. Buccaneer has the obligation to act as a prudent lessee. Given that the company is operating without the constraints of competition to explore for hydrocarbons on these leases, it is difficult to see how unitization, at this time, would provide any relative improvement over lease operations in this initial exploration mode. Buccaneer states that "it is uncertain who would be willing to bid on the tracts in subsequent lease sales without the assurance of being able to acquire the entire area encompassed" by the proposed SCU. To the extent that may be accurate, any exploration activity in the Cook Inlet, under the umbrella of unitization or otherwise, would provide employment opportunities in the short-term that may not otherwise exist to state residents.

5. Amendments to the State Only Model Unit Agreement Form

The Agreement defines the relationship between Buccaneer, the Unit Operator, and the State. It describes the rights and responsibilities, in addition to those imposed by state law and the leases, of the Working Interest Owner, the Unit Operator and the State for exploration, development, and production 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 suggest 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.

As part of the Application, Buccaneer submitted the Agreement based on the State of Alaska Model Unit Agreement form (Revised April 2009). DNR and Buccaneer negotiated modifications to the Agreement.

Revisions accepted by both parties protect the State's interest and provides additional clarity to the Agreement language. See Attachment 5.

6. Other Relevant Factors

Buccaneer expressed concern about the uncertainty of obtaining all the Federal permits prior to making the long lead time expenditures required to bring a jack-up rig to the Cook Inlet in light of the National Marine Fisheries Service issuing a final determination to list the Cook Inlet Beluga whale as endangered under the Endangered Species Act of 1973. The Cook Inlet Beluga whale was proposed for listing under the Endangered Species Act on April 20, 2007, and the final ruling was issued, effective December 22, 2008, well in advance of Buccaneer's acquisition of leases in the Cook Inlet.

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

1. Promote the Conservation of All Natural Resources

DNR recognizes that unitization of leases overlying all or part of an oil or gas pool, field, or like area can be a prudent conservation mechanism. Without unitization, the unregulated development of reservoirs can become a contest for possession of production by competing lessees. This haphazard activity can result in: (1) unnecessarily dense drilling, especially along property lines; (2) rapid dissipation of reservoir pressure; and (3) irregular advancement of displaced fluids, all of which contribute to the loss of ultimate recovery or economic waste. The potential proliferation of surface activity, duplication of production, gathering, and processing facilities, and haste to get oil to the surface also increase the potential for unnecessary environmental impact. In this respect, Buccaneer has not shown that approval of the unit, in and of itself, will promote conservation of resources relative to non-unitized exploratory operations, given that the company owns a 100 percent working interest in the four leases that comprise the proposed unit.

Unitization may provide conservation of resources in allowing an operator to drill the most prospective part of a prospect without regards to lease boundaries or expiration dates. Moreover, in the eventuality that a jack-up rig is mobilized to the Cook Inlet Basin, this may create a unique circumstance under which the services of a jack-up rig are shared amongst a pool of operators. In recognizing the potential of this scenario, in this case, unitization would allow for the drilling of a well within Exploration Block B no later than September 30, 2014.

Unitization would provide benefits to Buccaneer in the extension of a lease or leases past primary term. For conservation purposes, unitization to encompass the minimum area required to include a part of one potential hydrocarbon accumulation is advisable. These ends may be achieved through unitization of the Southern Cross leases. *See* 11 AAC 83.373.

ADL 390379 expires on October 1, 2010. Loss of the entire lease may impact development economics for any gas reservoir that may be drilled and tested within the SCU. Therefore this lease will be severed into two portions, one within the boundary of the SCU and one outside the boundary of the SCU. That

portion not committed to the unit and outside the boundary of the unit area, will terminate effective October 1, 2010, according to its terms.

ADL 390108 will also be severed into two portions, one within the boundary of the SCU and one outside the boundary of the SCU. That portion inside the boundary of the SCU will retain the same ADL number, that portion outside the boundary of the SCU will have a new lease number, ADL 391788, and be subject to the terms of the original lease.

Similarly, ADL 17595 has been severed into two portions, ADL 17595-1, which is outside the boundary of the SCU, and ADL 17595-2, which is within the boundary of the SCU. The Division will assign a new lease number, ADL 391789, to ADL 17595-2, and it will be subject to the terms of the original lease.

