

**APPROVAL IN PART OF THE APPLICATION TO FORM
THE WEST EAGLE UNIT**

Findings and Decision of the Director
of the Division of Oil and Gas
Under a Delegation of Authority
from the Commissioner of the State Of Alaska
Department of Natural Resources

February 14, 2013

TABLE OF CONTENTS

I	INTRODUCTION AND DECISION SUMMARY	Page 3
II.	APPLICATION AND LEASE SUMMARY	Page 3
III.	DISCUSSION OF DECISION CRITERIA	Page 5
	A. Decision Criteria considered under 11 AAC 83.303(b)	
	1. Environmental Costs and Benefits	
	2. Prior Exploration Activities in the Proposed Unit Area	
	3. Geological and Engineering Characteristics	
	4. Plans of Exploration	
	5. The Economic Costs and Benefits to the State	
	6. Other Relevant Factors	
	B. Decision Criteria considered under 11 AAC 83.303(a)	
	1. Promote the Conservation of All Natural Resources	
	2. The Prevention of Economic and Physical Waste	
	3. The Protection of All Parties of Interest, Including the State	
IV.	THE UNIT AGREEMENT	Page 13
V.	FINDINGS AND DECISION	Page 14

ATTACHMENTS

1. WEU Proposed Exhibit A
Map of Proposed Unit Area
2. WEU Proposed Exhibit B
Description of Lands within the Proposed Unit
3. WEU Exhibit G, Proposed Plan of Exploration, July 13, 2012
4. WEU Exhibit G, Proposed Plan of Exploration, October 19, 2012
5. Map of Lands within the Approved WEU
6. Description of Lands within the Approved WEU
7. Description of Leases Severed from Approved WEU
8. Confidential Attachment: Geological, Geophysical and Engineering Analysis
(The above-noted attachment is held confidential under AS 38.05.035(a)(8)(c))

I. INTRODUCTION AND DECISION SUMMARY

The State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) received the Application for the Formation of the West Eagle Unit (Application), on July 13, 2012 from the sole working interest owner of the leases, Buccaneer Alaska, LLC, (Buccaneer). The proposed West Eagle Unit (WEU) covers approximately 46,395 acres. Attachments 1 and 2 set out Exhibits A and B to the proposed unit agreement, and Attachments 3 and 4 set out Exhibit G to the proposed unit agreement. The Division also received an Initial Plan of Exploration (“POE”) with Buccaneer’s application. Buccaneer revised its proposed POE on October 19, 2012 to include additional work commitments, including a proposal for performance bonding.

Buccaneer’s application is granted in part and denied in part. As discussed below, the Division finds that on balance, approving a unit promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties of interest, including the State. Approving a unit agreement here is thus advisable to protect the public interest.

Not all of the acreage Buccaneer proposes supports forming a unit. “A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.” 11 AAC 83.356(a). As discussed below, Buccaneer submitted confidential geological, geophysical, and engineering data. This data demonstrates a potential hydrocarbon accumulation in the proposed unit area, but does not support forming a unit for all of the acreage Buccaneer proposes. Thus DNR is approving the WEU for the area that includes all or part of the identified potential hydrocarbon accumulation, and denying Buccaneer’s application for the remaining areas. Of the nine leases proposed for inclusion in the WEU, portions of three are approved for inclusion in the WEU (see Attachments 5, 6, and 7). The approved WEU consists of 8,843 acres.

II. APPLICATION AND LEASE SUMMARY

Buccaneer submitted the Application on July 13, 2012, and simultaneously paid the \$5,000.00 application filing fee, in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(D), respectively. The Application included: the unit operating agreement; the unit agreement form (State form); Exhibit A to the unit agreement (Attachment 1 to this decision), a map of the proposed unit; Exhibit B to the unit agreement (Attachment 2), legally describing the proposed unit, its leases, and ownership interests ; and Exhibit G, Proposed Plan of Exploration (Attachment 3), for the WEU.

The Division notified Buccaneer by letter dated July 27, 2012, that the Application was incomplete. The initial Application did not include the following items required under 11 AAC 83.306: (1) the unit agreement executed by the proper parties; (2) the unit operating agreement executed by the working interest owner; (3) evidence that all proper parties to

the unit agreement were invited to join the unit; and (4) all the pertinent technical information to support the application. Buccaneer submitted the remaining items between July 27, 2012 and September 24, 2012. The Division deemed the Application complete on October 4, 2012

Buccaneer submitted an updated Exhibit G (Attachment 4) on October 18, 2012 to reflect changes to the proposed Plan of Exploration.

