

FINDINGS AND DECISION

Director, Division of Oil and Gas

APPROVING THE  
NORTH ALEXANDER UNIT APPLICATION

Under Delegation of Authority from the  
Commissioner, Department of Natural Resources, State of Alaska

January 31, 2007

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## INTRODUCTION AND BACKGROUND

Escopeta Oil Company LLC (EOC) submitted a unit application (Application) to the Alaska Department of Natural Resources (DNR), Division of Oil & Gas (Division), to form the North Alexander Unit (NAU) on December 11, 2006. The Division found the Application complete on December 13, 2006.

EOC proposed to include five leases, four of which are 75 percent owned by EOC and 25 percent owned by Taylor Minerals, LLC (TLM); the fifth lease, ADL 390585, is 100 percent owned by Forest Alaska Operating LLC (FAO). The Division is excluding the FAO lease from the proposed unit as a part of this decision. The leases in the approved unit and their corresponding lease numbers, acreages, state royalty interests, lease effective dates, lease form, and current lease expiration dates are shown as follows in Table 1.

Table 1 - NAU Lease Information					
ADL	Acres	State Royalty Interest %	Lease Effective Date	Lease Form Issued on	Lease Expiration Date
389935	160	12.5	1/1/2002	DOG 200004	12/31/2008
389213	3680	12.5	2/1/2000	DOG 9609 (REV 9/99)	1/31/2007
390586	5440	12.5	6/1/2005	DOG 200204 (Rev 10/03)	5/31/2012
389212	2032.5	12.5	2/1/2000	DOG 9609 (Rev 9/99)	1/31/2007

The proposed NAU severs ADLs 389935, 389213, 390586, and 389212 so that the boundary of the NAU conforms to the prospect boundary based on currently available geologic, geophysical, and engineering (G&G) data. Exhibit A inaccurately describes the acreage to be included in the NAU and will be revised as a condition of this decision to eliminate the FAO lease. All acreage severed from existing leases, as a part of this decision, continues under the terms and conditions set out in the leases.

The Division issued ADLs 389213 and 389212 on lease form DOG 9609(Rev 9/99) in the Cook Inlet Areawide 1999 Sale. EOC agreed with the Division to replace paragraph 36(b) in the DOG 9609(Rev 9/99) lease form with paragraph 36(b) from the current lease form DOG 200604.

Paragraph 36(b) from the current lease form DOG 200604, states the following:

“If oil, gas, or associated substances are sold away from the leased or unit area, the term “field price” in subparagraph (a) above, will be the cash value of all consideration received by the lessee or other producer from the purchaser of the oil, gas, or associated substances, less the lessee’s actual and reasonable costs of transportation away from the leased or unit area to

the point of sale. The “actual and reasonable costs of transportation” for marine transportation are defined in 11 AAC 83.229 (a), (b)(2), and (c)-I [sic].

This change provides a consistent field price transportation deduction under the lease forms included in this unit.

The NAU will be administered by the Division under state regulations, the terms expressed in these Findings and Decision document, and the NAU Agreement (Agreement).

EOC is the designated unit operator. EOC is qualified to act as unit operator under 1 AAC 83.331 because EOC is qualified to hold a lease and is willing to assume the obligations under the Agreement.

## **APPLICATION FOR THE FORMATION OF THE NORTH ALEXANDER UNIT**

EOC submitted the Application to form the NAU and paid the \$5,000 unit application filing fee on December 11, 2006. The Application included: the proposed Agreement; Exhibit A to the Agreement, legally describing the NAU, its leases, and ownership interests; Exhibit B to the Agreement, a map of the NAU; Exhibit G to the Agreement, the proposed plan of exploration (initial POE); and a Unit Operating Agreement between the working interest owners (WIOs). The Agreement, which uses the State Only Model Form, dated June 2002, with modifications, will conform and modify four individual State of Alaska oil and gas leases so that unit operations can be conducted on a unit basis instead of on a lease basis.

11 AAC 83.306 requires a completed application to include a Unit Operating Agreement executed by the WIOs. The Application, which was deemed complete by the Division, included a Unit Operating Agreement executed by EOC and TLM and confirmation from EOC that FAO had been invited to join the NAU.

In correspondence from EOC to the Division dated December 20, 2006, and included as Attachment 6, EOC indicated the FAO lease, ADL 390585, was mistakenly included in the Application and that EOC did not consent to any of FAO’s acreage being included in the NAU. EOC submitted revised Exhibits A and B to amend the Application on December 20, 2006, to remove the FAO leases from the Application. The Division notified EOC that a decision on the amended application could not be issued before January 31, 2007-- when two of the leases proposed for inclusion in the unit would expire--because a public notice, comment, and review period were required for the amendment. Because there was not adequate time to re-notice EOC’s proposed amendment to the Application, the FAO leases were considered as part of the Application. The Division is excluding them from the NAU for the reasons discussed later in this decision.

The Division cannot accommodate amendments late in the Application process, especially when the underlying Application is submitted late. 11 AAC 83.311 provides for a 10-day public notice



preparation period, and a 30-day public comment period. Under 11 AAC 83.316 the Division has 60 days after the close of the public comment period to issue a decision. The Application was filed on December 11, 2006, the public notice was issued on December 14, 2006, and the public comment period ended January 18, 2007, leaving 14 days after the close of the public comment period for Application processing. Because of these regulatory timelines, applicants risk denial of an application and resulting lease expiration, if they fail to submit an application at least 90 days before the leases proposed for inclusion in the unit will expire.

The Division published Application notices in the *Anchorage Daily News* and in the *Mat-Su Valley Frontiersman*. The Division also posted notices on the state's online public notice Web page, DNR's public notices page, and the Division's Web page. The Division provided copies of the public notice to the Mat-Su Borough Assembly and mayor; Mat-Su Borough Planning Department; Mat-Su Borough Port Commission; Mat-Su Resource Conservation and Development; Wasilla City Clerk; mayor and City Council; CIRI, Tyonek Village Corporation; the Native Village of Tyonek; Knik Tribal Council; Knikatu Inc.; Alexander Creek, Inc.; Friends of Old Knik; Knik-Fairview Community Council; and other interested parties in compliance with 11 AAC 83.311. The Division also provided public notices to the Alaska Department of Environmental Conservation; the Alaska Department of Fish and Game; Department of Natural Resources, Southcentral Regional Office of the Division of Mining, Land and Water; the Department of Natural Resources; Office of Habitat Management and Permitting Southcentral Area Office; Mat-Su State Parks Citizen Advisory Board; and to post offices, libraries, print media, public television, and radio stations in the area. The notice invited interested parties and members of the public to submit comments by January 18, 2007.

FAO has provided comments neither supporting nor opposing unitization, and neither supporting nor opposing inclusion of their lease in the proposed NAU. The Division received no other comments on the Application.

## **DISCUSSION OF DECISION CRITERIA**

AS 38.05.180(p) gives DNR the authority to approve a unit when necessary or advisable in the public interest to conserve the natural resources of all or a part of an oil or gas pool, field, or like area. The DNR Commissioner (Commissioner) reviews unit applications under 11 AAC 83.301 – 11 AAC 83.395. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003, and delegated this authority to the Division Director (Director).

The Director will approve a unit application upon finding that it will: 1) promote the conservation of all natural resources; 2) promote the prevention of economic and physical waste; and 3) provide for the protection of all parties of interest, including the state in accordance with 11 AAC 83.303(a). 11 AAC 83.303(b) sets out six factors that the Director will consider in evaluating a unit application. A discussion of the subsection .303(b) criteria, as they apply to the Application, is set out below, followed by the Director's findings under subsection .303(a), and the Director's conditional approval of the Application.

## **1. The Environmental Costs and Benefits of Unitization**

The administrative approval of the NAU has no environmental impact itself because it does not authorize the unit operator to conduct operations within the unit. Unitization does not waive or reduce the effectiveness of the mitigation measures that condition the lessee's right to conduct operations on these leases. The Division's approval of the NAU and initial POE is only one step in the process of obtaining permission to drill wells and develop any reservoirs within the unit area.

The unit operator shall obtain approval of a unit plan of operations before conducting exploration, development, or production activities. Plans of operations must describe the operating procedures designed to prevent or minimize adverse effects on natural resources and must identify the sites for planned activities and the specific measures, design criteria, construction methods and operational standards to be employed. It must also address any potential geophysical hazards that may exist at the site. The plan of operations application undergoes a multi-agency review under the Alaska Coastal Management Program (ACMP). This process includes public notice and opportunities for comment under ACMP enforceable policies (11 ACC 110.510). The Division also invites comments specific to a unit plan of operations application during the ACMP review comment period.