2. Promote the Prevention of Economic and Physical Waste

Unitization prevents economic and physical waste by setting forth a development plan that allows maximization of physical and economic recovery as well as efficient use of unitized facilities, thereby eliminating redundant expenditures. The first exploratory well for the Unit is proposed to "twin" the MGS ST 17595-1 well, which was the discovery well for the Middle Ground Shoal fields, whereas the second Unit well will offset the MGS ST 18743 well that tested gas.

If commercial reserves are found, unitization would allow for the locations of individual wells and surface facilities to be chosen for optimization of ultimate oil and gas recovery, while minimizing or completely avoiding adverse impacts to the environment. Reducing development costs and environmental impacts through unitized operation 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 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, and permanent funds.

3. Provide for the Protection of all Parties

Unitization protects correlative rights relative to non-unitized development and production operations by providing for an equitable division of costs and allocation of hydrocarbons shares among the leases comprising the unit. A Unit Agreement extends these benefits and protections to all leases reasonably known to be capable of producing or contributing to production of hydrocarbons in paying quantities.

Although Buccaneer may benefit from additional protections, potentially including extension of leases beyond their primary terms by virtue of unitization, it is unclear that there are commensurate benefits or protections for the state through unitization, as opposed to lease-by-lease operations. Ordinarily, unitization furthers the state's economic interest because exploration and development likely will occur earlier than without unitization as various leaseholders can collaborate on the most efficient and cost-effective means of exploring and developing the underlying oil and gas resources as if the unit was a single lease. However, in the case of the SCU Initial POE, it has not been shown that unitization will

encourage early exploration drilling activities upon the subject leases. The Initial POE addresses the drilling of only one exploratory well on or before September 30, 2012.

Nonetheless, unitization in this case protects the correlative rights of all parties. Buccaneer has a Unit Operating Agreement, which provides for an equitable allocation of drilling and development costs, and spells out the procedures under which unit operations will be conducted.

V. FINDINGS AND DECISION

Buccaneer has the burden of demonstrating to the Division why the approval of the Southern Cross Unit Agreement is necessary or advisable to protect the public interest. Unitization is not meant to be a means by which to extend the expiration of an undrilled lease or leases or a vehicle by which to warehouse acreage for speculation purposes. Unitization is an administrative procedure that consolidates all or a high percentage of the mineral royalty and working interests in a pool or pools to permit the efficient planning and development of those resources. The various working interest owners or lessees join together in exploration and drilling, and allocate costs and production. Unitization is designed to address conservation of natural resources, prevention of waste, and the protection of all parties, including that of the State's. Buccaneer has not shown that unitization is necessary, given that the company owns a 100 percent working interest in all of the leases that comprise the SCU. There are no spacing considerations or drilling-related considerations which need to be defined or prescribed through unitization. Unitization, in this situation, would not promote and expedite the efficient exploration of the oil and gas potential that may underlie the undrilled leases.

While the Division believes that the exploration objectives as discussed in the Application could be achieved without a unit agreement, unitization in this case can protect the interest of all parties, particularly in conjunction with the use of exploration blocks and strict adherence to work commitments under the prescribed timeline. I hereby make findings and impose conditions as follows.

1. The formation of the Southern Cross Unit promotes the conservation of all natural resources, including hydrocarbons; and in the event of a commercial discovery of hydrocarbons, the SCU Agreement and approved plans of development thereunder will promote the prevention of economic and physical waste.

2. The Division complied with the public notice requirements of 11 AAC 83.311.

3. Buccaneer Alaska Operations, LLC is the designated operator of the SCU and has reasonable effective control of operations. 11 AAC 83.331(b).

4. The SCU Agreement, conditioned upon the performance of the Initial POE and adherence of work commitment timelines, adequately and equitably protects the public interest.