The Division published a public notice in the “*Anchorage Daily News*” on October 14, 2012 and in the “*Homer News*” on October 11, 2012, under 11 AAC 83.311. Copies of the Application and the public notice were also provided to the Alaska Department of Environmental Conservation, the Kenai Peninsula Borough, the City of Kenai, the Village of Tyonek, the Salamatof Native Association, Cook Inlet Region, Incorporated, the Soldotna Postmaster, and the radio station KDLL in Kenai. The notice was also published on the State of Alaska Public Notice website and the Division’s website. The public notice invited members of the public to submit comments by November 14, 2012.

The Division received numerous comments regarding the Application, which are discussed below.

Buccaneer proposed including the following leases in the WEU:

ADL	State Royalty Interest %	Lease Effective Date	Lease Primary Term	Working Interest Owners and Percentage	Lease Expiration Date
391145	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
391144	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
391625	12.5	3/1/2011	5	Buccaneer 100%	2/28/2016
391141	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
391146	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
391149	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
391142	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
391147	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012

391148	12.5	10/1/2007	5	Buccaneer 100%	9/30/2012
--------	------	-----------	---	----------------	-----------

The Division’s findings below limit the WEU to the following land: ADL 391144 Sections 2, 3, 10, 11, 14, and 15 excluding lands owned by other mineral owners, ADL 391145 Sections 4, 8, 9, 16 and 17 and ADL 391625 Sections 20, 21, 28 and 29. For ease of discussion, references to the proposed unit leases refer to these three leases only, unless otherwise specified.

A decision to form a unit does not authorize any on-the-ground activities. Units are formed to ensure oil and gas resources are developed in a manner that conserves natural resources, prevents waste, and protects the rights interested persons and entities, including the state.

III. DISCUSSION OF DECISION CRITERIA

A unit may be formed to conserve the natural resources of all or a part of an oil or gas pool, field, or like area when determined and certified to be necessary or advisable in the public interest (AS 38.05.180(p)). “[C]onservation of the natural resources of all or part of an oil or gas pool, field or like area’ means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources.” 11 AAC 83.395(1).

The DNR Commissioner (Commissioner) reviews applications related to units under 11 AAC 83.303-11 AAC 83.395. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Division Director.

DNR will approve a proposed unit upon a finding that it will (1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area; (2) promote the prevention of economic and physical waste; and (3) provide for the protection of all parties of interest including the state. 11 AAC 83.303(a).

In evaluating these three criteria, DNR will consider (1) the environmental costs and benefits of unitized exploration or development; (2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization; (3) prior exploration activities in the proposed unit area; (4) the applicant’s plans for exploration or development of the unit area; (5) the economic costs and benefits to the state; and (6) any other relevant factors, including measures to mitigate impacts identified above, the commissioner determines necessary or advisable to protect the public interest. 11 AAC 83.303(b).

A discussion of the subsection (b) criteria, as they apply to the Application, is set out directly below, followed by a discussion of the subsection (a) criteria.

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

1. Environmental Costs and Benefits

Whether or not the leases are unitized should not generate significant environmental costs or benefits. Since all of the leases have the same lessee, DNR expects that Buccaneer would develop these leases to have no greater or lesser impact to the environment than if it develops the leases as a unit. Thus oil and gas activities on these leases may affect the environment, but unitization itself should not create either a cost or benefit to the environment.

As discussed below, DNR is granting a unit for only three of the nine leases Buccaneer proposed for the WEU. The leases not included in the WEU are past their term and have terminated. Excluding these leases thus eliminates the immediate risk of environmental impact to that land. Two of the three leases in the approved WEU would also terminate if DNR did not grant the unit, thus eliminating the immediate risk of impact to that land. All of the potentially terminated leases, however, would likely be included in a future area lease sale. Thus termination of these leases does not permanently remove them from potential development or environmental impact from oil and gas development.

As far as the environmental costs and benefits from exploration and development activities in the WEU, the proposed unit area is habitat for various mammals, waterfowl, and fish. Area residents may use this area for subsistence hunting and fishing. Oil and gas activity in the proposed unit area may affect some wildlife habitat and some subsistence activity.

