

COLVILLE RIVER UNIT

APPLICATION FOR THE FOURTH EXPANSION OF THE UNIT AREA
AMENDMENT TO THE COLVILLE RIVER UNIT AGREEMENT

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

April 8, 2010

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I. INTRODUCTION

On July 9, 2009, ConocoPhillips Alaska, Inc. (ConocoPhillips), as Operator and on behalf of the other working interest owners (WIOs), applied for approval of the Fourth Expansion of the Colville River Unit (CRU 4th Expansion) under the provisions of 11 AAC 83.356 and Section 12.1 of the CRU Agreement (CRUA), and the deferral of the November 1, 2010 contraction provided for under Section 12.4 of the CRUA (Application). The CRU is the first unit formed in Alaska with a private party -- Arctic Slope Regional Corporation (ASRC) -- as the lessor of a significant portion of the unit area. ConocoPhillips proposes to add all or portions of five leases, approximately 16,405 acres, to the current unit area: one State/ASRC lease (Joint Land), approximately 16,405 acres, two ASRC only leases, approximately 7,592 acres, and two Federal leases, approximately 8,207 acres. The State interest within the Joint Land proposed for the expansion totals approximately 309 acres. Attachment One lists the leases proposed for the CRU 4th Expansion (Expansion Leases). Attachment 2 lists the leases proposed for contraction deferral until August 1, 2014.

The Department of Natural Resources (DNR) determined that the Application was complete on July 20, 2009. Notice of the Application was published in the Anchorage Daily News and The Arctic Sounder on July 23, 2009. Copies of the Application and the public notice were provided to interested parties under 11 AAC 83.311. DNR also provided public notice to the Alaska Departments of Environmental Conservation and Fish and Game, the North Slope Borough, the City of Nuiqsut, the City of Barrow, the Kuukpik Village Corporation, ASRC, the Nuiqsut Postmaster, the radio station KBRW in Barrow, the U.S. Department of the Interior, Bureau of Land Management (BLM), and the Alaska Oil and Gas Conservation Commission (AOGCC). The notice was also published on the State of Alaska Public Notice website and the Division of Oil and Gas (Division) website. The public notices invited interested parties and members of the public to submit comments by August 24, 2009. DNR received no comments regarding the Application.

ASRC approved the Application on August 14, 2009. The Division issued a preliminary decision approving the CRU 4th Expansion on December 23, 2009, subject to execution of certain documents by the parties. The Division approves the CRU 4th Expansion and the contraction deferral until August 1, 2014, effective April 8, 2010.

II. LEASE BACKGROUND

A. Expansion Leases

| Expansion Leases | | | |
|------------------|-------------|-----------------------|------------------|
| CRU Tract No | Lease No. | Sub-surface Ownership | Committed to CRU |
| 179 | ASRC NPRA03 | ASRC | CRU 4th Exp |
| 180 | ASRC NPRA04 | ASRC | CRU 4th Exp |
| 181 | AA087888 | Federal | CRU 4th Exp |
| 182 | AA081817 | Federal | CRU 4th Exp |
| 183 | ADL 390337 | Joint Land | CRU 4th Exp |
| 184 | ADL 390337 | Joint Land | CRU 4th Exp |

The Application requests the inclusion of CRU Tracts 179 and 180, ASRC NPRA03 and ASRC NPRA04 (ASRC leases), both owned 100 percent by ASRC. CRU Tracts 181 and 182, AA087888 and AA081817 (Federal leases), are owned 100 percent by the United States Department of the Interior, BLM. Both the ASRC leases and the Federal Leases reserve a 16.66667 percent royalty rate to the mineral owners. The working interest ownership of all of the proposed Expansion Leases is aligned: ConocoPhillips owns 78.00 percent and Anadarko Petroleum Corporation (Anadarko) owns 22.00 percent. The Kuukpik Village Corporation owns the surface estate of the Joint Land and the ASRC leases. Surface ownership of the Federal leases is by Native Allotment.

The Application also requests the inclusion of CRU tracts 183 and 184, portions of ADL 390337, which is Joint Land. ADL 390337, was originally sold at the State Lease Sale NS2002, held October 24, 2002 and issued effective June 1, 2003 on State lease form DOG 200204AS. The lease reserves a 16.66667 percent to 33.3333 percent sliding scale royalty share for the State and ASRC and provides a primary term of seven years. The joint ownership was established by the 1991 State-ASRC Settlement Agreement, approved by the legislature in Chapter 41 SLA 1992. The ownership split between the State and ASRC varies from lease to lease, as described in the Settlement Agreement. The State and ASRC independently administer their individual interests.

B. Deferral Leases

The Application requests a contraction deferral of all or portions of six leases currently committed to the CRU: three ASRC leases, two Joint Land leases, one State lease and all of the Expansion Leases.

| Deferral Leases | | | |
|-------------------------|-------------|-----------------------|------------------|
| CRU Tract No | Lease No. | Sub-surface Ownership | Committed to CRU |
| 22 | ASRC NPRA01 | ASRC | Initial CRU |
| 23 | ASRC NPRA02 | ASRC | Initial CRU |
| 120 | ASRC NPR-A2 | ASRC | CRU 2nd Exp |
| 121 | ADL 388905 | Joint Land | CRU 2nd Exp |
| 122 | ADL 388902 | Joint Land | CRU 2nd Exp |
| 123 | ADL 388902 | Joint Land | CRU 2nd Exp |
| 132 | ADL 388902 | Joint Land | CRU 2nd Exp |
| 133 | ADL 388902 | Joint Land | CRU 2nd Exp |
| 169 | ADL 388466 | State | CRU 3rd Exp |
| Expansion Leases | | | |
| 179 | ASRC NPRA03 | ASRC | CRU 4th Exp |
| 180 | ASRC NPRA04 | ASRC | CRU 4th Exp |
| 181 | AA087888 | Federal | CRU 4th Exp |
| 182 | AA081817 | Federal | CRU 4th Exp |
| 183 | ADL 390337 | Joint Land | CRU 4th Exp |
| 184 | ADL 390337 | Joint Land | CRU 4th Exp |

Two ASRC leases, ASRC NPRA01 and ASRC NPRA02, were committed to the Initial CRU and the Alpine Participating Area. ASRC lease, NPR-A2, was committed to the CRU in the Second Expansion of the CRU. ADLs 388902 and 388905, Joint Land leases, were also committed to the CRU in the Second Expansion. Acreage within in ADL 388902 is committed to the Alpine, Nanuq Kuparuk, Nanuq Nanuq, and Qannik Participating Areas. Acreage within ADL 388905 is committed to the Alpine, Nanuq Kuparuk and Nanuq Nanuq Participating Areas. ADL 388466 was committed to the CRU in the Third Expansion and is committed, in part, to the Alpine Participating Area.