5. The Agreement meets the requirement of 11 AAC 83.303.

6. The Agreement, Article 13.2, provides for the automatic contraction of acreage from the Unit if the Unit Operator fails to drill a well specified in an approved Plan of Exploration in an Exploration Block by the date required, without judicial proceedings, except that any acreage that

is contained within the boundary of an approved or pending Participating Area shall not be subject to contraction. Buccaneer agreed that when an Exploration Block or any portion of an Exploration Block contracts out of the Unit Area, Buccaneer shall surrender to the Commissioner all expired State acreage that contracts out of the Unit, effective the date that the Unit contracts. Therefore, the Agreement adequately protects the State's interest.

7. The Agreement provides for expansions and contractions of the unit area in the future, as warranted by data obtained by exploration or otherwise. Therefore, the Agreement protects the public interest, the rights of the parties, and the correlative rights of adjacent landowners.

8. 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.

9. 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. The Division 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.

10. ADL 390879 is segregated as to lands committed to the SCU and to lands not committed to the SCU. Upon unitization, that portion of ADL 390879 not committed to the unit is severed and that portion outside of the unit terminates effective October 1, 2010.

11. ADL 390108 is segregated as to lands committed to the SCU and to lands not committed to the SCU. That portion inside the boundary of the SCU will retain the same ADL number; that portion outside the boundary of the SCU will have a new lease number, ADL 391788, and be subject to the terms of original lease.

12. ADL 17595 has been segmented into two portions, ADL 17595-1, which is outside the boundary of the SCU, and ADL 17595-2, which is within the boundary of the SCU. The Division will assign a new lease number, ADL 391789, to ADL 17595-2, and it will be subject to the terms of the original lease.

13. 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 two-year Initial POE, (Exhibit G to the Agreement), is approved from September 30, 2010 through September 30, 2012. 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.

14. 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 August 1st of each applicable year.

15. The Unit Operator shall submit to the Division the Second POE at least sixty days prior to the expiration of the Initial POE. The Second POE will describe plans for the drilling of the second unit exploration well within Exploration Block B by September 30, 2014.

For the reasons discussed in this Findings and Decision, I hereby approve the SCU Agreement effective September 30, 2010, 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 Daniel S. Sullivan, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to (907) 269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Kevin R. Banks, Director
Division of Oil and Gas

1/18/2011
Date

VI. ATTACHMENTS

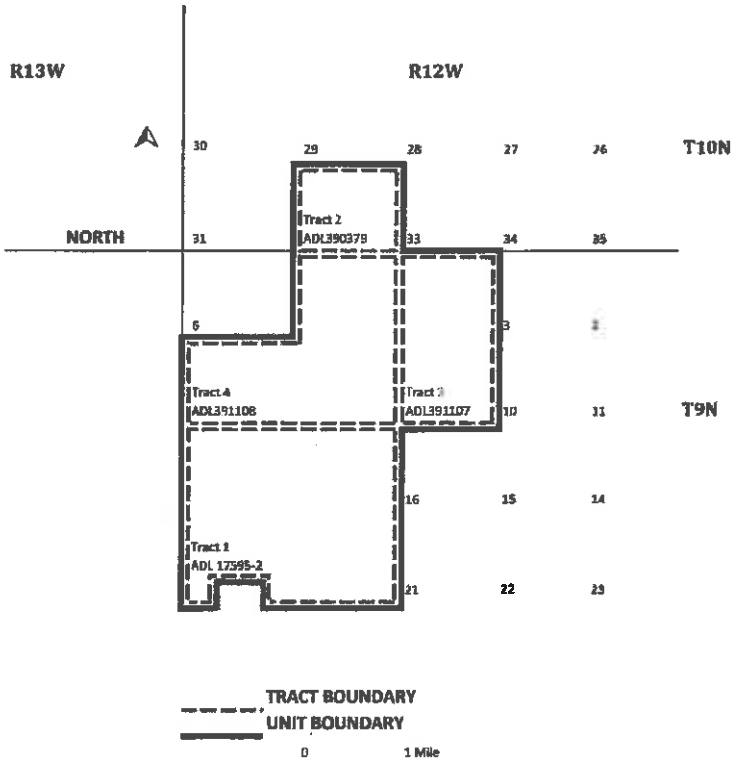
1) Exhibit A, unit tracts, royalty, working interest ownership
2) Exhibit B-1, Southern Cross Unit Boundary (map of the unit and tract boundaries)
3) Exhibit B-2, Southern Cross Unit Agreement Drilling Blocks
4) Exhibit G, Southern Cross Unit Agreement Exhibit "G" Initial Unit Plan of Exploration
5) Southern Cross Unit Agreement