Multiple comments submitted to DNR discussed environmental impacts, impacts to surface land use such as grazing lands, and sound and light pollution. DNR imposed lease stipulations to mitigate potential environmental impacts when it approved the sale of those leases. Buccaneer will remain subject to these mitigation measures if its leases are combined into a unit. Mitigation measures for these leases include measures to locate facilities away from bodies of water and drinking water sources, minimize disturbance of wildlife and habitats, minimize risk from the storage, transportation, and disposal of hazardous substances, and rehabilitate the land upon termination of the leases. DNR may impose additional mitigation measures when Buccaneer proposes specific activities. The Unit Operator must obtain approval of a plan of operations from the DNR before drilling a well or wells or initiating development activities to produce reservoirs within the unit area. 11 AAC 83.346. When DNR reviews a plan of operations, it may also amend the plan to add additional mitigation measures that are necessary to protect the state's interest, including the state's interest in protecting the environment. 11 AAC 83.346(e). Buccaneer will also need to obtain various permits and approvals from state or federal agencies before proceeding with exploration or development activities in the WEU. These agencies will conduct their own review and consideration of environmental costs and benefits.

One public comment was received concerning drilling on private surface lands involved in the proposed unit. Before a plan of operations can be approved the lessee shall provide for full payment of all damages sustained by the owner of the surface estate.

Comments to DNR also included questions about the safety measures and equipment required for drilling. These activities are not affected by a unit decision. The Alaska Oil and Gas Conservation Commission (AOGCC) regulates drilling equipment, procedures and well construction standards in Alaska and all activities must meet these criteria.

DNR received several public comments raising concerns about water sources and disposal of drilling fluids. The risk to water sources from drilling fluids disposal should not differ significantly if Buccaneer develops these leases as individual leases or as a unit. To the contrary, if DNR denied the unit, two of the three leases will terminate and those leases could later be acquired by a different lessee, which would not have to coordinate its development activities with Buccaneer. Uncoordinated development has the potential to create a greater impact to water sources. It is important to note that water use and disposal are separately regulated by DNR, the Department of Environmental Conservation, and the AOGCC. Proposed activities will thus be subject to further review by these agencies before Buccaneer may proceed.

2. Prior Exploration Activities in the Proposed Unit Area

Two exploration wells have been drilled in the area of the proposed West Eagle Unit. The Anchor River #1 well was drilled under a Federal Unit approved in 1961 covering over 16,000 acres of mostly Federal leases. The South Caribou Hill Unit #1 well was drilled under a State Unit issued in 1969 covering over 32,000 acres of mostly State leases.

The Anchor River #1 well was completed in December 1961 as a straight hole by Standard Oil Company of California (SOCAL) to a total depth of 6,896' measured depth (MD) on Federal lease A028477, located in NE ¼ Sec 29, T4S, R11W, Seward Meridian, approximately 16 miles northeast of Homer. Tertiary age Sterling, Beluga, and Tyonek Formations were encountered in the well before entering undifferentiated Mesozoic age metasedimentary rock at 6,720' MD. The Anchor River #1 well was not drill-stem tested nor did it show signs of oil on the mud log. The only strong gas shows were associated with coal; however, the mud log did show weak indications of gas associated with lower Beluga and Tyonek sands. Ten feet of conventional core was cut from 6,886'-6,896' MD at the base of the well within the Mesozoic section, of which only 2-3 feet were recovered. An undisclosed number of sidewall cores were collected from unspecified depths. At the time of drilling, the most proximal well to Anchor River #1 was the Deep Creek #1-RD well drilled approximately 17 miles northwest by the same company in 1958. SOCAL relinquished the Federal Unit after drilling the Anchor River #1 well.