III. DISCUSSION OF DECISION CRITERIA

The Commissioner of the Department of Natural Resources (the Commissioner) reviews applications to expand unit areas under AS 38.05.180(p) and 11 AAC 83.303 – 11 AAC 83.395. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Director of the Division of Oil and Gas. The Division's review of the Application is based on the criteria set out in 11 AAC 83.303 (a) and (b). A discussion of the subsection (b) criteria, as they apply to the Application, is set out directly below, followed by a discussion of the subsection (a) criteria.

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

1. The Environmental Costs and Benefits of Unitized Exploration or Development.

The lands in and surrounding the CRU are habitat for a variety of fish, waterfowl and marine mammals. Area residents occasionally use these lands and waters for subsistence hunting and fishing. Oil and gas activity in the proposed unit expansion area will impact some wildlife habitat, and may impact some subsistence activity.

DNR develops lease stipulations through the lease sale process to mitigate the potential environmental impacts from oil and gas activity. Alaska statutes require DNR to give public notice and issue a written finding before disposal of the State's oil and gas resources. AS 38.05.035(e), AS 38.05.945, 11 AAC 82.415. In preparing a written finding 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).

The CRU Joint Land Expansion Leases contain stipulations designed to protect the environment and address any outstanding concerns regarding impacts to the area's fish and wildlife species and to habitat and subsistence activities. They address such issues as the protection of primary waterfowl areas, site restoration, construction of pipelines, seasonal restrictions on operations, public access to, or use of, the leased lands, and avoidance of seismic hazards. The stipulations are in effect whether the leases are unitized or not.

In addition to the lease stipulations, State unitization regulations require the Commissioner to approve a Plan of Operations before the unit operator performs any surface operations. 11 AAC 83.346. A proposed Plan of Operations must describe the operating procedures designed to prevent or minimize adverse effects on natural resources. Plans of Operation are subject to extensive technical review by a number of local, State, and federal agencies. They are also subject to consistency with the Alaska Coastal Management Program standards, if the affected lands are within the coastal zone. The Plan of Operations must include plans for rehabilitation of the unit

area. DNR may require that a Unit Plan of Operations comply with the lease stipulations and lessee advisories developed for the most recent lease in the CRU, the expanded CRU, or the region.

The anticipated activity under the expanded CRU will impact habitat and subsistence activity less than if the lessees developed the leases individually. Unitized exploration, development and production will minimize surface impact. DNR requires consolidation of facilities to minimize surface disturbances. Including the leases in the CRU will not result in additional restrictions or limitations on public access to the lands or to public and navigable waters.

The approval of the CRU expansion itself has no environmental impact. The unit expansion does not entail any environmental costs in addition to those that may occur when permits to conduct lease-by-lease exploration or development are issued. The Commissioner's approval of the unit expansion is an administrative action, which, by itself, does not convey any authority to conduct any operations within the unit.

For the Kuukpik-owned surface inside NPR-A, the lessee of any Joint Land lease may not exercise its access rights to the Kuukpik-owned surface until the lessee makes provisions to compensate the landowner for all damages sustained by reason of entering upon the land as required by the lease, and, to the extent applicable, the requirements of AS 38.05.130, as required in the terms of the lease. The August 27, 1997, Surface Use Agreement ("Surface Use Agreement") between ConocoPhillips and the Kuukpik Village Corporation defined the terms and conditions of ConocoPhillips' use of the surface of Kuukpik's NPR-A lands in exchange for Kuukpik's consent to development of the oil and gas resources on these lands.

2. Prior Exploration Activities in the Colville River Unit Area, and Proposed Expansion Area, and the Geological and Engineering Characteristics of the Reservoir.

The CRU 4th Expansion will allow for additional development wells that will target the Alpine C and A sandstones. Data that supports the unit expansion includes confidential 3D seismic interpretation, digital grids of key surfaces and non-confidential development wells on the western side of the unit, such as CD2-33 and CD4-322. The data was submitted in February and May, 2008, as part of the Revised Eighth Year Reserves Estimate that included the Alpine West expansion area. In addition, numerous exploration wells, such as Nuiqsut #1, have been drilled in the area west of the current developed unitized lands that support the expansion request.

The Nuiqsut #1 well was drilled in 1998 by ARCO. The well found a very thin, poor reservoir quality Alpine C interval, but good reservoir quality in the Alpine A sandstone. The Alpine A is interpreted as a regressive marine sandstone deposited under varying conditions of accommodation. In the Nuiqsut #1 well, the Alpine A interval is about 37feet TVD thick with a coarsening upward log character. The best reservoir quality occurs at the top of the Alpine A. A sixty foot core was taken over the interval, but no tests were conducted. Density log derived porosity in the best sandstone is about 16 percent. The well has been plugged and abandoned. Approximately 5,150 feet south of Nuiqsut #1 is the CD2-33 development well. This well was drilled in 2001 to help

delineate the Alpine field. A thin, high quality Alpine C interval and an Alpine A interval similar to that seen in Nuiqsut #1 were encountered.

More recent development drilling from CD4 pad has also confirmed the southern and western extent of the Alpine A sandstone. Wells CD4-322 and CD4-321 confirm the presence of Alpine C and A sandstones at least two miles south of CD2-33. The well penetrations, in conjunction with previously provided confidential data, support the requested unit expansion, which will provide for the continued development of the Alpine reservoir.

The current understanding of the western extent of the Nanuq Kuparuk is an additional reason for the requested unit expansion. New data and new subsurface mapping that incorporate the results of the development drilling at CD4 were submitted on July 17, 2009 as part of the Application. Data that supports the unit expansion relating to the extent of the Nanuq Kuparuk accumulation includes confidential 3D seismic interpretation, digital grids of key surfaces and non-confidential development wells on the western side of the Nanuq Kuparuk Participating Area (PA). The westernmost development wells within the currently specified Nanuq Kuparuk PA, CD4-321 and CD4-322, contain Kuparuk sandstone. The sand thickness in both of these wells is comparable to the center of the CD4 Kuparuk field suggesting that the Kuparuk reservoir continues to the west. Current well spacing for the Kuparuk sand is approximately 5,000 feet; thus, the next row of development wells will fall outside of the current CRU boundary.