The Division develops mitigation measures for Cook Inlet in the context of lease sales. The leases included in the NAU by this decision contain mitigation measures, stipulations, and advisories designed at the time of the lease sale to protect the environment. But, under 11 AAC 83.303(b)(6), and as a condition of creating this unit, the Division will apply the most recent mitigation measures to all operations, regardless of when the lease was issued. It is in the public interest to apply the most current knowledge about what measures are necessary to protect the environment to operations in the NAU.

When the operator proposes to further explore and develop the unit area, with any increase in the approved footprint or any other significant modification in operations, it must submit a new unit plan of operations. The plan of operations application, review, and approval process therefore ensures that environmental impacts of both initial and future developments will be addressed under the regulatory process.

The environmental impact of unit operations will depend on the level of development activity, the effectiveness of mitigation measures, and the availability of alternative habitat and subsistence resources. Unitization consolidates exploration, development and production activities so that a group of leases can be explored, developed, and produced as one, thereby lessening the impact on the environment, habitat, and subsistence activity in comparison to development on an individual lease basis. The environmental costs and benefits of unitizing the leases justify approval of the Application under the section .303(b)(1) criteria.

## **2. The Geological and Engineering Characteristics of the Reservoir or Potential Accumulation**

### Regional Tectonic Setting and Structure

The Tertiary Cook Inlet Basin is an elongate, northeast trending, fault bounded forearc basin that extends from the Matanuska Valley south along the Alaskan Peninsula. The Castle Mountain and Bruin Bay fault zones make up the northern and northwestern boundaries and separate the uplifted volcanic arc complex from the Tertiary depocenter. Extensive right lateral and dip slip motion has occurred along these two fault zones which has resulted in structural traps for hydrocarbon accumulation. The Border Ranges fault zone delineates the southern and southeastern boundaries of the Cook Inlet Basin and separates the accretionary prism from the continental crust that underlies the basin.

There are numerous folds in the Cook Inlet Basin. The fold axes are generally subparallel to the basin margins and trend northeast-southwest. Folds on the west side of the basin are located along an up-to-the-northwest step in the basement. This up-to-the-northwest step in the basement is demonstrated by the Castle Mountain and Bruin Bay fault systems being dominantly northwest side up reverse faults. Structures on the east side of Cook Inlet Basin are located on a down-to-the-northwest step in basement.

In the northwest quadrant of the Cook Inlet Basin, multiple faults splay off of the main Castle Mountain fault. Some of these northeast-southwest trending splay faults act as bounding faults that form traps for multiple productive gas sands in the general area. The North Alexander Prospect was interpreted by EOC off of three 2D seismic lines to be a fault bounded closure. Two interpreted faults set up the structure: a northeast-southwest bounding fault that is interpreted as a splay coming off of the Castle Mountain fault and a north-south splay fault named the North Alexander fault.

### Depositional Systems and Stratigraphic Framework

Two major non-marine depositional systems comprise the Tertiary basin fill in the Cook Inlet Basin alluvial fan systems at the base overlain by axial fluvial systems. The alluvial fan systems developed along both the arc and accretionary margins of the basin and carried sediment out into the actively subsiding basin. The location of these fans was related to uplift on the basin bounding faults with the coarsest grained facies being deposited proximal to the source. Axial fluvial systems flowed perpendicular to the alluvial fan systems and migrated across the basin floor in relation to sediment input and topography. These fluvial systems reworked the distal facies of the alluvial fans and transported sediment out into the floodplain. Swamps, highly vegetated interfluvies, and flood basins provided the biotic material that later developed into coals. The fluvial systems resulted in a thick accumulation of sandstone, siltstone, mudstone, and coal.

The Tertiary sedimentary basin fill consists of the following formations in stratigraphic order: West Foreland, Hemlock, Tyonek, Beluga, and Sterling. The West Foreland Formation is Eocene in age and is composed of tuffaceous sandstones and conglomerates. It is often of poor reservoir

quality. The Oligocene-aged Hemlock Formation consists of clean, porous sandstones and conglomerates. The Hemlock Formation has good reservoir quality and is a proven oil reservoir in many parts of the basin. The Tyonek Formation is composed of abundant coal, siltstone, and massively bedded fine to conglomerate sandstone of Oligocene to Middle Miocene age. This formation has been the target of considerable gas and oil exploration and is estimated to be approximately 3000 feet in the prospect area. In the northwest quadrant of the Cook Inlet Basin, porous sandstone called the Bell Island Sandstone is found at the base of the Tyonek Formation. EOC plans on drilling into the top of the Bell Island sand. Overlying the Tyonek is the Beluga Formation, a thick silt rich unit with interbeds of channelized muddy sandstone, coal, and tuff of Middle to Late Miocene age. Sandstones within the Beluga Formation are often discontinuous due to their thin and lenticular nature. This formation is estimated to be approximately 2,000 feet thick in the prospect area. The Sterling Formation is the youngest non-glacial unit in the Cook Inlet Basin and consists largely of laterally continuous stacked porous sandstones with interbedded mudstones and thin coals. The Sterling ranges in age from Latest Miocene to Pliocene. Coals are thinner and less abundant than in the underlying Beluga Formation. This formation is in excess of 2,000 feet thick in the prospect area. The gas is believed to be of biogenic origin derived from Tertiary coals and organic siltstones.

North Alexander is an onshore gas prospect located in the northwest quadrant of the Cook Inlet Basin. In support of the unit application, EOC submitted three interpreted seismic lines over the area, a structure map based on the interpreted seismic lines, copies of the three exploration wells drilled in the area of the North Alexander Unit, and estimates of net sand values based on gross sand counts taken from these wells.

The North Alexander Prospect is a steeply dipping northeast-southwest anticline feature bound on the west by a splay fault off of the major Castle Mountain Fault which marks the northern boundary of the Cook Inlet Basin. EOC evaluated three seismic lines over the area to determine the structure of the prospect and estimated net sand values based on gross sand counts taken from three nearby exploration wells located down-dip of the proposed unit: Cities Service East Lewis River #1, Amarex Isla Grande #1, and British America Bell Island #1. Subtle hydrocarbon shows were found in two of these wells. Drill stem tests in the East Lewis River #1 well recovered gas cut formation water in the Tyonek Formation and gas flowed to surface from the Beluga Formation. In British America Bell Island #1, ethane and propane were noted in the Bell Island sandstone. No major gas shows were encountered in the Sterling, Beluga, or the Tyonek.

The proposed North Alexander well plans to drill and test sandstones within the Beluga and Tyonek Formations. The primary gas objectives of the proposed unit are the Beluga and Tyonek reservoirs. The secondary gas objectives are the lower Sterling and Bell Island Formations. Coals that may serve as coal bed methane reservoirs will also be evaluated.

EOC provided three 2D lines, one strike and two dip lines. The seismic data quality is fair to poor in the area with imaging being discontinuous. The horizons across the prospect show a general dipping from the northwest where a splay fault is proposed, downward to the southeast. The proposed structure is based on the termination of the local steep dipping beds against faults in both the Beluga and Tyonek levels. In the area of the proposed faults, the data is poorly defined but there is sufficient evidence of a potential trap.



The geological, geophysical, and engineering data justifies approval of the Application under the section .303(b)(2) criteria.

### **3. Prior Exploration Activities in the Unit Area**

The modern era of exploration in Cook Inlet began in 1955 when Richfield Oil Corp. embarked on a drilling program around Swanson River on the Kenai Peninsula. Success at Swanson River led to a surge in exploration activity in the Cook Inlet Basin.

Discoveries specific to the northwest quadrant of the Cook Inlet Basin began in 1962 when gas was discovered in the Sterling and Beluga Formations at the Beluga River field. The first exploration well in the vicinity of the proposed North Alexander Unit, the British America Bell Island #1, was also drilled in 1962. In 1966, gas in the Tyonek Formation at Ivan River was discovered. In the middle to late 1970's gas exploration increased due to the consideration of LNG and iron ore reduction projects. Gas discoveries in the Beluga Formation at Lewis River (1975), Stump Lake (1978), and Pretty Creek (1979) were a result of this renewed interest in gas. The two other exploration wells drilled in the vicinity of the North Alexander Unit, Amarex Isla Grande #1 and Cities Service East Lewis River #1, were drilled in 1975.

The prior exploration Activities in the unit area justifies approval of the Application under the section .303(b)(3) criteria.