The South Caribou Hill Unit #1 well was completed in April 1970 as a straight hole by Gulf Oil Company to a total depth of 10,091' MD located in NE ¼ Sec 24, T4S, R12W,

Seward Meridian, approximately two miles west-northwest of the Anchor River #1 well. A much thicker Tertiary section is present in this well than in the Anchor River #1 well. This Tertiary section is comprised of Sterling, Beluga, Tyonek, Hemlock and West Foreland Formations to a depth of 9,964' MD versus Sterling, Beluga, and Tyonek Formations to a depth of 6,720' MD in the Anchor River #1 well. The South Caribou Hill Unit #1 well was not drill-stem tested nor did it show signs of oil on the mud log. The mud log did show weak indications of gas associated with the Tyonek Formation. Twenty-seven sidewall cores (½" to 2" in length) were collected between 3,030'-10,035' MD. Sidewall cores taken from the Sterling Formation indicated fair porosity and permeability; however, deeper sidewall cores taken from the Beluga and Tyonek Formations indicated tight rock matrix with poor porosity and permeability. Sidewall cores taken from the Hemlock and West Foreland Formations indicated abundant clayey matrix with sheared bentonitic sandstone grading into altered volcanics. It is possible the oil and gas discoveries approximately 13 miles west-southwest in the North Fork Unit #41-35 well in 1965 may have influenced Gulf Oil Company's decision to drill the South Caribou Hill Unit #1 well in 1970.

Multiple 2D seismic surveys have been acquired (shot) over the proposed West Eagle Unit boundary, with the latest being acquired in 1981. No 3D surveys exist over the proposed boundary; the closest existing 3D survey was acquired 13 miles west-southwest over the North Fork Unit. The existing 2D surveys were generally acquired in a loose grid of dip lines approximately 1-mile apart with strike lines spaced approximately 2-3 miles apart. The data quality is generally poor, probably as a result of the rough terrain and low fold in the area. Buccaneer has however reprocessed a grid of 2D seismic lines, which has improved the interpretability of the data.

3. Geological and Engineering Characteristics

Geologic and geophysical data provided by Buccaneer in support of the application to form the West Eagle Unit included reprocessed 2D seismic sections and interpretations, seismic amplitude interpretations, mapped seismic horizons, geologic cross sections, well log displays, magnetic maps and interpretations, and regional magnetic, seismic and geologic maps. At Buccaneer's request, all proprietary data and interpretations will be held confidential in accordance with AS 38.05.035(a)(8)(C).

The prospects and leads generated by Buccaneer are combination stratigraphic and structural traps potentially located in Tertiary and Mesozoic sections. Based on the data Buccaneer submitted, the Division has determined that there is a potential hydrocarbon accumulation underlying the portions of the three leases that are being included in the WEU. For the land listed in Buccaneer's application that is not being included in the WEU, the potential hydrocarbon accumulations are not sufficiently delineated to be included in a unit. An explanation of the Division's interpretation of the data is set forth in a confidential attachment to this decision. (See Attachment 8) Because the contents of this attachment discuss information that DNR is holding confidential under AS 38.05.035(a)(8)(C), DNR is holding the attachment confidential under this statute as well.

4. Plans of Exploration

Buccaneer submitted an initial Unit Plan of Exploration (POE), as part of the Application, and met with the Division for a technical presentation on June 18, 2012. In the initial POE Buccaneer proposed to drill the West Eagle No. 1 well on Tract 1 (ADL391145) to test a seismic anomaly in the Tyonek and Hemlock Formations on or before September 30, 2012. If Buccaneer failed to commence operations to drill the initial well by September 30, 2012, the WEU would terminate, all expired leases would terminate, and Buccaneer would be released from all further obligations. Buccaneer further proposed drilling a second well within tracts ADL 391146, ADL 391149, ADL 391142, ADL 391147, and ADL 391148 by September 30, 2014.

Buccaneer submitted a revised POE on October 19, 2012 that added additional commitments. In the revised POE, attached to the unit agreement as Exhibit G (Attachment 4), Buccaneer committed to start operations to drill a gas well by July 1, 2013. Similar to the initial POE, Buccaneer stated that if it failed to commence operations to drill the initial well by July 1, 2013, Buccaneer will voluntarily terminate the WEU. Buccaneer further acknowledged that by voluntarily terminating the WEU, the leases in the WEU that are past the primary term by the date of unit termination would terminate as well. Buccaneer also states that upon voluntarily terminating the WEU, it will "be released from all further obligations," meaning that it will no longer be obligated to meet the work commitments in the POE.

The revised POE proposes additional work commitments for certain leases by September 30, 2014, but DNR is not including those leases in the WEU. Including those leases in the WEU is not supported by geologic and geophysical data.