3. Plan of Development for the Proposed Unit Expansion Area.

ConocoPhillips submitted a description of planned development activities for the expansion area as Attachment Four to the Application. Four wells have already been drilled near the western unit boundary, and the western edge of the Alpine field currently produces approximately 2,000 barrels of oil per day. Seven additional wells, CD2-73, CD2-74, CD2-78 (spud 4Q 2009), CD4-26 (completed 2Q 2009), CD4-23, CD4-24, and CD4-25 will complete the drilling of the Alpine A and Kuparuk sandstones from the CD2 and CD4 drilling pads, as shown in Figure 1. (Attachment 4) These wells approach the western limit of the current unit boundary and are at the western drilling limit. The CD2-78 straddles the western edge of the participating area for the Alpine A sands.

ConocoPhillips plans development activities in the expansion area that include drilling 13 horizontal wells for the Alpine A sandstone and two wells for the Kuparuk sandstone from a new drill pad, CD5. In the event of success, a total of 22 Alpine A sandstone wells and up to four Kuparuk wells may be drilled. ConocoPhillips had anticipated approval from the United States Army Corps of Engineers for the new drill pad by 1Q 2010. The Corps has denied the CD5 permit, which will delay the drilling of the expansion area Alpine wells until the 2013-2014 drilling season. ConocoPhillips has appealed the decision. The lands identified for unit expansion meet the criteria required for approval of unit expansion under 11 AAC 83.356. The plans for development of the expansion area have not changed, but for the timing of commencement of drilling.

The CRU Agreement and DNR regulations provide for separate approval of the unit plan of operations by the DNR Commissioner before any operations begin within the unit area on lands managed by the State. The unit plan of operations must contain: (1) statements and maps or drawings giving the sequence and schedule of operations; (2) the projected use requirements of the proposed operations; including the location and design of well sites, material sites, water supplies, waste sites, buildings, roads and utilities; (3) plans for rehabilitating the affected area; and (4) a description of procedures designed to minimize adverse effects on other natural resources and other uses of the area, including fish and wildlife habitat, historic and archeological sites, and public use. These plans are to be circulated to other State and local agencies for their review and comment before approval by the DNR Commissioner. The proposed plans must also be consistent with the Alaska Coastal Management Program.

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

Approval of the Application will provide near-term economic benefits to the State by creating jobs associated with the assessment of the hydrocarbon potential of the leases within the expansion area. The WIOs have provided sufficient technical data to define the prospect under consideration, have committed their diverse lease interests to the proposed unit expansion area, and have agreed to a plan of development that ensures a timely sequence of drilling and development activities to evaluate and develop the CRU and the proposed unit expansion area.

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

1. The Conservation of All Natural Resources.

DNR recognizes unitization of the leases overlying a reservoir as a prudent subsurface conservation mechanism. Unitization allows the unit operator to explore and develop the unit area as if it were one lease. Without unitization, the lease-by-lease development of reservoirs can become a race for possession by competing operators. This race can result in: 1) unnecessarily dense drilling, especially along property lines; 2) rapid dissipation of reservoir pressure; and 3) irregular advance of displaced fluids, all of which contribute to the loss of ultimate recovery or economic waste. The proliferation of surface activity and haste to get oil to the surface would also increase the potential for environmental damage. Lessee compliance with conservation orders and field pool rules issued by the AOGCC would mitigate some of these impacts, but development under a unit agreement remains the most efficient method for maximizing oil and gas recovery, while minimizing negative impacts on other resources.

The expansion of the CRU will also promote the conservation of surface resources through unitized, rather than lease-by-lease, development. Without this expansion, the lessee would be compelled to seek permits to drill wells on each individual lease in order to extend the leases beyond their primary terms. Unitization reduces both the number of facilities required to develop reserves that may be discovered and the aerial extent of land required to accommodate those facilities.

2. The Prevention of Economic and Physical Waste.

Inclusion of the expansion leases in the CRU will prevent economic and physical waste because the unit operator must have a cost sharing formula, a coordinated exploration and development plan, and in the event of commercial production, a comprehensive reservoir depletion model. A cost-sharing agreement promotes efficient development of common surface facilities and operating strategies and allows the WIOs in the unit to rationally decide well spacing requirements and injection strategies. Unitization prevents economic and physical waste by eliminating redundant expenditures for a given level of production, and avoiding loss of ultimate recovery by adopting a unified reservoir management strategy.

The total cost of developing the expansion leases would be higher on a lease-by-lease basis than it would be under unitization terms. Drilling and facilities investment costs will be minimized as a consequence of eliminating a need for numerous sites within the unit area. Locations of individual wells and surface facilities will be selected to optimize ultimate oil and gas recovery, while minimizing or completely avoiding adverse impacts to the environment.

Reducing costs and environmental impacts through unitized operations will expedite development of any reserves discovered and will promote greater ultimate recovery of any oil and gas from the unit area. This will increase and extend the State's income stream from production taxes and royalties. The revenues to the lessees and unit operator may be reinvested in new exploration and development in the State. Unitization means reduced costs and increased benefits to all interested parties. It benefits the local and State economy, and provides revenues to the State's general, school, constitutional budget reserve, and permanent funds.

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

Inclusion of the expansion leases in the CRU Agreement promotes the State's economic interests because the further exploration and development of the prospects within the expansion area will likely occur earlier than without unitization. Diligent exploration and development under a single approved unit plan without the complications of competing operators is in the State's best interest. It promotes efficient evaluation of the State's resources, yet minimizes impacts to the region's cultural, biological, and environmental resources. The CRUA also provides for accurate reporting and record keeping, State concurrence with operating procedures, royalty settlement, in kind taking, and emergency storage of oil, all of which will further the State's interest.

Inclusion of Federal land in the CRU required amendment of the CRUA to clarify the role of the BLM and to protect the interest of the State and ASRC with respect to approval authorities, submittal of confidential data, formation and administration of participating areas, abandonment, and dispute resolution. Because the proportion of Federal acreage comprises less than 10 percent of the total unit acreage, the authority to approve unit actions under the CRUA by the BLM is limited to approval authority only where Federal land is concerned. Otherwise, the ASRC and the State retain approval authority as set out in the original CRUA.