Exhibit "A"
Attached to that certain Southern Cross Unit Agreement

Tract No.	Lease No.	Effective Date	Legal Description	Acres	Royalty Owner Percentage	Lessees of Record	Working Interest	ORRI Owners	ORRI Percentage
1	ADL-17595-2	2/1/1962	Section 17, All	640	State of Alaska	Buccaneer Alaska, LLC	100.00%	Donkel Oil & Gas, LLC	0.50000%
			Section 18, All	634	12.5%			Union Oil Company of California	2.00000%
			Section 19, N1/2, SW1/4SW1/4	556				Stellar Oil & Gas, LLC	1.50000%
			N/1/2SW1/4, SE1/4SE1/4, N1/2SE1/4					Cook Inlet Energy, LLC	2.00000%
			Section 20, All	640				Total ORRI	6.00000%
			T.9N., R.12W.,	2470					
			Seward Meridian, Alaska						
2	ADL-390379	10/1/2003	Section 32, All	640	State of Alaska	Buccaneer Alaska, LLC	100.00%	Donkel Oil & Gas, LLC	1.00000%
			T.10N., R.12W.,	640	12.5%			Stellar Oil & Gas, LLC	2.50000%
			Seward Meridian, Alaska					Cook Inlet Energy, LLC	4.00000%
								Total ORRI	7.50000%
3	ADL-391107	10/1/2007	Section 4, All	640	State of Alaska	Buccaneer Alaska, LLC	100.00%	Renaissance Alaska, LLC	3.00000%
			Section 9, All	640	12.5%			Woodstone Resources, LLC	0.75000%
			T.9N., R.12W.,	1280				Stellar Oil & Gas, LLC	3.00000%
			Seward Meridian, Alaska					Total ORRI	6.75000%
4	ADL-391108	10/1/2007	Section 5, All	640	State of Alaska	Buccaneer Alaska, LLC	100.00%	Donkel Oil & Gas, LLC	0.50000%
			Section 7, All	632	12.5%			Daniel K. Donkel	0.33400%
			Section 8, All	640				Bolt Residual 1980 Trust	0.33300%
			T.9N., R.12W.,	1912				Estate of George Kasper	0.33300%
			Seward Meridian, Alaska					Union Oil Company of California	2.00000%
								Cook Inlet Energy, LLC	2.00000%
			TOTAL	6302				Stellar Oil & Gas, LLC	1.00000%
									6.50000%