By phone discussion January 3, 2013 Buccaneer proposed a revision to the terms of the proposed POE as follows:

Buccaneer has agreed to terminate the unit if it fails to drill and test or plug the West Eagle No. 1 well and to post two \$600,000.00 bonds to support its commitment to drill and test or plug the West Eagle No. 1 well. Specifically,

A. Buccaneer shall drill and test or plug and abandon the West Eagle No. 1 well by September 1, 2013 to the shallower of the Tyonek intervals as seen between 4,965 feet and 5,100 feet in the Socal #1 Anchor River well or 6,000 feet TVD.

B. Buccaneer will furnish two bonds in the amount of \$600,000.00 in the favor of DNR. If the West Eagle No. 1 is spudded before September 1, 2013, one bond will be released by DNR. If the West Eagle No. 1 is tested, or plugged and abandoned before September 1, 2013, in the

shallower of the Tyonek intervals as seen between 4,965 feet and 5,100 feet in the Socal #1 Anchor River well or 6,000 feet TVD, the second bond will be released by DNR.

C. Buccaneer will submit the performance bonds within 30 days of this decision or approval of the Plan of Operations by the DNR, whichever is later.

This revised POE insures that the Approved WEU will be drilled and tested or plugged. Unitization is not necessary to conduct exploration activities which could be carried out under the terms of an existing lease. The State benefits from the greater ultimate recovery which results from development and production of a pool reservoir which has been discovered by drilling and evaluated by testing.

5. Economic Costs and Benefits to the State

DNR has an obligation to protect the public's interest in maximizing economic and physical recovery from the state's oil and gas resources. AS 38.05.180(a)(1)(A). Maximizing economic recovery of hydrocarbons ensures royalty and tax revenues, and increased employment opportunities over the long-term. Realization of these potential benefits requires exploration and development of state oil and gas properties.

Since Buccaneer is the lessee on all of the leases in the WEU, DNR would not expect Buccaneer to explore and develop the land differently as a unit than as individual leases. Accordingly, the potential economic costs and benefits to the State of potential development should not differ significantly whether or not the leases are unitized.

In approving the unit agreement, however, DNR is also approving the POE attached to that agreement, as revised by Buccaneer. Buccaneer's POE offers protections to the State's economic interests. As discussed above, Buccaneer has agreed to post two \$600,000.00 bonds to support its commitments. Approval of the West Eagle Unit, conditioned by the West Eagle No. 1 drilling commitment, protects the public interest and State's economic interests by ensuring that Buccaneer will drill.

The primary term of ADL 391145 and ADL 391144 would have expired September 30, 2012 if not under a pending unit application. Portions of ADL 391145 and ADL 391144 and ADL 391625 will be severed and not included in the unit. The nonunitized portions are assigned ADL 392388, ADL 392387, and ADL 392389 respectively. The primary term of ADL 392388, ADL 392387, and ADL 392389 (see Attachment 7) will be extended for two years, the maximum time allowed under 11 AAC 83.373(b).

6. Other Relevant Factors

Public commenters raised a number of issues in addition to those discussed above. Several commenters raised concerns with the fact that most of the leases Buccaneer included in its application have now expired. The Alaska Supreme Court, in *Allen v.*

Alaska Oil & Gas Conservation Commissioner, 1 P.3d 699 (Alaska 2000), held that an agency's approval of an application may apply retroactively to the date of the application. Buccaneer submitted its unit application before any of the leases expired, and DNR is granting in part its application. Thus the fact that leases have since expired does not preclude DNR from approving a unit with those leases. By statute, those leases are automatically extended by being included in the unit. AS 38.05.180(m). This extension is not indefinite; AS 38.05.180(m) sets forth specific conditions for the extension and the leases can terminate if the conditions are not met.

Several commenters asked to extend the public comment period or for DNR to hold a public hearing. The Director considered these requests, but determined that the Division had complied with the public notice requirements for a unit application set forth in 11 AAC 83.311, and that the extension and hearing requests did not demonstrate any inadequacy of those requirements or failure to meet them. The extension and hearing requests are denied.

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

Considering the 11 AAC 83.303(b) issues discussed above, DNR now evaluates the criteria for approving the unit agreement and POE.

1. Promote the Conservation of All Natural Resources

A unit agreement must "promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area." 11 AAC 83.303(a)(1).