### **4. Plans for Exploration or Development of the Proposed Unit Area**

The Agreement must include plans for exploration or development. 11 AAC 83.306(1). The initial POE must include a description of proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated date drilling will commence. 11 AAC 83.341(a).

EOC submitted the initial POE, Exhibit G, with the Application. EOC proposed to drill a well by December 8, 2008.

The Division proposed revisions to Exhibit G on December 21, 2006 and made additional revisions that are incorporated into the final Exhibit G, shown as Attachment 3. EOC indicated the Division proposed revisions were acceptable.

The approved, initial POE sets out a timely sequence of permitting and drilling that will facilitate the ultimate development and production of the reservoir, if oil and gas are discovered in commercial quantities. It requires EOC to drill a well in the winter of 2007/2008, and terminates January 31, 2009, or sooner, if EOC does not fulfill its work commitments. This is the soonest that a well can be drilled from the NAU considering that access will be limited to ice roads.

Completion of the proposed permitting and drilling activities as scheduled during the two-year initial POE will satisfy the State's performance standards and diligence requirements. EOC's rights and responsibilities are described under state statutes and regulations and more specifically, as applied to the NAU, in this Findings and Decision document, the Agreement, the leases, and in Exhibit G. Therefore, the plans for exploration of the proposed unit area justify approval of the Application under the section .303(b)(4) criteria.

## **5. The Economic Costs and Benefits to the State**

The general work plan and assessment of the hydrocarbon potential in the NAU offers economic benefits to the State if completed as contemplated and if hydrocarbon production is ultimately proven commercial.

The additional assessment of the hydrocarbon potential of the leases 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 as well as increased employment opportunities over the long-term. If gas is discovered and ultimately developed it will help alleviate a potential gas supply shortfall in Cook Inlet.

The primary terms of two of the EOC and TLM leases are due to expire on January 31, 2007, but it is in the best interest of the State to form the unit to facilitate the exploration efforts to stimulate economic development and create a greater royalty revenue opportunity. If EOC does not complete the initial POE work commitments, the unit will terminate, allowing re-leasing of expired leases.

Any additional administrative burdens associated with the formation of the new unit are far outweighed by the additional royalty and tax benefits derived from any production that may occur if the exploration and development activity is successful. Under the initial POE with the requirement that a well be drilled in the next winter drilling season, it is expected that the leases will be explored quicker than if the leases are returned to the State and re-leased.

Therefore, the economic costs and benefits to the State of the proposed unit justify approval of the Application under the section .303(b)(5) criteria.



## **6. Amendments to the Standard Unit Agreement**

The Agreement defines the relationship between the unit operator, the WIO and the royalty owners. It describes the rights and responsibilities, in addition to those imposed by state law and the leases, of the operator, WIO, and royalty owners for exploration and development of the unit area.

As a part of the Application, EOC submitted the Agreement using the State Only Model Form, dated June 2002, including modifications requested by the Division. The final version of the Agreement is shown as Attachment 4. Modifications requested by the Division and incorporated into the final version are shown in Attachment 5.

## **7. EOC Lease Amendment Provision and Royalty Cost Structure**

All of the four EOC leases in the proposed unit contain overriding royalty interests that bring the total royalty obligation to 30 percent royalty, including the 12.5 percent to the State. In order to protect the state's interests, the leases include the following lease amendment provision:

All Lessees must first extinguish any and all overriding royalty interest before applying for royalty modification under AS 38.05.180 (j) or any other current or future royalty modification provision in statute or regulation.

The Division required this lease amendment as a condition of obtaining a short-term approval (EOC requested lease assignment approval "as soon as possible" due to its pending transaction related to project financing) of lease assignments from Escopeta Energy Company to EOC.

## **8. Elimination of FAO lease ADL # 390585**

As a part of this decision, the Division is excluding FAO lease ADL 390585 from the proposed unit. EOC shall submit revised Exhibits A and B reflecting the removal of ADL 390585 from the NAU within 30 days of approval of this decision.

While it is uncertain if ADL 390585 encompasses a portion of the reservoir, after the lease is removed from the NAU, the unit includes "part of one or more potential hydrocarbon accumulations" consistent with 11 AAC 83.356.

FAO did not ratify the Agreement or the Unit Operating Agreement and has provided comments neither supporting nor opposing unitization, and neither supporting nor opposing inclusion of their lease in the proposed NAU.

## FINDINGS

The Application meets the criteria in 11 AAC 83.303(a) as discussed below.

### **1. Promote the Conservation of All Natural Resources and Prevention of Economic and Physical Waste**

Unitization allows operations, exploration, and development to be conducted more efficiently across an entire unit area rather than on a lease basis. Infrastructure, such as production, gathering, and processing facilities can be shared rather than constructing stand-alone facilities on a lease-by-lease basis.

The formation of the NAU will allow state lands to be comprehensively and efficiently explored and developed. The Agreement and Unit Operating Agreement and completion of the initial POE and subsequent plans of exploration or development governing that production will help avoid unnecessary duplication of development efforts. Infrastructure can be shared to require fewer materials, less equipment and to minimize surface impacts, environmental risk, and waste, and to promote the conservation of resources.

Unitization also allows marginally economic reserves, which otherwise may not be economic on a lease-by-lease basis, to be produced in combination with more productive leases in a unit. The NAU combines state leases allowing economies of scale so that less productive areas may be developed along with the more productive areas. Providing access to marginal reserves within the NAU prevents the physical and economic waste of those reserves. The relatively high royalty burden creates some risk of economic waste if it were to preclude development. This risk is discounted, however, because the initial POE sets out a timely sequence of permitting and drilling activities that will facilitate the ultimate development and production of the reservoir, if oil and gas are discovered in commercial quantities and terminates the NAU, if certain milestones are not met.

Finally, unitization ensures an equitable allocation of costs and revenues commensurate with the value of the leases. Without an equitable cost-sharing formula, competing landowners or individual leasehold interests could produce reserves without regard to the impacts on recovery of other reserves owned by other leasehold interests. EOC and TLM both signed the Agreement and the Unit Operating Agreement. Although their working interests are currently the same across all four leases in the unit, interests could change or other WIOs could be farmed into the unit. When a participating area is formed, the unit operator shall establish a method to allocate costs and production to the proposed unit based on the geologic and geophysical information obtained by drilling.

Exploration and development of the leases under the initial POE will reduce the incremental environmental impact of production and will conserve natural resources and prevent economic and physical waste. Therefore, the Division's evaluation of the section .303(a)(1)(2) criteria supports approval of the Application.

## **2. Provide for the Protection of All Parties, Including the State**

The Agreement will protect the economic interests of the WIOs in the NAU, as well as the royalty owners. The WIOs interests are protected by the terms of the Agreement, which describes in detail how production will be managed, and establishes a framework for agreeing how to share costs and revenues within a participating area.

Before production commences from the NAU, a participating area must be formed and the reservoir(s) will be better defined. When a participating area application is filed, FAO and other adjacent landowners may evaluate whether additional leases should be included in the unit. The unit boundaries can be adjusted to be consistent with the geologic and geophysical information obtained by drilling.

The State's economic interest is protected because hydrocarbon recovery from the unitized area is more likely maximized than it would be on a lease-by-lease basis. Diligent development and exploration under a single approved unit plan promotes efficient and more economic evaluation and development of the State's resources while at the same time minimizing impacts to the area's cultural, biological, and environmental resources.

Also, the lease forms and the conditions of this decision provide, in part, that the state's royalty share will be free and clear of all lease expenses. Operating under the terms and conditions of the lease and unit agreement provides for accurate reporting and record keeping, royalty settlement, in-kind taking, and emergency storage of oil, all of which will further protect the state's interest.

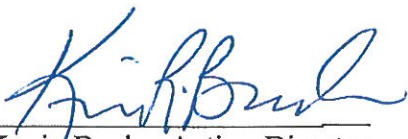
Future drilling, testing, and exploration will define the potential presence and lateral extent of hydrocarbons within the NAU, and provide for the protection of all parties in interest, including the State. The Division's evaluation of the section .303(a)(3) criteria and the modifications to the standard unit agreement supports approval of the Application.