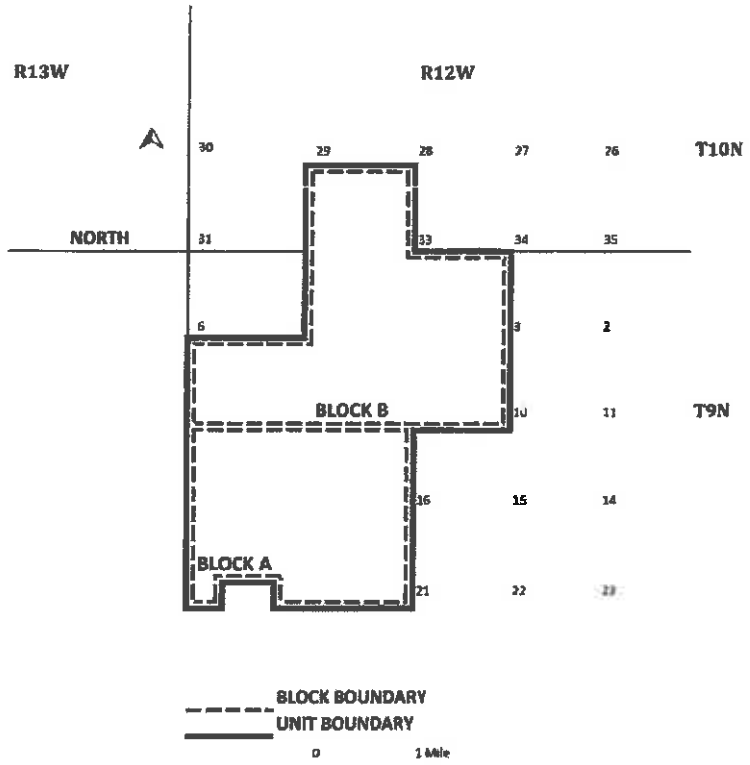
Attachment 1

ATTACHMENT ONE
Exhibit B-1, Southern Cross Unit Boundary
Unit Tracts



Attachment 2

ATTACHMENT TWO
Exhibit B-2, Southern Cross Unit Boundary
Drilling Blocks



Attachment 3

Southern Cross Unit Agreement

EXHIBIT "G"

INITIAL UNIT PLAN

Buccaneer Alaska Operations, LLC ("Buccaneer"), as a result of the detailed petrophysical, geophysical and engineering analysis performed on existing wells on the Southern Cross structure and interpretation of approximately 180 miles of 2D Seismic Data and 51 square miles of 3D Data, has identified a potentially commercial accumulation of hydrocarbons on the northern end of the Middle Ground Shoal structure and approximately 2-5 miles north of the Baker Platform in the Middle Ground Shoal Field. The Southern Cross Prospect is a northward continuation of the Middle Ground Shoal field, a tight fold with dips up to and perhaps beyond 90 degrees on the western flank. A duel streamer 3D was recorded in 1998 over this prospect by Force Energy (currently Cook Inlet Energy). Buccaneer has recently entered into a Data License Agreement to access this data. Playing off of the Pan Am MGS 18743#1 well, the project targets gas in the Tyonek formation, oil in the Hemlock formation and oil and gas in the Pre-Tertiary. Buccaneer intends to drill the first well to the Pre-Tertiary formation. The complex structuring may have resulted in outstanding secondary porosity, particularly in the Hemlock. Water depths over the accumulation average 20-30 feet. Buccaneer has 100% Working Interest in four (4) leases in the proposed Southern Cross Unit which comprise a total of approximately 6302.5 acres. These four (4) leases cover the majority of the remaining reserves on the Middle Ground Shoal Structure.

Buccaneer, proposes an initial two-year (2-Year) Plan of Exploration ("Initial POE") for the Southern Cross Unit. During the term of this Initial POE, Buccaneer, in its capacity as the Southern Cross Unit Operator, plans to drill the Southern Cross No. 1 Well to the Tyonek-Hemlock-Pre-Tertiary formation(s).

The Southern Cross Inlet shall be divided in to two (2) separate blocks hereinafter referred to as "Exploration Blocks" described below:

SC Exploration Block A (Block A)

a. Tract 1: ADL17595-2

SC Exploration Block B (Block B)

a. Tract 2: ADL390379
b. Tract 3: ADL391107
c. Tract 4: ADL391108

The Unit Operator shall submit to the Division the Second POE at least sixty days prior to the expiration of the Initial POE. The Second POE will describe plans for the drilling and completion of the second unit exploration well within Exploration Block B by September 30, 2014. The Working Interest Owners (WIO's) agree that failure to drill the second exploration well within Exploration Block B by September 30, 2014, shall result in the contraction of Exploration Block B out of the Southern Cross Unit (less any

acreage included in either an approved or pending application for a participating area); and if acreage contracts out of the Southern Cross Unit, the WIO's shall automatically surrender all expired State acreage that contracts out of the Southern Cross Unit, effective the day the unit contracts.

As justification of an extension beyond the end of the primary term of Lease ADL 390379, from September 30, 2010, Buccaneer as the Southern Cross Unit Operator will undertake the following initial plan of exploration:

INITIAL POE, YEARS 2010 - 2012

I. On or before **September 30, 2012** the Unit Operator will commence operations to drill an Initial Well in within the Southern Cross Unit that meets the following minimum criteria:
    a. Drill a well to the Pre-Tertiary interval stratigraphically equivalent to the Jurassic interval from 9042' MD to TD in the Shell MGS SRS State #1 well;
    b. Drill to a bottom hole location within Exploration Block A of the Unit Area;
    c. Log the well (GR or SP, Resistivity and neutron/Density or Porosity: appropriate triple combo log); and
    d. Complete, suspend, or abandon the well.