A unit may be formed under AS 38.05.180(p) "[t]o conserve the natural resources of all or a part of an oil or gas pool, field, or like area." Conservation in this context means "maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources." 11 AAC 83.395(9). The unitization of oil and gas reservoirs or accumulations is a well-accepted means of hydrocarbon conservation. Unitization, with development occurring under the terms of a unit agreement, can promote efficient evaluation and development of the State's resources, and minimize impacts to the area's cultural, biological, and environmental resources.

Unitization here provides some marginal degree of conservation. Since Buccaneer is the sole lessee and working interest owner, it is unlikely that development would proceed differently in a unit or on a lease-by-lease basis. Thus in the immediate term, the unit agreement does not significantly promote conservation of either the oil and gas or other natural resources. This agreement will remain in force for the life of the unit, however, and will bind any new working interest owners who acquire interest in the oil and gas resources. Leases owned by different lessees need not be developed in a coordinated or joint manner to conserve the oil and gas resources or minimize adverse impacts to the surface. But by unitizing these leases, DNR ensures that they will be developed jointly, even if the leases are later transferred to different lessees or if leases with different

lessees are added to the unit. Joint development promotes conservation of oil and gas resources by maximizing more efficient recovery than if these particular leases were developed individually on a lease-by-lease basis. Joint development for these leases may also impact less surface acreage than development on a lease-by-lease basis, thus reducing the potential adverse impacts to land, fish, and wildlife. Thus approving the unit promotes conservation for the future should Buccaneer not remain the sole working interest owner.

2. The Prevention of Economic and Physical Waste

A unit agreement must “promote the prevention of economic and physical waste.” 11 AAC 83.303(a)(2).

Unitization, as opposed to activity on a lease-by-lease basis, may prevent economic and physical waste. Economic waste is often referred to as the drilling of wells in excess of the number necessary for the efficient recovery of the oil and gas in place. Physical waste, among other things, includes the inefficient, excessive, or improper use of, or unnecessary dissipation of, reservoir energy.

These examples of economic and physical waste typically result from different lessees developing their leases in furtherance of their own individual interests rather than together in a joint development. Since Buccaneer is the sole lessee here, there is little risk that Buccaneer would develop these leases inefficiently. But again, the unit agreement must be joined by new working interest owners who acquire interest in Buccaneer’s leases or who otherwise join the unit. Approving the unit promotes the prevention of economic and physical waste for the future should Buccaneer not remain the sole working interest owner.

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

A unit agreement must “provide for the protection of all parties of interest, including the state.” 11 AAC 83.303(a)(3).

As the working interest owner, Buccaneer has an interest in exploring and developing the oil and gas resources. Buccaneer would benefit from unitization of these leases because a unit will ensure that the potential hydrocarbon accumulation is explored and developed as a unit, even if Buccaneer’s leases are later transferred to another lessee or if the accumulation proves to expand beyond these leases and other leases with different lessees later join the unit.

The State has an interest in protecting both its own sovereign interests and the interests of the people. The people of Alaska have an interest in both the conservation of natural resources for human use and development of the State’s oil and gas resources to maximize the economic and physical recovery of the resources. AS 38.05.180(a)(1); AS 44.37.020(a). It is further in the state’s best interest to encourage assessment of oil and

gas resources, recognize the costs of exploring in varied geographic regions, and minimize the adverse impact of exploration, development, production, and transportation activity. AS 38.05.180(a)(2). Many members of the public have also raised individual concerns about or support for this unit. These concerns fall generally within the State's interests — including minimizing adverse impacts and conserving natural resources.

The unit agreement protects the State's interests by setting forth terms under which these leases will be jointly developed even if additional lessees later acquire interest in the leases or additional leases join the unit. Joint development conserves the oil and gas resources, reduces the risk of waste, and reduces inefficient or excess surface impact, thereby minimizing the adverse impacts to the environment. The unit agreement also includes a POE that includes specific work commitments and disincentives for Buccaneer to fail to meet those agreements. The POE thus protects the State and public interests in assessing oil and gas resources and maximizing development of those resources.

The operating agreement provides for accurate reporting and record keeping, State approval of operating procedures, royalty settlement, in-kind taking, and emergency storage of oil and gas, all of which will further the State's interest.

IV. THE UNIT AGREEMENT

Buccaneer (Buccaneer Alaska, LLC) submitted a unit agreement, and signed it as the sole working interest owner. Unless modified by the Commissioner or with the Commissioner's approval, a unit agreement should be consistent with the standard state unit agreement form. 11 AAC 83.326. Buccaneer's executed unit agreement is consistent with the standard form.