## DECISION

- 1) For the reasons discussed above, I hereby approve the Application, subject to the conditions specified herein, including the terms and conditions in Attachments 1-5 to this decision. The Agreement and the initial POE become effective as of 12:01 a.m. on the day following approval by the Director.
- 2) The NAU will be administered by the Division under state statutes and regulations, the terms of these Findings and Decision, the leases, and the Agreement.
- 3) The FAO lease, ADL 390585, is hereby excluded from the proposed unit. EOC shall submit a revised Exhibits A and B reflecting the removal of the FAO lease from the NAU within 30 days from approval of this decision.
- 4) The NAU severs ADLs 389935, 389212, 389213, and 390586 to conform the boundary of the NAU to the known reservoir boundary based on available geologic and geophysical data to the extent possible. All acreage severed from existing leases, as a part of this decision, will continue under terms and conditions stipulated in the lease forms on which the leases were issued.
- 5) Under 11 AAC 83.301 – 11 AAC 83.395, the terms and conditions under which these lands were leased from the state, and any amendments to these leases, the leases listed in Attachment 1, and shown on Attachment 2, are included in the NAU, subject to exclusions set out in paragraph 3.
- 6) The operator shall submit updated Exhibits A and B to the Agreement within 30 days following approval by the Commissioner of any expansion or contraction of the unit area under Article 13 or any change of the working interest or royalty interest in any unit tract.
- 7) In accordance with the Agreement and 11 AAC 83.341, an annual report is due that describes operations conducted during each year of the initial POE. The annual report must describe EOC's exploration activities, including the bottom-hole location and depth of the required well. The annual report must also describe the operations conducted under the initial POE during the preceding year.
- 8) The unit operator shall submit a second POE to the commissioner at least 60 days before the initial POE expires. Alternatively, the unit operator shall request approval of the first POD, if appropriate, at least 90 days before the initial POE expires. 11 AAC 83.341(b) and 11 AAC 83.343(c).
- 9) EOC is designated unit operator.
- 10) An approved unit plan of operations must be obtained before commencing any operations in the unit area. Neither this decision, nor the initial POE, authorizes operations, or well testing for royalty accounting purposes, or otherwise. A separate approval must be obtained from the Division for all unit operations.
- 11) EOC shall incorporate the following terms into the next POE or POD: "EOC shall obtain approval from the Department of Natural Resources to establish an Initial Participating Area

within the NAU by December 31, 2010. Any lease, or portion of a lease in the NAU not included in an approved participating area by December 31, 2010, contracts out of the NAU.”

An eligible person affected by this decision may file an appeal, which must be made in accordance with 11 AAC 02 before any appeal can be filed in the Superior Court. Any appeal received by the commissioner’s office 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 Marty K. Rutherford, Acting Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by e-mail to [dnr\\_appeals@dnr.state.ak.us](mailto:dnr_appeals@dnr.state.ak.us). A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.



Kevin Banks, Acting Director  
Division of Oil and Gas

1-31-07

Date

- Attachments:
1. NAU Exhibit A, Tract Description and Ownership Schedule
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Attachment 1: NAU Exhibit A, Tract Description and Ownership  
Schedule

U.S. 11 2016

ESCOPEA OIL COMPANY, LLC  
EXHIBIT "A"  
NORTH ALEXANDER UNIT  
December 9, 2006

TRACT NUMBER	LEASE NUMBER	LEGAL DESCRIPTION	TRACT ACRES	ROYALTY & OTHER PERCENTAGE OF INTEREST	WORKING INTEREST OWNERS PERCENTAGE OF INTEREST
1	✓ AD-545935	1/4 SEC 15, T15N, R24W, Seward Meridian, 160.00 Acres, Unsurveyed All	160.00	State of Alaska Royalty Interest: 12.50% Escopea Oil Co. LLC 11.00% of 8/8 Darryl S. Dyer 1.00% of 8/8 Robert C. Walther 1.00% of 8/8 A. L. Henry 2.00% of 8/8 Taylor Minerals, LLC 1.00% of 8/8 Charles Maresy, Sr. & Trustee 0.20% of 8/8 of the Charles Maresy Living Trust; Medicine Bow Ventures, Ltd. Partnership 1.77% of 8/8 Medicine Bow Ventures, Ltd. Partnership 0.75% of 8/8 as a gift to Robert S. Dyer; Total OIR Reserved: 17.60% of 8/8	ESCOPEA OIL COMPANY, LLC 75% TAYLOR MINERALS, LLC 25%
2	✓ AD-545935	1/4 SEC 15, T15N, R24W, Seward Meridian, 3,683.00 Acres, Sections 1, 5 & Section 10, SE 1/4, Unsurveyed All	3,683.00	State of Alaska Royalty Interest: 12.50% Escopea Oil Company, LLC 13.00% of 8/8 Darryl S. Dyer 1.00% of 8/8 Robert C. Walther 1.00% of 8/8 Taylor Minerals, LLC 1.00% of 8/8 Charles Maresy, Sr. 0.10% of 8/8 Charles Maresy, Sr. & Trustee 0.10% of 8/8 of the Charles Maresy Living Trust; Timberline Ventures, Ltd. Partnership: 1.17% of 8/8 Timberline Ventures, Ltd. Partnership 0.10% of 8/8 as a gift to Robert S. Dyer; Total OIR Reserved: 17.60% of 8/8	ESCOPEA OIL COMPANY, LLC 75% TAYLOR MINERALS, LLC 25%
3	✓ AD-545935	1/4 SEC 15, T15N, R24W, Seward Meridian, 5,443.00 Acres, Sections 22, 23 & 24, Unsurveyed, All; Section 25, Unsurveyed, All, including the bed of the Seward River; Section 26 & 27, Unsurveyed All; Section 34, NW 1/4, Unsurveyed All; Section 35, Unsurveyed, All, including the bed of the Seward River; Section 36, Unsurveyed, All, including the bed of the Seward River; Section 36.	5,443.00	State of Alaska Royalty Interest: 12.50% Escopea Oil Co. LLC 17.00% of 8/8 Total OIR Reserved: 17.60% of 8/8	ESCOPEA OIL COMPANY, LLC 75% TAYLOR MINERALS, LLC 25%