II. If the Unit Operator fails to commence operations to drill the 1st Initial Well described in Section I above, by **September 30, 2012**:
    a. The Southern Cross Unit will terminate;
    b. ADL 390379 in the Northwest Cook Inlet Unit will terminate effective October 1, 2012; and
    c. The Unit Operator and the WIO's will be released from all further obligations.

POE General Provisions:

If the Southern Cross Unit terminates for failure to fulfill any of the commitments in this Initial POE, the WIO's will automatically surrender all expired State acreage within the Unit Area, effective the day the Unit terminates.

SOUTHERN CROSS UNIT AGREEMENT

Table of Contents

RECITALS 2

AGREEMENT 2

ARTICLE 1: DEFINITIONS 2

ARTICLE 2: EXHIBITS 4

ARTICLE 3: CREATION AND EFFECT OF UNIT 5

ARTICLE 4: DESIGNATION OF UNIT OPERATOR 6

ARTICLE 5: RESIGNATION OR REMOVAL OF UNIT OPERATOR 6

ARTICLE 6: SUCCESSOR UNIT OPERATOR 6

ARTICLE 7: UNIT OPERATING AGREEMENT 7

ARTICLE 8: PLANS OF EXPLORATION, DEVELOPMENT AND OPERATIONS 8

ARTICLE 9: PARTICIPATING AREAS 8

ARTICLE 10: OFFSET WELLS 10

ARTICLE 11: ALLOCATION OF PRODUCTION 10

ARTICLE 12: LEASES, RENTALS AND ROYALTY PAYMENTS 11

ARTICLE 13: UNIT EXPANSION AND CONTRACTION 13

ARTICLE 14: UNIT EFFECTIVE DATE, TERM AND TERMINATION 14

ARTICLE 15: EFFECT OF CONTRACTION AND TERMINATION 14

ARTICLE 16: COUNTERPARTS 15

ARTICLE 17: LAWS AND REGULATIONS 15

ARTICLE 18: APPEARANCES AND NOTICES 15

ARTICLE 19: JOINDER 16

ARTICLE 20: DEFAULT 16

RECITALS

The purpose of this Agreement is to conserve natural resources and 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, plan of development, or plan of operations 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 **Exploration Block** means a block of Unit Tracts within the Unit Area that are combined for purposes of exploration.

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

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

1.8 **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.

1.9 **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.

1.10 **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 and is not connected to ownership of the land or minerals. Overriding Royalty Interest owners are not proper parties to this Unit Agreement; nor are they third-party beneficiaries or have any rights to enforce the terms of this Unit Agreement.

1.11 **Participating Area** means all Unit Tracts and parts of Unit Tracts established under and subject to terms approved under the provisions of Article 9 of this Agreement.

1.12 **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.

1.13 **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.

1.14 **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.

1.15 **Royalty Interest** means a mineral owner's right to or interest in the amount or value of Unitized Substances other than a Working Interest.

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

1.17 **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.

1.18 **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.

1.19 **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.

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

1.21 **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.

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

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

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

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

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

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

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

1.29 **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.

1.30 **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 any additional separation from the working interest of the lease 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 any additional separation from the working interest of the Lease 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, information, and interpretations of those data and information determined by the Commissioner to be necessary for the administration of this Agreement or for the performance of statutory responsibilities related to this Agreement must be provided by the Unit Operator, or Working Interest Owners, or both, upon written request. The Commissioner shall keep confidential all such data and information provided to the Commissioner, if the data or information is of a type entitled to confidentiality protection, in accordance with applicable law.

ARTICLE 4: DESIGNATION OF UNIT OPERATOR

4.1 Buccaneer Alaska Operations, LLC is designated as the Unit Operator. Buccaneer Alaska Operations, 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, until such time, if any, that a successor Unit Operator is designated under the terms and provisions of 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 the Lease, this Agreement, the Unit Operating Agreement, or applicable laws or regulations.