The proper parties to a unit agreement are the record owners of right, title, or interest in a potential unit's oil or gas reservoir or potential hydrocarbon accumulation. 11 AAC 83.328(a). Here, Buccaneer is the sole owner of interest in the potential hydrocarbon accumulation under the terms of the leases and thus a proper party to a unit agreement.

Through oil and gas leases, the State confers its interest in exploring and producing oil and gas resources to the lessee for the term of the lease. Accordingly, the State is not presently a record owner of interest in the oil and gas in the WEU potential hydrocarbon accumulation, and would not be a proper party to the agreement. The State has not signed the unit agreement as a party and DNR's approval of the unit agreement is not in the capacity of a party.

The unit operator, Buccaneer Alaska Operations, LLC, signed the agreement to acknowledge its designation as operator. Buccaneer Alaska Operations, LLC is not a working interest owner and does not have a direct interest in the potential hydrocarbon accumulation. Buccaneer Alaska Operations, LLC's signature thus acknowledges its

designation of and obligations as the unit operator, but does not make it a party to the agreement itself.

DNR approves a unit agreement at the formation of the unit and the unit remains in force for the term of the agreement. 11 AAC 83.336. By signing the unit agreement as a party, Buccaneer has stipulated to be bound by its terms. If additional working owners join the unit — such as by expansion of the unit to include other leases or by Buccaneer transferring interest in its leases — the new working interest owners must sign and become parties to the unit agreement. In the event that additional working interest owners enter the unit agreement, the unit agreement will become an agreement between all of the working interest owners.

V. FINDINGS AND DECISION

A. The Conservation of All Natural Resources

State regulations define “conservation” for purposes of oil and gas leasing as “maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources.” 11 AAC 83.395(9). Since the leases in the WEU have potential hydrocarbon accumulation, formation of the WEU ensures joint development of that accumulation, even if Buccaneer does not remain the sole lessee. Joint exploration and development under the unit agreement will maximize the efficient recovery of oil and gas and minimize the adverse impacts on the surface and other resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.

B. The Prevention of Economic and Physical Waste

Buccaneer submitted confidential geological, geophysical, and engineering data to the Division in support of the Application. Based on that data, DNR finds that there is a potential hydrocarbon accumulation, but that this accumulation applies to portions of three leases, not all nine of the leases that Buccaneer included in its application. Since there is a potential hydrocarbon accumulation, joint development of the three leases will prevent economic and physical waste. Formation of the WEU ensures joint development, even if Buccaneer does not remain the sole lessee.

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

1. The unit as approved protects all parties’ interests including the State and the

people of Alaska who have an interest in the development of the State's oil and gas resources to maximize the economic and physical recovery of the resources while minimizing adverse impacts.

2. Buccaneer is the only proper party to the unit agreement at this time, and thus all proper parties to the agreement are protected.
3. Buccaneer holds sufficient interest in the unit area to give reasonably effective control of operations.
4. The Division complied with the public notice requirements of 11 AAC 83.311. Requests to expand those requirements by extending the public comment period or holding a hearing are not justified in this instance and are therefore denied.
5. The WEU Agreement provides for additional expansions and contractions of the unit area in the future, as warranted by data obtained by exploration or otherwise. The WEU Agreement thereby protects the public interest, the rights of the parties, and the correlative rights of adjacent landowners.
6. The approved unit is effective retroactively to September 30, 2012.
7. ADL391144 is segregated as to lands committed to the WEU and as to lands not committed to the WEU. 11 AAC 83.373(a). Upon unitization that portion of ADL391144 not committed to the unit is severed, assigned a new lease number, ADL392388, and granted a two-year extension of the lease term with an expiration date of September 30, 2014. 11 AAC 83.373(b).
8. ADL391145 is segregated as to lands committed to the WEU and as to lands not committed to the WEU. 11 AAC 83.373(a). Upon unitization that portion of ADL391145 not committed to the unit is severed, assigned a new lease number, ADL392387, and granted a two-year extension of the lease term with an expiration date of September 30, 2014. 11 AAC 83.373(b).
9. Buccaneer will submit revised West Eagle Unit Exhibits A, B and G which comport with this decision within 30 days of the issuance of this decision.