On December 23, 2009, the BLM issued a Certification-Determination, which accepted the CRUA, and agreed that the plans of development described in Attachment 4 to the Application protects the public interest and described the applicable Federal regulations that will apply to drilling, producing and royalty reporting with respect to Federal land committed to the CRUA. If a well is drilled into the subsurface of a Federal lease, all or a portion of a Federal lease is committed to a participating area, or all or a portion of a Federal lease is receiving a production allocation, 43 CFR Part 3160, Subpart 3161.1(b), relating to site security, measurement, reporting of production and operations on Federal leases will apply to the entire unit. Because production is commingled and processed prior to metering at the Lease Automatic Custody Transfer (LACT) meter, these regulations will apply to the entire CRU if Federal acreage is drilled, brought into a participating area, or allocated production. The regulations address the use of measures to insure complete accounting for production, require compliance with API standards for LACT meters, specify forms used for royalty accounting purposes, and specify standards for measurement of gas.

Approving the inclusion of Federal land in the CRU, including the conditions established in the Certification-Determination, minimally effect to the State's and ASRC interests. Security and LACT meter standards protect the State and ASRC, as well as the BLM. The LACT meter standard is the same used by the State. ConocoPhillips, as Unit Operator, will be most affected by royalty reporting form requirements. Although it is possible that the Federal regulations relating to gas management may conflict with the CRU Gas Management Agreement, ASRC and the State have agreed that it is unlikely that a conflict could not be resolved. Also, the CRU Gas Management Agreement expires December 31, 2015, which would provide additional opportunity to resolve any conflicts. Given development drilling plans, it is unlikely that the Federal leases will be drilled prior to expiration of the Gas Management Agreement.

Deferral of the November 1, 2010 contraction provides for continued development drilling of the western area as described in Attachment 4 to the Application. Under this decision, acreage not in a participating area by August 1, 2014 will contract out of the unit. The majority of the deferral acreage is Joint Land, ASRC or Federal land. ASRC approved the contraction deferral and the expansion on August 14, 2009 – the same day it approved the expansion.

ASRC's interests are protected by its level of involvement in the unit management process and the dispute resolution procedures. The Kuukpik Village Corporation's interests were protected during the process of negotiating for consent to subsurface development on its lands. They negotiated for specific limitations on surface use of the leases in which they have surface rights. Kuukpik also received overriding royalty interests in the leases as compensation from the working interest owners and ASRC for consenting to oil and gas activities on their lands.

The interests of any Native Allottees within the expanded CRU are protected because the mitigating measures and lessee advisories in the lease provide that rights to exploration and development of the oil and gas resources may not be exercised until the lessees make provisions to compensate the landowner for all damages sustained by reason of entering upon the land. Also, when ConocoPhillips applies for permits and authorizations from the various federal, State,

and local agencies, for development activities, the allotment owners will have the opportunity to comment during the permit review process.

The proposed expansion of the CRU protects the economic interests of all WIOs and royalty owners of a common reservoir. Operating under a unit agreement and unit operating agreement assures each individual working interest owner an allocation of costs and revenues commensurate with the value of their leases. The provisions of the CRUA and State law that provide for notice and an opportunity to be heard if they disagree with a unit management decision made by the State or ASRC also protect the WIOs.

IV. FINDINGS AND DECISION

A. The Conservation of All Natural Resources.

1. Approval of the Application will conserve natural resources, including hydrocarbons, gravel, sand, water, wetlands, and other valuable habitat.
2. The unitized development and operation of the leases in this proposed expansion area will reduce the amount of land and fish and wildlife habitat that would otherwise be disrupted by individual lease development. This reduction in environmental impacts and interference with subsistence activity is in the interest of the public, Kuukpik Village Corporation, and Native Allottees.
3. Before undertaking any specific operations, the unit operator must submit a plan of operations to the DNR and other appropriate State and local agencies for review and approval. All agencies must grant the required permits before drilling or development operations may commence. DNR may condition its approval of a unit plan of operations and other permits on performance of mitigating measures in addition to those in the leases if necessary or appropriate. Requiring strict adherence to the mitigating measures will minimize adverse impacts on the environment. All unit development must proceed according to an approved plan of development.

B. The Prevention of Economic and Physical Waste.

1. ConocoPhillips submitted geological and engineering data to DNR in support of the unit expansion application. DNR technical staff determined that the expansion area encompasses the minimum area required to include all or part of one or more oil and gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.
2. The plan of development for the expansion area meets the requirements of 11 AAC 83.303 and 11 AAC 83.341.

3. ConocoPhillips shall submit an annual update to the unit plan of development to the Proper Authority for approval under Section 8.1.1 of the CRUA. The annual update must describe the status of projects undertaken and the work completed, and any proposed changes to the plan. Any changes to the unit plan must comply with Article 8 of the CRUA.

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

1. The CRU 4th Expansion adequately protects the public interest, and is in the State's best interest.
2. The CRU 4th Expansion meets the requirements of AS 38.05.180(p) and 11 AAC 83.303.
3. DNR complied with the public notice requirements of 11 AAC 83.311.
4. The unit expansion 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 included in the CRUA.
5. The CRUA provides for expansions and contractions of the unit area in the future, as warranted by data obtained through exploration. The CRUA thereby protects the public interest, the rights of the parties, and the correlative rights of adjacent landowners.
6. ConocoPhillips, as Unit Operator, provided evidence of reasonable effort to obtain joinder of proper parties to the CRU Agreement.
7. The applicants for expansion have sufficient interest in the unit to exercise control of unit operations. 11 AAC 83.316(c).
8. Revised Exhibits A and B to the must be submitted to the Proper Authority in accordance with Sections 2.1 and 2.2 of the CRUA.