4.3 The Unit Operator shall minimize and consolidate surface facilities to minimize surface impacts. The Unit Operator must provide performance guarantee, surety bonds, or other mechanisms approved by the Commissioner, adequate to protect the Unit Area and the State's interests.

4.4. When a Working Interest Owner assigns an interest in a Lease, the Working Interest Owner will provide a copy of the approved assignment to the Unit Operator within 15 days after the Commissioner approves it.

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. The Unit Operating Agreement shall apportion all costs and liabilities incurred, and all benefits accrued, in maintaining or conducting 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. Neither the Unit Operating Agreement nor any other agreement between the Working Interest Owners modifies this Agreement. If the terms of this Agreement and the Unit Operating Agreement conflict, then 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 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: 1) shall include only land that is reasonably known to be underlain by Unitized Substances, 2) must be 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, and 3) must be supported by an approved plan committing the Unit to sustained production. The Unit Operator must receive approval from the Commissioner of a Participating Area before commencement of Sustained Unit Production.

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 subsequent Participating Area.

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

9.7 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:

9.7.1 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.

9.7.2 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.

9.7.3 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.

9.8 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.

9.9 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.

9.10 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 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 Exhibits 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 apply only to a discovery well bottomed on the Lease and only with respect to production allocated to that Lease 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 Unit 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.

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 and gas. 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. Once Sustained Unit Production has commenced, every month the Unit Operator shall provide the Commissioner an estimate of Unit production for the following ninety (90) days. 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, 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 after notice and an opportunity to be heard, 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 A Plan of Exploration may divide the Unit Tracts into Exploration Blocks and provide a plan for the sequential exploration of the Exploration Blocks by the drilling of a series of wells, as specified in the Plan of Exploration proposed by the Unit Operator and accepted by the Commissioner. If the Unit Operator fails to drill a well specified in an approved Plan of Exploration in an Exploration Block by the date required, then that Exploration Block and any further Exploration Blocks not previously drilled on following in sequence shall be contracted from the Unit Area as of that date, without judicial proceedings, except that any acreage that is contained within the boundary of an approved or pending Participating Area shall not be subject to contraction. When an Exploration Block or any portion of an Exploration Block contracts out of the Unit Area, the Working Interest Owners shall surrender to the Commissioner all expired State acreage that contracts out of the Unit, effective the day that the Unit contracts.

13.3 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.

13.4 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.

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

13.6 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, but the Working Interest Owners' obligations to restore the Lease area, to remove equipment, and to remediate contamination survive unit termination.

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 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:

Buccaneer Alaska Operations, LLC
952 Echo Lane, Suite 420
Houston, TX 77024
Attn: Vice President, Land & Business Development

Fax: (713) 468-3717

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

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, as defined in 11 AAC 83.395, is not a default, so long as the Unit Operator is working diligently to overcome the force majeure condition, so long as the Unit Operator is working diligently to overcome the force majeure condition.

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 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 Southern Cross Unit Agreement on the dates opposite their respective signatures.

UNIT OPERATOR

By: _____ Date: 1/7/2011

Buccaneer Alaska Operations, LLC, Mark. R. Landt, Vice President, Land & Business Development

STATE OF TEXAS)
)ss.
COUNTY OF HARRIS)

This certifies that on January 7th, 2011, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared Mark R. Landt 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.

Paula Kathryn Hastreiter
NOTARY PUBLIC in and for Texas
My Commission Expires: 7/18/2011

Paula Kathryn Hastreiter
My Commission Expires
07/18/2011

WORKING INTEREST OWNERS

By: _____ Date: 1/7/2011

Buccaneer Alaska, LLC, Mark R. Landt, Vice President, Land & Business Development

STATE OF TEXAS)
)ss.
COUNTY OF HARRIS)

This certifies that on January 7th, 2011, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared Mark R. Landt 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.

Paula Kathryn Hastreiter
NOTARY PUBLIC in and for Texas
My Commission Expires: 7/18/11

Paula Kathryn Hastreiter
My Commission Expires
07/18/2011

By: _____ Date: _____

_____
NOTARY PUBLIC in and for Texas
My Commission Expires: _____