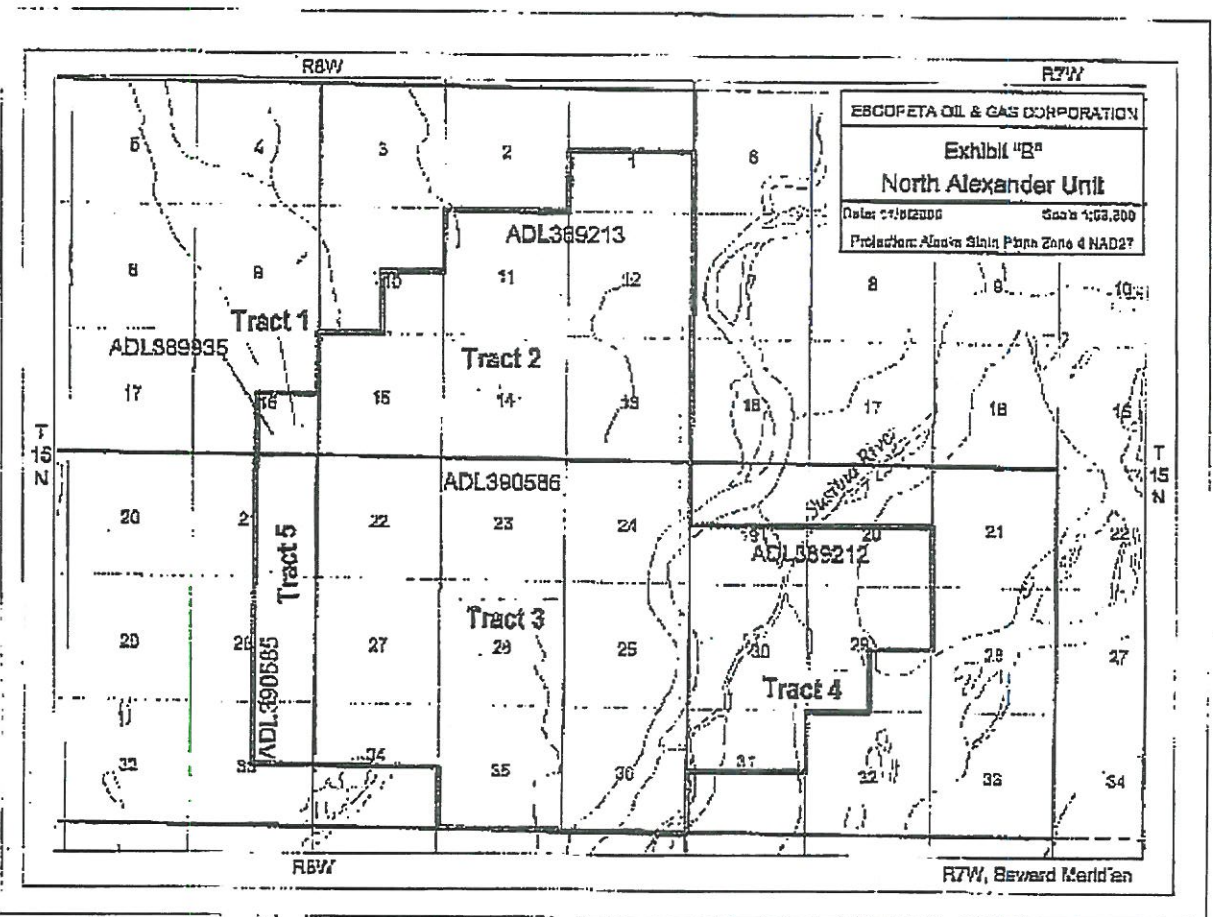


TRACT NUMBER	LEASE NUMBER	LEGAL DESCRIPTION	ACREAGE	ROYALTY & ORRI PERCENTAGE OF INTEREST	WORKING INTEREST OWNERS PERCENTAGE OF INTEREST
4	✓ ADL 383212	1156 H2V, Seward Matikan Section 18, S1/4, Unsurveyed, All, including the bed of the Susitna River; Section 20, S1/4, Unsurveyed, All, including the bed of the Susitna River; Section 28, 1/2, SW1/4, Unsurveyed, All, including the bed of the Susitna River; Section 30, Unsurveyed, All, including the bed of the Susitna River; Section 31, 1/2, Unsurveyed, All, including the bed of the Susitna River.  1/2 1/4, 1/2 20, 1/4 21, 1/2 21, 1/2 27, 1/2 27, 1/2 27	2,032.50	State of Alaska Royalty Interest 12.5% Eschscholtz Oil Co., LLC 13.00% of 2/8 Darryl S. Davis 1.00% of 2/8 Robert C. Warthen, LLC 1.00% of 2/8 Taylor Minerals LLC 1.00% of 2/8 Chase Morsey, Jr. 3.13% of 2/8 Chase Morsey Jr., as Trustee of the Chase Morsey Living Trust 3.13% of 2/8 Timberline Ventures Ltd. 1.17% of 2/8 Fathmalla; Timberline Ventures Ltd. as a gift on behalf of Susan B. Dunn Total ORRI Reserved: 17.50% of 2/8	LAURIE-ACOI COMPANY, LLC 75% TAYLOR MINERALS, LLC 25%
5	✓ ADL-380565	1156 H2V, "TRACT A" Seward Matikan Section 21, E 1/2, Unsurveyed, All Section 28, E 1/2, Unsurveyed, All Section 31, NE 1/4, Unsurveyed, All	800.00	State of Alaska Royalty Interest 12.5%	FOREST ALASKA OPERATING, LLC 100%
TOTAL UNIT ACREAGE			12,112.50 ACRES, TOTAL or less		

File: EXHIB 1A  
North Alexander Unit

## Attachment 2

### NAU Exhibit B, Map of the North Alexander Unit



LEC 11 2005

### **Attachment 3**

## **Exhibit G – NAU Initial Plan of Exploration**

The unit operator, Escopeta Oil Company, LLC (EOC), shall complete a two-year initial plan of exploration for the North Alexander Unit (NAU), effective February 1, 2007 to January 31, 2009.

#### **2007 - Year one work obligations - Permit one exploration well within the NAU:**

1. By December 31, 2007, EOC shall obtain an approved Dept. of Natural Resources, Division of Oil and Gas, Plan of Operations, and all other associated and required local, state, and federal permits necessary for drilling and associated activities within the NAU. By December 31, 2007, EOC shall provide written evidence to the Division that these permits have been obtained.
2. If EOC satisfactorily completes, as determined in the Division's sole discretion, all of the 2007 - Year one work obligations, the NAU will remain in effect.
3. If EOC fails to provide satisfactory evidence by December 31, 2007, as determined in the Division's sole discretion, that all of the 2007 - Year one work obligations as described in item 1 above are completed:
  - a. the NAU will automatically terminate at 5 p.m., Alaska time, on January 2, 2008;
  - b. EOC shall immediately surrender to the Division all leases in the NAU whose primary terms have expired and that do not contain a well certified by the Division, in its sole discretion, to be capable of production in paying quantities, as those terms are defined in the first sentence of 11 AAC 83.105, effective the day the NAU terminates.

#### **2008 - Year two work obligations - Drill an exploration well within the NAU:**

1. By December 31, 2008, EOC shall drill an Exploration Well within the NAU to a bottomhole location within ADL 389213, to a minimum total vertical depth (TVD) of 9000 feet and at a minimum penetrating the Beluga and Tyonek Formations. EOC shall provide the Division with all log data acquired (GR or SP, Resistivity and Neutron/Density or Porosity: appropriate triple combo log and other logs).
2. If EOC fails to drill an Exploration Well as described in item 1 above by December 31, 2008:
  - a. the NAU will automatically terminate at 5 p.m., Alaska time, on January 2, 2009;
  - b. EOC shall immediately surrender to the Division all leases in the NAU whose primary terms have expired and that do not contain a well certified by the Division, in its sole discretion, to be capable of

production in paying quantities, as those terms are defined in the first sentence of 11 AAC 83.105, effective the day the NAU terminates.

### **Additional Provisions**

- 1) EOC waives the extension provisions of 11 AAC 83.140, Article 15.2 of the Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 applicable to default and termination of the NAU.
- 2) In accordance with Article 8.1.1 of the Agreement and 11 AAC 83.341, an annual report is due that describes the status of projects undertaken and the work completed during that year of the POE, as well as any proposed changes to the plan. The update to the POE must describe EOC's proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated date drilling will commence. All exploration operations must be conducted under an approved plan of exploration.
- 3) The Unit Operator shall submit a Second Plan of Exploration to the Commissioner at least 60 days before the POE expires. Alternatively, the Unit Operator shall request approval of the first Plan of Development, if appropriate, at least 90 days before the initial POE expires. 11 AAC 83.341(b) and .343(c).
- 4) EOC shall incorporate the following terms into the next POE or POD: "EOC shall obtain approval from the Department of Natural Resources to establish an Initial Participating Area within the NAU by December 31, 2010. Any lease, or portion of a lease, in the NAU not included in an approved participating area by December 31, 2010, contracts out of the NAU."

## **Attachment 4**

### **North Alexander Unit Agreement**

## NORTH ALEXANDER UNIT AGREEMENT

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## RECITALS

All record owners of any right, title, or interest in the oil or gas reservoir or potential hydrocarbon accumulations to be included in this Unit have been invited to join 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, AS 31.05.

1.2 **Approved Unit Plan** means a Unit Plan that has been approved by the Commissioner.

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.

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

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

1.7 **Outside 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 approval of the Commissioner.

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

1.9 **Participating Area** means all Unit Tracts and parts of Unit Tracts designated as a Participating Area under Article 9 to allocate Utilized Substances produced from a Reservoir.

1.10 **Participating Area Expense** means all costs, expenses or indebtedness, which are incurred by the Unit Operator for production from or operations in a Participating Area and allocated to the Unit Tracts in that Participating Area.

1.11 **Paying Quantities** means a quantity of Utilized Substances sufficient to yield a return in excess of operating costs, over it drilling and equipment costs will never be repaid and the undertaking considered as a whole will 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.

1.12 **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.

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

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

1.15 **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.

1.16 **Unit Area** means the lands subject to this Agreement, described in Exhibit A and depicted in Exhibit U to this Agreement, submerged or not.

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

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

1.19 **Unit Operating Agreement** means the agreement(s) entered into by the Unit Operator and the Working Interest Owners, as described in Article 7.

1.20 **Unit Operations** means all operations conducted in accordance with an Approved Unit Plan or Approved Unit Plans.

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

1.22 **Unit Plan** means a unit plan of exploration or development as described in Article 8.

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

1.24 **Unit Tract Participation** means the percentage allocation credited to a Unit Tract in a Participating Area to allocate Unitized Substances.

1.25 **Unitized Substances** means all oil, gas and associated substances, as those terms are defined in the Leases, produced from the Leases within the Unit Area.

1.26 **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.