For the reasons discussed in this Findings and Decision, I hereby approve the deferral of the November 1, 2010 contraction and 4th Expansion of the CRU, effective April 8, 2010.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. This decision takes effect immediately. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Tom Irwin, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. 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

4-8-2010

Date

- Attachment 1: CRU 4th Expansion Leases/Tracts
- Attachment 2: CRU 4th Expansion Deferral Leases/Tracts
- Attachment 3: Map of CRU 4th Expansion Deferral Leases
- Attachment 4: Figure 1: Drilling Plan for the Expansion Area
- Attachment 5: Agreement to amend the Colville River Unit Agreement

Attachment 1: CRU 4th Expansion Leases/Tracts

ATTACHMENT 1
List of Leases in the Fourth Colville River Unit Expansion

| Tr. No. | Lease No. Tobin No. | Legal Description | Acres | DEPTH | ROYALTY | | | ORRI | | Tract Owners | WI |
|---------|---------------------|---|--|--------------------|----------------------|----------------|-------------------|--------------------------|-------------|--------------|---------------------------------|
| | | | | Depth Restrictions | Original Royalty (%) | Royalty Owners | Mineral Owns. (%) | Amended Net Royalty* (%) | ORRI Owners | | Net ORRI (%) |
| 179 | ASRC NPRA03 932671 | T. 11 N., R. 3 E., UMIAT MERIDIAN, ALASKA Section 1, All Section 2, All Section 3, All Section 12, All Total | 640.00 640.00 640.00 <u>640.00</u> 2560.00 | None | 16.66700 | ASRC | 100.00 | 15.0000000 | Kuukpik | CPAI APC | 78.00 <u>22.00</u> 100.00 |
| 180 | ASRC NPRA04 932669 | T. 11 N., R. 4 E., UMIAT MERIDIAN, ALASKA Section 6, All Section 17, All Section 18, All Section 29, All Section 32, All T. 10 N., R. 4 E., UMIAT MERIDIAN, ALASKA Section 3, All Section 4, All Section 5, All Total | 593.45 640.00 598.58 640.00 640.00 640.00 640.00 <u>640.00</u> 5032.03 | None | 16.66700 | ASRC | 100.00 | 15.0000000 | Kuukpik | CPAI APC | 78.00 <u>22.00</u> 100.00 |
| 181 | AA087888 307461 | T. 11 N., R. 3 E., UMIAT MERIDIAN, ALASKA Section 10, All Section 11, All Section 13, All Section 14, All Total | 640.00 640.00 640.00 <u>640.00</u> 2560.00 | None | 16.66670 | BLM | 100.00 | | | CPAI APC | 78.00 <u>22.00</u> 100.00 |
| 182 | AA081817 932552 | T. 11 N., R. 4 E., UMIAT MERIDIAN, ALASKA Section 19, All Section 20, All Section 30, All Section 31, All | 600.00 640.00 602.00 605.00 | None | 16.66670 | BLM | 100.00 | | | CPAI APC | 78.00 <u>22.00</u> 100.00 |

ATTACHMENT 1
List of Leases in the Fourth Colville River Unit Expansion

| Tr. No. | Lease No. Tobin No. | Legal Description | Acres | DEPTH | ROYALTY | | | ORRI | | WI Working Interest | |
|--------------|-------------------------------|---|--|--------------------|----------------------|----------------|-------------------|--|------------------------|---------------------|---------------------------------|
| | | | | Depth Restrictions | Original Royalty (%) | Royalty Owners | Mineral Owns. (%) | Amended Net Royalty* (%) | ORRI Owners | Net ORRI (%) | Tract Owners |
| 182 | AA081817 932552 (cont.) | T. 11 N., R. 3 E., UMIAT MERIDIAN, ALASKA Section 23, All Section 24, All Section 25, All Section 26, All Section 36, All Total | 640.00 640.00 640.00 640.00 <u>640.00</u> 5647.00 | | | | | | | | |
| 183 | ADL 390337 300618 | T. 10 N., R. 4 E., UMIAT MERIDIAN, ALASKA Section 2, Surveyed by protraction, Lots 2 and 4 Total | <u>552.37</u> 552.37 | None | 16.66667** | State ASRC | 55.07 44.93 | 9.1783351 <u>7.4883349</u> 16.6666700 | Kuukpik CPAI APC | 0.91783 | 78.00 <u>22.00</u> 100.00 |
| 184 | ADL 390337 300618 | T. 10 N., R. 4 E., UMIAT MERIDIAN, ALASKA Section 1, Surveyed, by protraction, Lot 4 Total | <u>53.57</u> 53.57 | None | 16.66667** | State ASRC | 7.86 92.14 | 1.3100010 <u>15.3566690</u> 16.6666700 | Kuukpik CPAI APC | 0.13000 | 78.00 <u>22.00</u> 100.00 |
| TOTAL | | | 16,404.97 | | | | | | | | |

* ASRC's net royalty amount reflects the net ORRI of Kuukpik.

** Sliding Scale Overriding Royalty

KEY:

APC- Andarko Petroleum Corporation
ASRC - Arctic Slope Regional Corporation
CPAI - ConocoPhillips Alaska, Inc.
Kuukpik - Kuukpik Corporation
State - State of Alaska, Department of Natural Resources, Division of Oil and Gas

Attachment 2: CRU 4th Expansion Deferral Leases/Tracts

Attachment 1A

Deferred Lands Fourth Expansion of the Colville River Unit

| Tract No. | Lease No. Tobin No. | Legal Description |
|-----------|------------------------|---|
| 22 | ASRC NPRA01 932126 | T12N-R13E, U.M. Section 25, All Section 26, All Section 27, All Section 34, All Section 35, All Section 36, All |
| 23 | ASRC NPRA02 932128 | T11N-R4E, U.M. Section 5, All lands not within the Alpine Participating Area ("APA") Section 7, All Section 8, All lands not within the APA Section 21, All lands not within the APA and/or the Nanuq Kuparuk PA ("NKPA") T12N-R4E, U.M. Section 30, (fractional), All lands not within the APA Section 31, All lands not within the APA |
| 120 | ASRC NPR-A 2 932128 | T11N-R4E, U.M. Section 28, All lands not within the APA and/or NKPA Section 33, All Section 34, All lands not within the APA and/or NKPA |
| 121 | 388905 932357 | T11N-R4E, U.M. Section 35, Unsurveyed, All lands within the NPRA and not within the APA and/or NKPA |
| 122 | 388902 932351 | T11N-R4E, U.M. Section 35, Unsurveyed, All lands excluding the NPRA and not within the APA and/or NKPA |
| 123 | 388902 932351 | T11N-R4E, U.M. Section 36, Unsurveyed, All lands not within the APA and/or NKPA |
| 132 | 389902 932351 | T10N-R4E, U.M. Section 1, Unsurveyed, All lands excluding the NPRA |
| 133 | 388902 932351 | T10N-R4E, U.M. Section 2, Unsurveyed, All lands excluding the NPRA |

