



THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

**Department of Natural Resources**

Office of the Commissioner  
550 West 7th Avenue, Suite 1400  
Anchorage, Alaska, 99501-3650  
Phone: 907.269.8431  
Fax: 907.269.8918

September 5, 2014

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

Bart Armfield, COO  
Brooks Range Petroleum Corporation  
510 L Street, Suite 601  
Anchorage, AK 99501

Re: Kachemach Unit – Notice of Termination

Dear Mr. Armfield:

Brooks Range Petroleum Corporation is hereby notified that the Kachemach Unit is terminated for failure to cure default, effective immediately, under 11 AAC 83.374.

The State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) approved the Kachemach Unit (KMU) effective March 31, 2011. With the unit agreement, the Division approved an initial Plan of Exploration (POE) in which Brooks Range Petroleum Corporation (BRPC) committed to drill two wells by May 31, 2013. No wells had been drilled on the leases prior to unitization. The initial KMU POE allowed BRPC two winter drilling seasons, until May 31, 2013, to drill the two exploration wells in Block A of the KMU.

BRPC failed to drill the wells, and the unit was placed in default on July 25, 2013. DNR provided BRPC with an opportunity to cure by drilling the two wells by May 31, 2014, with an extension under May 31, 2015 for the second well if the first well was a dry hole.

BRPC did not drill any wells by its May 31, 2014 deadline to cure. On June 18, 2014, the DNR sent notice of opportunity to be heard under 11 AAC 83.374(c), providing BRPC the opportunity to propose an appropriate remedy for BRPC's failure to cure the default. BRPC was notified that the potential remedies included unit termination.

BRPC responded on July 17, 2014 proposing four remedies. The first two "remedies" BRPC proposes for addressing default of the KMU are for DNR to grant applications for property outside of KMU: 1) approve expansion of the Placer Unit; and, 2) approve BRPC lease extension applications for leases outside KMU. The second two remedies BRPC proposes are effectively the same — unit contraction without any concrete commitments to explore the unit: 3) BRPC voluntarily contracts KMU to include only Block A and relinquishes the Block B leases; and 4) BRPC voluntarily contracts KMU to include only Block A, will consider applying to include leases in either the Placer unit or the (not yet existent) Tapqaq Unit, and if DNR

approves unit expansion to include BRPC's KMU leases, BRPC will then consider whether to commit to any work on the KMU Block A leases, and if it decides not to do any work it will relinquish the leases.

I understand why BRPC might, as a business matter, consider the status of other projects when making decisions about KMU. But as landowner and regulator, DNR considers whether to terminate a unit based on issues related to that unit. Specifically, DNR considers the criteria set forth in 11 AAC 83.303(a) and (b), as applicable: protecting the public interest, conservation of natural resources, preventing economic and physical waste, protecting all parties, environmental costs and benefits, geological and engineering characteristics, prior exploration activities, plans for exploration or development, economic costs and benefits, and other relevant factor such as mitigation measures. 11 AAC 83.303(a)-(c). The Placer unit expansion and BRPC's lease extension applications are the subject of separate pending decisions that will both be decided on their own merits under the applicable statute and regulations. "Because KMU is in default" would not be a valid justification for expanding a different unit or extending separate leases; thus expanding the Placer unit or extending BRPC's other leases is not a remedy for addressing BRPC's default of KMU.

BRPC referenced my March 7, 2014 letter to ASRC stating that I was deferring decisions on ASRC's appeals regarding Placer unit expansion in order to consider technical data from the 2014 drilling season. This letter does not state, nor should it in any way be interpreted to imply, that my decision on any given matter is dependent on whether I affirm or deny another matter. Facts pertaining to surrounding land or to the parties can be pertinent to a decision. But DNR considers each application and decision on its own merits. I will not affirm one appeal in exchange for denying another, nor will I affirm an appeal in exchange for a party agreeing to consider performing work in another area. Accordingly, BRPC's first two proposed remedies — that I grant ASRC's Placer unit expansion or grant BRPC's application to expand separate leases — are not valid remedies for addressing BRPC's failure to cure default of KMU.