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

## ARTICLE 2: EXHIBITS

2.1 The following Exhibits are to be attached to and made a part of this Agreement. When this Agreement is approved, only Exhibits A, D, and G are required. Exhibit F is also required when this Agreement is approved, if the Unit Area includes Net Profit Share Leases. 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 number, the Lease number, the Working Interest ownership, the Royalty Interest ownership, and the applicable royalty and net profit share rates applicable to each Unit Tract. Within thirty days after approval by the Commissioner of any expansion or contraction of the Unit Area under Article 13 or any change of the Working Interest or 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 thirty days after the Commissioner approves any expansion or contraction of the Unit Area under Article 13 or any change of the Working Interest or Royalty Interest in any Unit Tract, 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, agent descriptions, Lease numbers, Working Interest ownership, Royalty Interest ownership, and 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 thirty 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 or 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 thirty days after approval by the Commissioner of a Participating Area or any expansion or contraction of a Participating Area under Article 9 or any change of the Working Interest or Royalty Interest in any Unit Tract in a Participating Area, 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 required by the regulations, and 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 so that Unit Operations will be conducted as if the Unit Area was a single Lease.

3.2 So long as this unit remains in effect, each Lease in the Unit Area shall continue in effect.

3.3 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 nonunitized 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. If a lease has a well certified as capable of production in paying quantities on it before commitment to this Agreement, the lease will not be severed by unitization. If any portion of the Lease is included in a Participating Area formed under this Agreement, the entire Lease will remain committed to this Agreement and the Lease will not be severed.

3.4 Production of Unitized Substances in Paying Quantities from any part of a Participating Area shall be considered production from each Unit Tract in the Participating Area. It shall cause the portion of each Lease that is wholly or partially within the Participating Area to continue in effect as if a well were producing from each Unit Tract in the Participating Area.

3.5 The provisions of the various Leases and agreements pertaining to the respective Leases or production from those Leases are amended only to the extent necessary to make them conform to the written provisions of this Agreement. Otherwise, the provisions of those Leases and agreements shall remain in full force and effect.

3.6 This Agreement shall not be construed to transfer title to Oil and Gas Rights by any party to any other party or to the Unit Operator.

3.7 All data and information determined by the Commissioner to be necessary for the administration of this Agreement or for the performance of statutory responsibilities shall be provided by the Unit Operator, or Working Interest Owners, or both, upon written request. All data and information provided to the Commissioner shall be protected from disclosure under the Lease, governing law, and regulations.

### ARTICLE 4: DESIGNATION OF UNIT OPERATOR

4.1 Escopeta Oil Company is designated as the Unit Operator. Escopeta Oil Company agrees to accept the rights and obligations of the Unit Operator to conduct Unit Operations and to explore for, develop and produce Unitized Substances as provided in this Agreement.

4.2 Except as otherwise provided in this Agreement 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. The Unit Operator shall minimize and consolidate surface disturbances to minimize surface impacts.

## ARTICLE 5: RESIGNATION OR REMOVAL OF UNIT OPERATOR

5.1 The Unit Operator shall have the right to resign at any time. The Unit Operator's resignation shall not become effective until: 1) sixty 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, 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 shall 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 shall 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 or interest or obligations as a Working Interest Owner or other interest in the Unit Area. A termination of the Unit Operator's rights, title or interest 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, a successor Unit Operator may be designated as provided in the Unit Operating Agreement. The successor Unit Operator must accept the rights and obligations of a Unit Operator in writing. The successor Unit Operator shall 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 sixty days after notice to the Commissioner of the resignation or removal of a Unit Operator, the Commissioner will, in his or her discretion, designate another Working Interest Owner as successor Unit Operator, or declare the Agreement terminated.

## ARTICLE 7: UNIT OPERATING AGREEMENT

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

7.2 Any allocation described in the Unit Operating Agreement will not bind the State in determining or settling royalties and net profit share payments. Allocations of Unit Expenses, Participating Area Expenses, or Utilized 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 thirty 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 one or more Unit Operating Agreements and amendments, other rights and obligations between the Unit Operator and the Working Interest Owners. The Unit Operating Agreement will not modify any term or obligation of this Agreement. If the terms of this Agreement and the Unit Operating Agreement conflict, this Agreement will prevail.

7.4 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 must have an approved permit to drill 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 will 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 will 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 filed 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 all other Unit Operating Agreements and any amendments to them will also be filed with the Commissioner within thirty days of execution and at least thirty 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. Approved Unit Plans are incorporated into this Agreement and become effective on the date of their approval.

8.1.1 A unit plan of exploration ("Plan of Exploration") shall describe the proposed exploration and delineation activities for any land in the Unit Area that is not in a Participating Area. Plans of Exploration shall comply with 11 AAC 83.34 and any successor regulation. The Unit Operator shall submit updated Plans of Exploration to the Commissioner for approval at least sixty days before the current Plan of Exploration expires.

8.1.2 A unit plan of development ("Plan of Development") shall include a description of the proposed development activities based on data available when the plan is submitted. Plans of Development shall comply with 11 AAC 83.343 and any successor regulation. The Unit Operator shall submit updated Plans of Development to the Commissioner for approval at least ninety days before the current Plan of Development expires.

8.1.3 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 leasee advisories developed for the most recent State acrewide lease sale in the region that includes the unit 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 ninety 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 call 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. If a well has been drilled in the Unit Area prior to the Effective Date of this Unit Agreement or is being drilled within the Unit Area on the Effective Date, that well will be considered a Unit Well as of the Effective Date of this Agreement.

8.6. The Commissioner will, in the agency's discretion, approve any injection of Outside Substances or Outside PA Substances within the Unit Area. Any injection of Outside 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 six months before Sustained Unit Production from a Reservoir in the Unit Area. A Participating Area shall include only land that is reasonably known to be underlain by Unitized Substances and known or reasonably estimated through the use of geological, geophysical and engineering data to be capable of producing or contributing to production of Unitized Substances in Paying Quantities. The Unit Operator must receive approval from the Commissioner of a Participating Area before commencement of Sustained Unit Production. The Unit Operator shall notify the Commissioner before the commencement of Sustained Unit Production from each Participating Area.

9.2. Each application for approval of a Participating Area shall include Exhibits C, D, E, and G. Exhibit F is also required if the Unit Area includes Net Profit Share Leases. If approved by the Commissioner, the area described in Exhibit C and depicted in Exhibit D shall be a Participating Area, and the allocation of Participating Area Expenses and Unit Expenses described in Exhibits E and F shall 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 shall be no later than the date of the first Sustained Unit Production. The Commissioner will establish the effective date of each later Participating Area.

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

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

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

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

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

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

9.10. The Commissioner must approve the deemed recovery rate and commencement date for recovery before any Outside Substance is injected within the Unit Area.

9.11. After giving written notice to the Unit Operator and an opportunity to be heard, the Commissioner will, in his or her discretion, require the Unit Operator to modify from time to time the rate of prospecting and development and the quantity and rate of production from a Participating Area.

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

#### ARTICLE 10: OFFSET WELLS

10.1. The Unit Operator shall drill such wells as a reasonable and prudent operator would drill to protect the State from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas is produced 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, and that well produces oil or gas for a period of 30 consecutive days in quantities that would appear to a reasonable and prudent operator to be sufficient to recover ordinary costs of drilling, completing, and producing an additional well in the same geological structure at an offset location with a reasonable profit to the operator, and if, after notice to the Unit Operator and an opportunity

in 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 according to 11 AAC 83.371 and any successor regulation. The Unit Operator shall submit a proposed allocation plan, with supporting data, to the Commissioner for approval. The Commissioner will, in his or her discretion, revise the proposed allocation plan if it does not equitably allocate production and costs from the Reservoir. The Commissioner will give the Unit Operator and Working Interest Owners reasonable notice and an opportunity to be heard before revising the Unit Operator's proposal. The allocation plan must be revised whenever a Participating Area is expanded or contracted. Within thirty 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 Utilized Substances allocated to each Unit Tract shall be deemed to have been produced from that Unit Tract.

11.3 The Working Interest Owners may allocate Utilized Substances, Participating Area Expenses, and Unit Expense differently than described in Exhibits C, E and F. However, that allocation shall not be effective for determining royalty or net profit share payments. The Unit Operator shall submit any allocation which is different than the allocations required in Exhibit C, E or F to the Commissioner under 11 AAC 83.371(2) for the State's information within ten days of its effective date with a statement explaining the reason for the different allocation.

11.4 Royalties shall not be due or payable to the State for the portion of Utilized 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 shall 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 Utilized Substances that are sold, traded or assigned, including sales, transactions, or assignments among the Working Interest Owners.

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

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

12.1. The Working Interest Owners must pay rentals and royalty payments due under the Leases. Payments to the State shall be made in accordance with the applicable State regulations, 11 AAC 24 and 11 AAC 83.110.