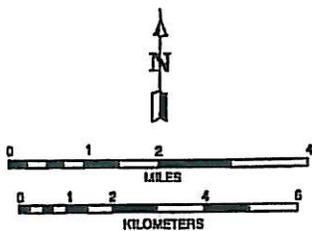
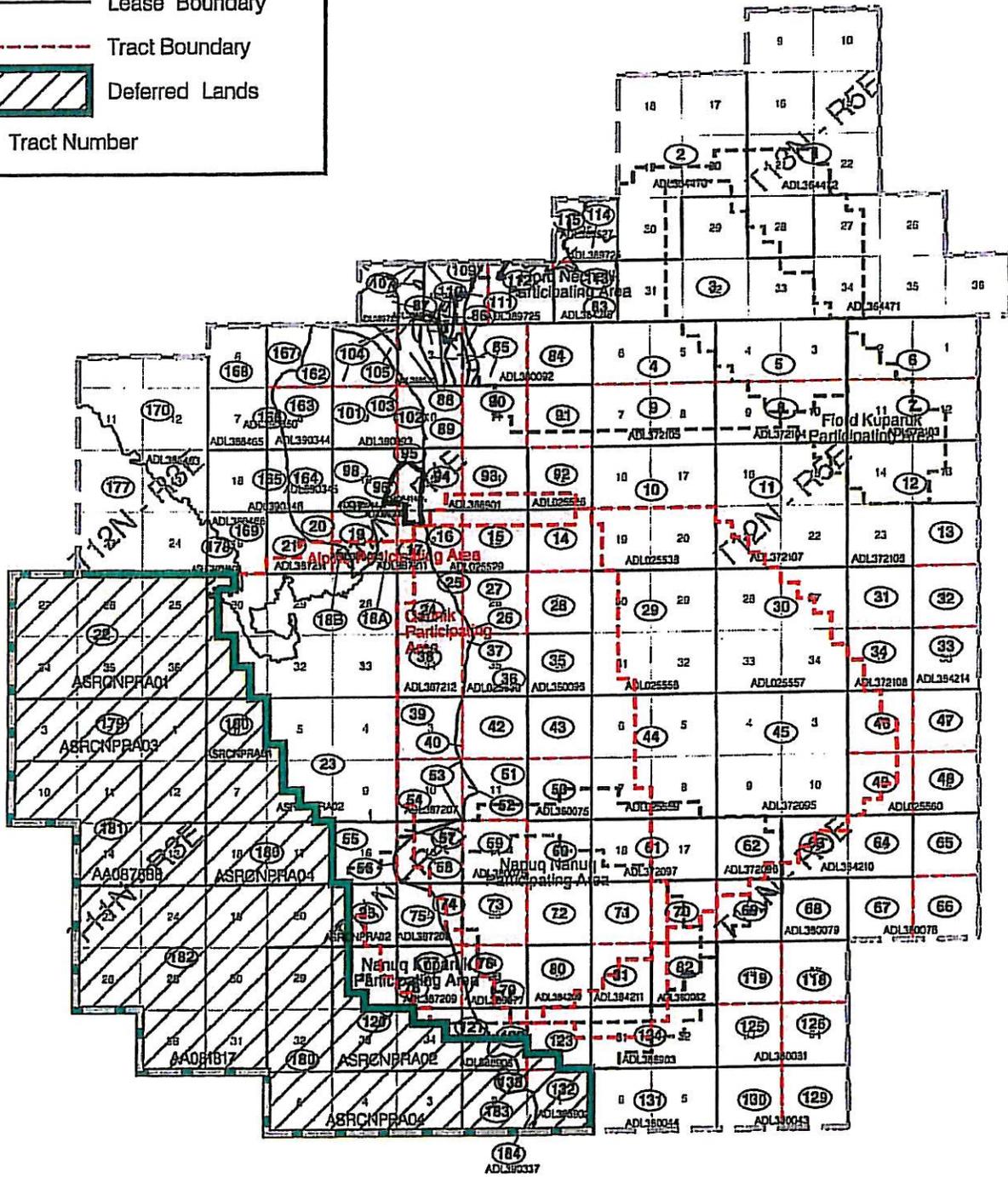
Attachment 1A

Deferred Lands Fourth Expansion of the Colville River Unit

| Tract No. | Lease No. Tobin No. | Legal Description |
|-----------|------------------------|---|
| 169 | 388466 300634 | T12N-R4E, U.M. Section 30, Protracted, All tide and submerged lands not within the APA |
| 179 | ASRC NPRA03 932671 | T11N-R3E, U.M. Section 1, All Section 2, All Section 3, All Section 12, All |
| 180 | ASRC NPRA04 932669 | T11N-R4E, U.M. Section 6, All Section 17, All Section 18, All Section 29, All Section 32, All T10N-R4E, U.M. Section 3, All Section 4, All Section 5, All |
| 181 | AA087888 307461 | T11N-R3E, U.M. Section 10, All Section 11, All Section 13, All Section 14, All |
| 182 | AA081817 932552 | T11N-R4E, U.M. Section 19, All Section 20, All Section 30, All Section 31, All T11N-R3E, U.M. Section 23, All Section 24, All Section 25, All Section 26, All Section 36, All |
| 183 | ADL 390337 300618 | T10N-R4E, U.M. Section 2, Surveyed by protraction, Lots 2 and 4 |
| 184 | ADL 390337 300618 | T10N-R4E, U.M. Section 1, Surveyed, by protraction, Lot 4 |

Attachment 3: Map of CRU 4th Expansion Deferral Leases

-  Unit Boundary
-  Lease Boundary
-  Tract Boundary
-  Deferred Lands
-  Tract Number