I also reject BRPC's third and fourth proposed remedies — variations of unit contraction without any commitments to explore the remaining KMU — because they do not sufficiently protect the public interest.

BRPC has not fulfilled drilling commitments at the KMU. The KMU default and demand for cure provided a third year for BRPC to drill the wells. BRPC did not meet the work commitments. BRPC has proposed no actual activity on any portion of KMU within the cure period, only that it will consider it in the future if certain events occur. Thus BRPC is not offering any current plan of exploration or development for me to consider. There is no prior exploratory drilling to consider. No potential economic or environmental costs or benefits or impact to natural resources to consider. All BRPC is offering is to continue holding leases in a unit without conducting specific activities. The state's interests are protected through the efficient evaluation and recovery of its resources and maximizing competition for oil and gas leases. If a lessee fails for any reason to fulfill work commitments and efficiently explore and develop state leases, this does not protect the state's interests. The proposed remedies protect BRPC's interest to extend the KMU and leases, allowing BRPC to hold state acreage without

fulfilling its obligations to progress development of state resources. Allowing this unit to sit undeveloped is not in the state's or public interest.

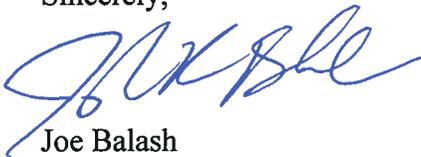
The KMU has no well capable of producing oil or gas in paying quantities, so it is within my discretion to terminate the unit for failure to cure default after giving BRPC notice and an opportunity to be heard. 11 AAC 83.374(c). I gave BRPC an opportunity to submit any information or argument it wished, and specifically asked BRPC to address specific remedies. BRPC gave me its submittal, and did not request any further administrative procedures such as a hearing.

Having considered BRPC's submittal regarding its failure to cure default and the 11 AAC 83.303 criteria, I find that it is not in the state or public interest for this land to remain unitized. I hereby terminate the Kachemach Unit under 11 AAC 83.374(c), effective immediately.

I note that BRPC has requested that its July 17, 2014 submittal be held confidential because "it contains the proprietary commercial strategy of our company." The information DNR can hold confidential in this context is limited to the categories of information set forth in AS 38.05.035(a)(8). This statute does not include "commercial strategy" as a protected category. If DNR receives a Public Records Act request for the submittal or needs to make it public, DNR will evaluate at that time whether it can withhold any portion of the submittal as confidential under AS 38.05.035(a)(8).

A request for reconsideration must be received in writing within 20 calendar days after issuance of the decision as defined by 11 AAC 02.040. If reconsideration is not requested within the time allowed, the decision goes into effect as a final order and decision on the 31st day after issuance. Failure of the Commissioner to act on the request for reconsideration within 30 days after issuance of the decision is an automatic denial of reconsideration (AS 44.62.540(a)) and is a final administrative order and decision for purposes of an appeal to Superior Court (AS 44.37.011; 11 AAC 02.020(c)). The decision may then be appealed to Superior Court within a further 30 days in accordance with the rules of the court, and to the extent permitted by applicable law. An eligible person must first request reconsideration of this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court (11 AAC 02.020).

Sincerely,



Joe Balash  
Commissioner

cc: Teresa Imm, ASRC  
W.C. Barron, Director Division of Oil and Gas  
Department of Law

U.S. Postal Service  
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Bart Armfield, COO  
 Brooks Range Petroleum Corporation  
 510 L Street, Suite 601  
 Anchorage, AK 99501

PS Form 3800, May 2000 See Reverse for Instructions

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1. Article Addressed to:

Bart Armfield, COO  
 Brooks Range Petroleum Corporation  
 510 L Street, Suite 601  
 Anchorage, AK 99501

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