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 Utilized Substances produced; 2) the amount of Utilized Substances used for development and production or unavoidably lost; 3) the total amount of Utilized Substances allocated to each Unit Tract 4) the amount of Utilized Substances

a) beated to each Unit Tract and delivered in kind as royalty to the State; and G) the amount of Unitized Substances allocated to each Unit Tract for which royalty is to be or has been paid to the State.

12.3. Each Working Interest Owner shall pay its share of royalties to the State on Unitized Substances as provided in this Lease, except "leased areas" shall mean 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, manufacturing costs. These excluded expenses also include the costs of gathering and preparing the Unitized Substances for transportation off the Unit Area and transportation costs incurred within the Unit Area. No lien for any expenses shall attach to royalty Unitized Substances. The royalty share shall 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—1' AAC 83.229, all royalty reductions for transportation, including 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. These transportation costs must be determined by taking into account all tax benefits applicable to the transportation.

12.6. The Unit Operator shall give the Commissioner notice of the anticipated date for commencement of production at least six months before the commencement of Sustained Unit Production from a Participating Area. The Commissioner may take 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 Unitized Substances in-kind. After taking has actually commenced, the Commissioner may increase or decrease the amount of Unitized Substances taken in-kind by not more than 10 percent, upon 30 days written notice to the Operator; and greater than 10 percent, upon 90 days written notice to the Operator.

12.6.1. The Commissioner will, in his or her discretion, elect to specify the Unit Tracts from which royalty Unitized Substances taken in-kind are to be allocated.

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 place mutually agreeable place. The State will, in its discretion, designate any individual, firm or corporation to accept delivery.

12.6.3. Royalty Interest Unitized Substances delivered in-kind shall be delivered in good and merchantable condition and be of pipeline quality. These substances shall be free and clear of all lease expenses, Unit Expenses, and Participating Area Expenses, and free of any lien for those excluded Expenses. These excluded expenses include, but are not limited to, expenses for separating, cleaning, dehydration, saltwater removal, processing, compression, pumping, manufacturing, and the costs of gathering and preparing the Unitized Substances for transportation off the Unit Area and transportation costs within the Unit Area. 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 Unitized Substances 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 ratified 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 royalty Unitized Substances does not take delivery of Unitized Substances, the State will, in its discretion, elect, without penalty, to underrill for up to six months. The



State will, in its discretion, underlift all or a portion of these 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 shall give the Unit Operator written notice thirty days before the first day of the month in which the underlifted royalty Unitized Substances are to be recovered. The State will in its discretion, recover at a daily rate not exceeding 25 percent (25%) of its share of daily production, unless otherwise agreed.

12.8. The Unit Operator shall maintain records, and shall keep and have in its possession books and records including expense records, of all exploration, development, production, and disposition of all Unitized Substances and Outside Substances. Each Working Interest Owner shall maintain records of the disposition of its portion of the Unitized Substances and Outside Substances including sales prices, volumes, and purchasers. The Unit Operator and the Working Interest Owners shall permit the Commissioner to examine these 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 office designated by the Commissioner. 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 and consistently apply generally accepted accounting procedures.

12.9. If a Lease committed to this Agreement specifies the amount of rent due, that Lease is amended to require that rentals due be calculated under A.S. 30.05.180(n), as amended. If a Lease committed to this Agreement requires payment of minimum royalty, that Lease is amended to delete that minimum royalty obligation. The rental due under State law, as amended, must be paid in lieu of minimum royalty.

12.10. All rights and obligations relating to the State's net profit share will be determined in accordance with 11 AAC 83.201 - 11 AAC 83.295, as amended, notwithstanding any contrary Lease term. The State may audit the net profit share reports or payments due for any Lease within ten years of the year of production of Unitized Substances in Paying Quantities. The period of limitations for the State to file a lawsuit relating to an audit of a net profit share report or payment shall 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 until the audit period has expired.

#### ARTICLE 13: UNIT EXPANSION AND CONTRACTION

13.1. The Unit Operator, at its own election may, or at the direction of the Commissioner shall, apply to expand the Unit Area to include any additional lands determined to overlie a Reservoir that is at least partially within the Unit Area, or to include any additional lands that facilitate production. The Commissioner will give the Unit Operator reasonable notice and an opportunity to be heard before any directed expansion of the Unit Area. 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 expansion shall not be effective until approved by the Commissioner.

13.2. Ten years after Sustained Unit Production begins, the Unit Area must be contracted to include only those lands then included in an approved Participating Area, lands included in an Approved Unit Plan of Exploration or Development, and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, re Injection, or cycling operations. The Commissioner may, after considering the provisions of 11 AAC 83.333, delay contraction of the Unit Area if the circumstances of a particular unit warrant. If a portion of a lease contracts out of the unit, that portion will be severed and treated as a separate and distinct lease, which may be maintained thereafter only in accordance with the terms and conditions of the original lease. The Working Interest Owners waive the provisions of 11 AAC 83.253(b) which protect the Lease from severance when a portion of a lease is contracted out of the Unit Area.

13.3. Not sooner than 10 years after the effective date of this Agreement, the Commissioner may contract the Unit Area to include only that land covered by an Approved Unit Plan of Exploration or Development, or that area underlain by one or more oil or gas reservoirs or one or more potential hydrocarbon accumulations and lands that facilitate production if a portion of a Lease contracts out of the Unit Area, that portion will be severed and treated as a separate and distinct lease, which may be maintained thereafter only in accordance with the terms and conditions of the original lease. The Working Interest Owners waive the provisions of 12 AAC 83.056(a) which protect the Lease from severance when a portion of a Lease is contracted out of the Unit Area. Before any contraction of the Unit Area under this Article 13.3, the Commissioner will give the Unit Operator, the Working Interest Owners, and the Royalty Interest Owners of the Leases or portions of Leases being excluded reasonable notice and an opportunity to be heard.

13.4. The Commissioner will give the Unit Operator reasonable notice and an opportunity to be heard before any contracted contraction of the Unit Area. The Unit Operator shall notify the Working Interest Owners of any proposed, directed, or approved contraction of the Unit Area. Any unit contraction shall not be effective until approved by the Commissioner.

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

13.6. Within thirty 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. This Agreement is effective as of 12:01 a.m. on the day after the Commissioner approves it. 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. This Agreement is binding upon each party who signs any counterpart.

14.2. Subject to the terms and conditions of the Approved Unit Plan, this Agreement 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; or

14.2.2. The unit term is extended with the approval of the Commissioner. An extension shall not exceed five years.

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

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

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



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

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

15.2. Each Lease committed to this Agreement on the day that this Agreement terminates shall remain in force for an extension period of ninety days, or any longer period which may be approved by the Commissioner. 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 the unit, the Unit Operator will be directed in writing by the Commissioner and 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, all improvements such as roads, ditches, and wells must either be abandoned and the sites re-soliflated 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 shall have the same effect as if all parties had signed a single original of this Agreement. Within thirty days after approval by the Commissioner of any change of the Working Interest ownership of Oil and Gas Rights in any Unit Tract, the Unit Operator shall submit a revised Exhibit 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 shall 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 will change its notice address by giving thirty days written notice to the State and the other Working Interest Owners. The State will change its notice address by giving thirty days written notice to the Unit Operator.

Address of the Unit Operator:

Fax:

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 206  
Anchorage, Alaska 99501-3560  
Fax: (907) 269-8938

**ARTICLE 19: JOINDER**

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

**ARTICLE 20: DEFAULT**

20.1 The Commissioner will, in his or her discretion, 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, is a default under this Agreement. The failure to comply because of force majeure is not a default.

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 shall be at least thirty days for a failure to pay rentals or royalties and ninety days for any other default.

20.3 If there is no well certified as capable of producing Unitized Substances in Paying Quantities and a default is not cured by the date indicated in the demand, the Commissioner will, in his or

her discretion terminate this Agreement after giving the Unit Operator notice and an opportunity to be heard. The Commissioner will give notice, by mail, of the termination, which is effective upon mailing the notice.

20.4 If there is a well capable of producing Un'ized Substances in Paying Quantities and the operations to cure the default are not completed by the date indicated in the contract, the Commissioner will terminate this Agreement by judicial proceedings.

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

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

WORKING INTEREST OWNERS

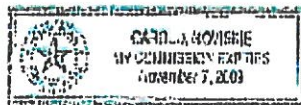
By: DSD, DANNY S DAVIS  
FEES, PRES  
Escapado DTP Company, LLC  
(Company Name, signatory's printed name and title)

Date: 12/7/06

THE UNITED STATES OF AMERICA )  
§  
STATE OF TEXAS )

This certifies that on December 7th, 2006, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared Danny S Davis, President Escapado DTP Company, LLC, 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.