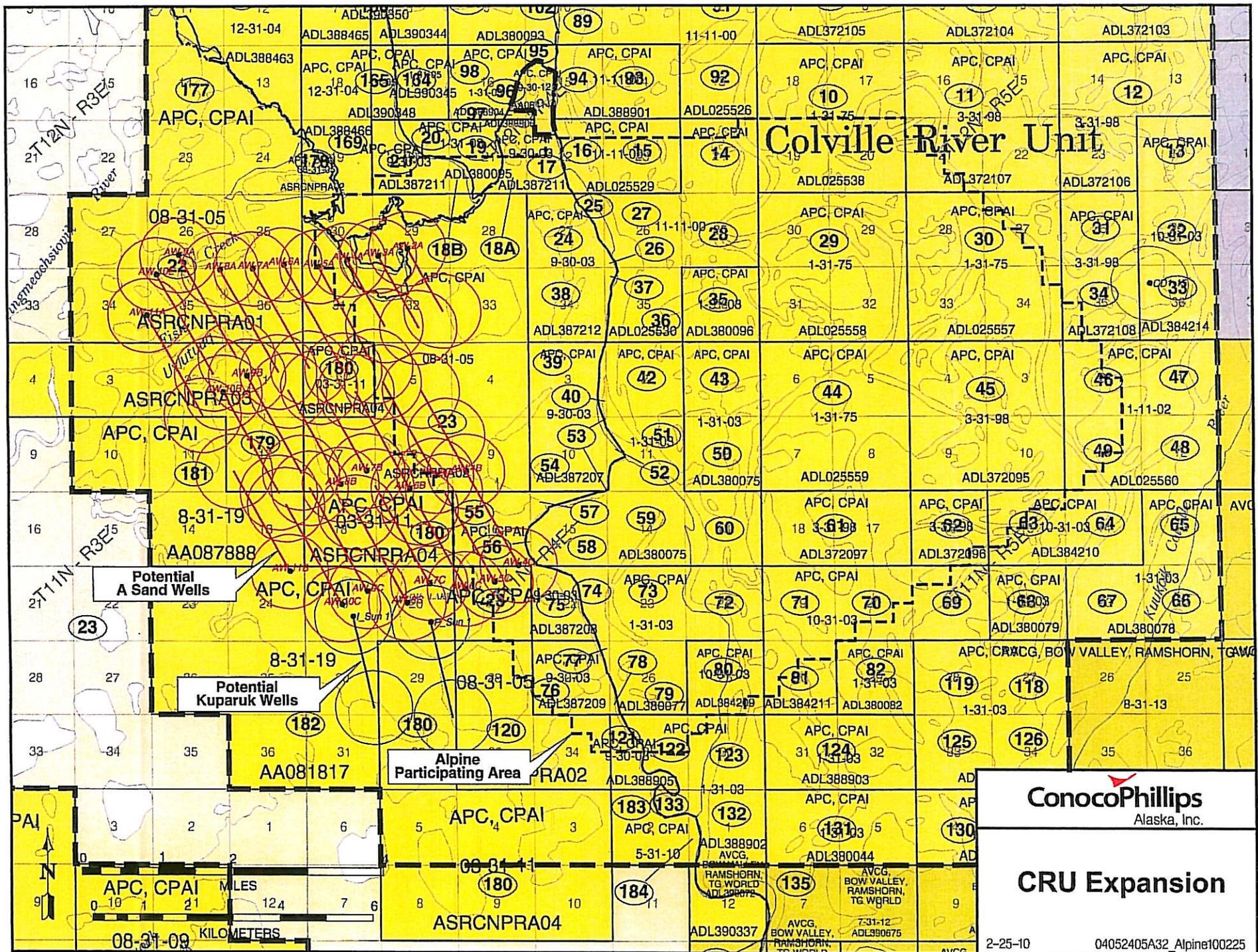


ConocoPhillips
Alaska, Inc.

Attachment 2A
Colville River Unit
Deferred Lands

7-7-09
09060201B00

Attachment 4: Figure 1: Drilling Plan for the Expansion Area



ConocoPhillips
Alaska, Inc.

CRU Expansion

Attachment 5: Agreement to amend the Colville River Unit Agreement

AGREEMENT TO AMEND THE COLVILLE RIVER UNIT AGREEMENT AND
ACCEPTANCE BY THE BUREAU OF LAND MANAGEMENT OF THE COLVILLE RIVER
UNIT AGREEMENT AS AMENDED

This Agreement to Amend the Colville River Unit Agreement and Acceptance by the Bureau of Land Management ("BLM") of the Colville River Unit Agreement as Amended ("Agreement") is entered into effective as of the Effective Date as defined herein.

Recitals

The State of Alaska, Department of Natural Resources ("State"), the Arctic Slope Regional Corporation ("ASRC"), ConocoPhillips Alaska, Inc. ("ConocoPhillips"), Anadarko Petroleum Corporation, and Petro-Hunt LLC (collectively, the "CRU Parties"), or their respective predecessors in interest, entered into that certain Colville River Unit Agreement, dated effective March 20, 1998 ("CRU Agreement"), creating the Colville River Unit ("CRU").

On July 9, 2009, ConocoPhillips, as Unit Operator of the CRU, submitted the Application for the Fourth Expansion of the Colville River Unit ("Application") for approval by the State and ASRC under Section 12.1 of the CRU Agreement, to include all or portions of the State, ASRC, and BLM oil and gas leases listed in Attachment 1 of the Application and the associated lands shown on the map attached as Attachment 2 of the Application (collectively, "Expansion Area"). A copy of the Application is attached hereto as Attachment 1 and incorporated by reference herein. ConocoPhillips also requested in the Application that the contraction from the CRU of the lands listed in Attachment 1A and shown on Attachment 2A of the Application be deferred until August 1, 2014.

In the Application, ConocoPhillips also requested that the BLM, which is not a party to the CRU Agreement, commit to the CRU certain federal leases and associated lands, more particularly described in Attachment 1 to the Application as Tracts 181 and 182 ("BLM Leases"), as provided for pursuant to 43 CFR §3137.15.

The CRU Parties desire to expand the CRU to include the Expansion Area.

In order to include the BLM Leases into the CRU as part of the Expansion Area, to join the BLM as a party to the CRU Agreement, and to effect certain other amendments to the CRU Agreement incident to the requested fourth expansion of the CRU, the CRU Parties desire to amend the CRU Agreement and Exhibits A, B, and G thereto as set out in Attachment 2 and incorporated by reference herein ("Amended Agreement"). A copy of the fully integrated Amended Agreement is attached hereto as Attachment 4 and is effective as of the Effective Date hereof.

The BLM has previously accepted an amended agreement as provided in its Certification Determination, a copy of which is attached hereto as Attachment 3 and incorporated by reference herein, and the BLM now desires to become a party to the Amended Agreement and to commit the BLM Leases to the CRU.

Agreements

NOW THEREFORE, in consideration of the premises and mutual promises contained herein, the parties agree as follows:

1. The CRU Parties ratify, accept and adopt the terms and conditions of the Amended Agreement, effective on the Effective Date, and the amendments to the CRU Agreement

contained in the Amended Agreement shall be given effect from and after the Effective Date (as defined herein below).

2. The BLM accepts the Amended Agreement, which by its terms provides for administration of the BLM Leases by the State and ASRC except in limited, specified circumstances, and the BLM commits the BLM Leases to the CRU and the Amended Agreement and becomes a party to the Amended Agreement, effective on the Effective Date.

3. The CRU is expanded to include the lands and leases comprising the Expansion Area and the contraction from the CRU of the lands listed in Attachment 1A and shown on Attachment 2A of the Application is deferred until August 1, 2014, as of the Effective Date.

4. Within 30 days after the Effective Date, ConocoPhillips, as Unit Operator of the CRU, shall provide to the BLM two copies of the CRU Operating Agreement, for informational purposes only.

5. This Agreement may be executed in any number of counterparts, each of which will be considered an original for all purposes, and all of which when taken together will constitute one and the same instrument. It shall not be necessary that any single counterpart be executed by all parties and each counterpart executed by any party shall be binding upon such party as of the Effective Date.

6. This Agreement shall be effective, if ever, on the first date when the State has issued its final, appealable decision approving the Application and the CRU Parties and BLM have executed this Agreement ("Effective Date"). Upon the Effective Date, this Agreement will be binding upon and inure to the benefit of the CRU Parties, the BLM and any other CRU interest owner who executes or subsequently ratifies and adopts this Agreement, and thereby ratifies and adopts the amendments of the CRU agreement effective as of the Effective Date, and their respective heirs, personal representatives, successors and assigns.

IN WITNESS OF THE FOREGOING, the parties have executed this Agreement on the dates shown below.

State of Alaska

Department of Natural Resources

By: 
Title: DIRECTOR, DIVISION OF OIL & GAS
Date: 4-8-2010

RECEIVED

APR 07 2010

DIVISION OF OIL AND GAS

Bureau of Land Management

By: William R. Diehl
Title: Acting Energy Section Chief
Date: 04/07/10

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

This certifies that on the 7th day of April, 2010, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared William R. Diehl, to me known and 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.



Robert Rodriguez
NOTARY PUBLIC in and for Alaska
My Commission Expires: 3/7/2013

ConocoPhillips Alaska, Inc. (Formerly ARCO Alaska, Inc.)

By: _____
Title: _____
Date: _____

RECEIVED

APR 07 2010

DIVISION OF OIL AND GAS

Bureau of Land Management

By: _____

Title: _____

Date: _____

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

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

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

NOTARY PUBLIC in and for Alaska
My Commission Expires: _____

ConocoPhillips Alaska, Inc. (Formerly ARCO Alaska, Inc.)

By: David W. Brown

³⁴Title: Attorney-in-Fact

Date: 4/7/2010

RECEIVED

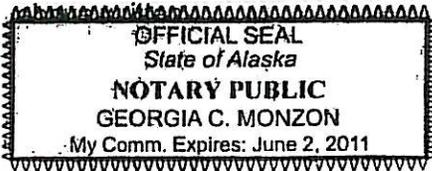
APR 07 2010

DIVISION OF OIL AND GAS

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

This certifies that on the 7 day of April, 2010, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared David W. Brown, to me known and 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



Georgia C. Monzon
NOTARY PUBLIC in and for Alaska
My Commission Expires: June 2, 2011

Anadarko Petroleum Corporation

By: _____
Title: _____
Date: _____

STATE OF TEXAS)
)ss.
COUNTY OF _____)

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

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

NOTARY PUBLIC in and for Texas
My Commission Expires: _____

RECEIVED

APR 07 2010

Petro-Hunt, L.L.C.

DIVISION OF OIL AND GAS

ATTEST:

By: *B. W. Hunt*

R. Fred Hosey

Title: Bruce W. Hunt, President

R. Fred Hosey, Secretary

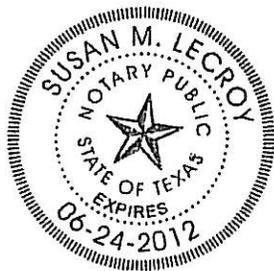
Date: 04.06.10

B

STATE OF TEXAS)
)ss.
COUNTY OF DALLAS)

This certifies that on the 6th day of April, 2010, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared Bruce W. Hunt, to me known and 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.



Susan M. Lecroy
NOTARY PUBLIC in and for Texas
My Commission Expires: 6/24/2012

RECEIVED

APR 07 2010

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

DIVISION OF
OIL AND GAS

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

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

NOTARY PUBLIC in and for Alaska
My Commission Expires: _____

Anadarko Petroleum Corporation

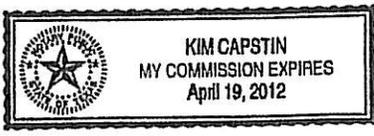
By: [Signature] *RGJ*
Title: Agent and Attorney-in-Fact *KAE*
Date: April 6, 2010

STATE OF TEXAS)
)ss.
COUNTY OF Montgomery)

This certifies that on the 6th day of April, 2010, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared Steven K. Dodds, to me known and 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.

[Signature]
NOTARY PUBLIC in and for Texas
My Commission Expires: April 19, 2012



STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

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

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

NOTARY PUBLIC in and for Alaska
My Commission Expires: _____

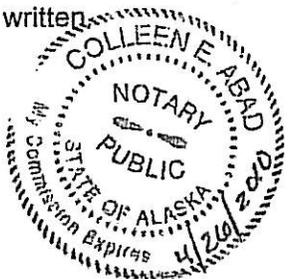
Arctic Slope Regional Corporation

By: *[Signature]*
Title: President & CEO
Date: 04.27.10

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

This certifies that on the 7 day of April, 2010 before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared Roberta Quintavell, to me known and 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.



Colleen E. Abad
NOTARY PUBLIC in and for Alaska
My Commission Expires: 4/26/2010