Carla Kowalski  
NOTARY PUBLIC in and for the State of Texas  
My Commission Expires 11/7/08

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

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

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

THE UNITED STATES OF AMERICA )  
§  
STATE OF TEXAS )

This certifies that on December \_\_\_\_\_, 2006, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared \_\_\_\_\_ known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

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

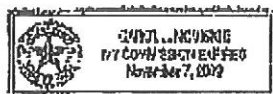
NOTARY PUBLIC in and for the State of Texas  
My Commission Expires \_\_\_\_\_

Real Estate WORKING INTEREST OWNERS  
By: [Signature] Date: 12-11-06  
Robert G. [Signature]  
President, [Signature] Alaska LLC  
(Company Name, signatory's printed name and title)

STATE OF ALASKA 1st )  
County of [Signature] ) §  
THIRD JUDICIAL DISTRICT )

This certifies that on November 11, 2006, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared [Signature], 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 Alaska, STATE OF ALASKA  
My Commission Expires: 11/7/12

By: \_\_\_\_\_ Date: \_\_\_\_\_  
\_\_\_\_\_  
(Company Name, signatory's printed name and title)

STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT ) §

This certifies that on November \_\_\_\_\_, 2006, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared \_\_\_\_\_, known to me to be the person described in, and who executed the foregoing agreement who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

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

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

**Attachment 5: Modifications to State Model form in North  
Alexander Unit Agreement**



**Amendments to the State Only Model Form, dated December 2005**

*NOTE: Text that is underlined indicates where text has been added and text that has the strikethrough font indicates where text has been deleted.*

**ARTICLE 9: PARTICIPATING AREAS**

*9.1 Amend the last sentence to read:*

The Unit Operator shall notify the Commissioner ~~before the~~ of commencement of Sustained Unit Production ~~within 10 days after commencement~~ from each Participating Area.

*9.8.1 Amend the first sentence to read:*

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.

**ARTICLE 11: ALLOCATION OF PRODUCTION**

*11.1 Amend the fourth sentence to read:*

The Commissioner will give the Unit Operator and Working Interest Owners reasonable notice and an opportunity to be heard before revising the Unit Operator's proposal.

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

*12.1 Amend article to read:*

The Working Interest Owners shall pay rentals and royalty payments due under the Leases. Payments to the State must be made in accordance with the applicable State regulations, 11 AAC 04 and 11 AAC 83.110. These payments must be made to any depository designated by the State with at least sixty days notice to the Unit Operator and the Working Interest Owners.

*12.4 Amend third sentence to read:*

These excluded expenses also include the costs of gathering and preparing the Unitized Substances for transportation off the Unit Area and gathering and transportation costs incurred within the Unit Area. ~~incurred before the Unitized Substances are delivered to a common carrier pipeline.~~

*12.5 Amend article to read:*

Notwithstanding any contrary lease term or provision in 11 AAC 83.228-11 AAC 83.229, all royalty deductions for transportation, including 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. These transportation costs must be determined by taking into account all tax benefits applicable to the transportation.

*12.6 Amend article to read:*

The Unit Operator shall give the Commissioner notice of the anticipated date for commencement of production at least six months before the commencement of Sustained Unit Production from a Participating Area. The Commissioner may take Unitized Substances in-kind in accordance with the following: ~~Within ninety days of receipt of that notice, The Commissioner will give the Working Interest Owners Unit Operator 90 days written notice of its the State's initial elections to take Unitized Substances in-kind all, none, a specified percentage, or a specified quantity of its royalties in any Unitized Substances produced from the Participating Area. After taking has actually commenced, the Commissioner will, in his or her discretion, may increase or decrease (including ceasing to take royalty Unitized Substances in-kind) the amount of royalty Unitized Substances the State takes taken in-kind by not more than 10 percent upon 30 days written notice to the Unit Operator; and greater than 10 percent, upon 90 days written notice to the Unit Operator. The Commissioner shall give written notice to the Working Interest Owners ninety days before the first day of the month in which an increase or decrease is to be effective.~~

*12.6.3 Amend article to read:*

Royalty ~~interest~~ Unitized Substances delivered in kind shall be delivered in good and merchantable condition and be of pipeline quality. ~~Those substances shall be free and clear of all lease expenses, Unit Expenses, and Participating Area Expenses, and free of any lien for those excluded Expenses. These excluded expenses include, but are not limited to, expenses for separating, cleaning, dehydration, saltwater removal, processing, compression, pumping, manufacturing, and the costs of gathering and preparing the Unitized Substances for transportation off the Unit Area and transportation costs within the Unit Area. 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 will, in its discretion, may require that a Working Interest Owner also process the State's share of natural gas Unitized Substances 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.~~

*12.8 Replace article to read:*

The Unit Operator shall maintain records, ~~and~~ shall keep and have in its possession books and records including expense records, of all exploratory, development, production, and disposition of all Unitized Substances and Outside Substances. Each Working Interest Owner shall maintain

records of the disposition of its portion of the Unitized Substances and Outside Substances including sales prices, volumes, and purchasers. The Unit Operator and the Working Interest Owners shall permit the Commissioner or its agents to examine these 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 office designated by the Commissioner. 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 and consistently apply generally accepted accounting procedures.

*12.10 Amend second sentence to read:*

The State will, in its discretion, may audit the net profit share reports or payments due for any Lease within ten years of the date year of production of Unitized Substances in Paying Quantities.

*13.2 Amend Article to read:*

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, lands included in an Approved Unit Plan of Exploration or Development, and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, re-injection, or cycling operations. The Commissioner ~~will, in the Commissioner's discretion~~ 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 a portion of a lease contracts out of the unit, that portion will be severed and treated as a separate and distinct lease, which may be maintained thereafter only in accordance with the terms and conditions of the original lease. The Working Interest Owners waive the provisions of 11 AAC 83.356(b), which protect the Lease from severance when a portion of a lease is contracted out of the Unit Area. 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 the unit. The portion of the Lease outside the Participating Area will continue in full force and effect as long as production is allocated to the unitized portion of the Lease and the lessee satisfies the remaining terms and conditions of the Lease.

*13.3 Amend Article to read:*

Not sooner than 10 years after the effective date of this Agreement, the Commissioner ~~will, in the Commissioner's discretion, may~~ 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. If a portion of a Lease contracts out of the Unit Area, that portion will be severed and treated as a separate and distinct lease, which may be maintained thereafter only in accordance with the terms and conditions of the original lease. The Working Interest Owners waive the provisions of 11 AAC 83.356(e),

which protect the Lease from severance when a portion of a Lease is contracted out of the Unit Area. Before any contraction of the Unit Area under this Article 12.3, the Commissioner will give the Unit Operator, the Working Interest Owners, and the royalty-Royalty Interest owners Owners of the Leases or portions of Leases being excluded reasonable notice and an opportunity to be heard.

**Attachment 6**

**Comments and Correspondence**







January 5, 2007

Mr. Art Copoulos  
Petroleum Land Manager  
Division of Oil and Gas  
550 West 7<sup>th</sup> Ave #800  
Anchorage, Alaska 99501

Dear Art:

I am copying to you an e-mail that was copied to me from Mr. Jim Arlington of Forest Oil. As of today, July 5, 2007, Forest should have received a Federal Express package covering the information needed for Forest to evaluate its possible participation in Escopeta's Kitchen and North Alexander Units.

Once again I need to point out that the addition of Forest Oil's acreage being ADL #389923 and ADL #389507 was included in Escopeta's Kitchen Unit by accident and Escopeta does not wish to have these ADL's included in Escopeta's Kitchen Unit. The same circumstance holds true for the North Alexander Unit and Forest Oil's ADL #390585. Escopeta does not wish to include this ADL in on the North Alexander Unit.

It is my understanding of Mr. Arlington's letter to you that Forest wants to keep their acreage on Kitchen and North Alexander out of Escopeta's Units. Escopeta is in full agreement with Forest on this matter and also wishes Forest success in its separate exploration ventures outside of Escopeta's Units less the Forest acreage mentioned above. I hope that the State of Alaska will work with both Forest and Escopeta regarding this matter at the administrative level. Escopeta also requests that this e-mail not be part of the "public comment" concerning either Unit Applications since this letter is also a clarification of a prior communication made before the public comment period was opened regarding the application to establish our Units.

In closing Escopeta does not need any of Forest Oil's acreage to complete its Units for Kitchen and North Alexander. As mentioned in earlier correspondence Forest's acreage was included by mistake. Please let me know what to do regarding this matter.

Thank you,



Danny S. Davis

Attachment