For the reasons discussed above, I hereby approve the unit agreement and formation of the West Eagle Unit in part. I approve including the following area in the unit: ADL 391144 Sections 2, 3, 10, 11, 14 and 15 excluding lands owned by other mineral owners, ADL 391145 Sections 4, 8, 9, 16 and 17, ADL 391625 Sections 20, 21, 28 and 29, (see Attachment 5).

I deny the unit application as to all other leases or parts of leases.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d) and may be mailed or delivered to Daniel S. Sullivan, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

If you have any questions regarding this decision, contact Kevin Pike with the Division at 907-269-8451, or by email at Kevin.Pike@alaska.gov.



W.C. Barron
Director
Division of Oil and Gas

2/14/13

Date

cc: Department of Law

ATTACHMENTS

1. WEU Proposed Exhibit A
Map of Proposed Unit Area
2. WEU Proposed Exhibit B
Description of Lands within the Proposed Unit
3. WEU Exhibit G, Proposed Plan of Exploration, July 13, 2012
4. WEU Exhibit G, Proposed Plan of Exploration, October 19, 2012
5. Map of Lands within the Approved WEU
6. Description of Lands within the Approved WEU
7. Description of Leases Severed from Approved WEU
8. Confidential Attachment: Geological, Geophysical and Engineering Analysis
(The above-noted attachment is held confidential under AS 38.05.035(a)(8)(c))

ATTACHMENT ONE
WEU Unit Proposed Exhibit A
Map of Proposed Unit Area

JUL 13 2012

Tract 7
ADL391142
3840 acres

Tract 4
ADL391141
5723 acres

Oil

T3S R12W

T4S R12W

Tract 8
ADL391147
5738 acres

Tract 5
ADL391146
5124.17 acres

T3S R12W

T4S R12W

T3S R11W

T4S R11W

Tract 1
ADL391145
5721.15 acres

Tract 2
ADL391144
5011.12 acres

T3S R11W

T4S R11W

Tract 9
ADL391148
5111.56 acres

Tract 6
ADL391149
4478.44 acres

Tract 3
ADL391625
5647.6 acres

T4S R12W

T4S R12W

T4S R11W

T4S R11W

T5S R13W

T5S R12W

T5S R12W

T5S R11W

T5S R11W



S.M.

EXHIBIT A

WEST EAGLE UNIT

BUCCANEER ALASKA, LLC

ATTACHMENT TWO
WEU Unit Proposed Exhibit B
Description of Lands within the Proposed Unit

Exhibit "B"
Attached to that certain West Eagle Unit Agreement

Tract No.	Lease No.	Effective Date	Legal Description	Acres	Royalty Owner Percentage	Lessors of Record	Working Interest	ORRI Owners	ORRI Percentage			
1	ADL-397145	10/1/07	T. 4S., R. 11W., Tract B, Seward Meridian, Alaska									
			Section 4, Unsurveyed, All;	640.00	State of Alaska	Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.250000%			
			Section 5, Unsurveyed, All;	640.00	12.5%				Buccaneer Royalties, LLC	3.500000%		
			Section 6, Unsurveyed, All;	631.00					Woodstone Resources, LLC	0.750000%		
			Section 7, Unsurveyed, All;	633.00					Benchmark Oil & Gas Company	4.500000%		
			Section 8, Unsurveyed, All;	640.00					TOTAL	11.000000%		
			Section 9, Unsurveyed, All;									
			Section 15, Surveyed, All;	632.34								
			Section 17, Surveyed, All;	634.04								
			Section 18, Surveyed, All;	530.77								
			TOTAL	5721.15								
			2	ADL-397144	10/1/07	T. 4S., R. 11W., Tract A, Seward Meridian, Alaska						
						Section 11, Surveyed, SE1/4SE1/4;	40.00	State of Alaska	Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.250000%
						Section 13, Surveyed, All;	631.12	12.5%				Buccaneer Royalties, LLC
Section 14, Surveyed, NE1/4, S1/2, E1/2E1/2NW1/4;	500.00								Woodstone Resources, LLC	0.750000%		
T. 4S., R. 11W., Tract B, Seward Meridian, Alaska									Benchmark Oil & Gas Company	4.500000%		
Section 1, Unsurveyed, All;	640.00								TOTAL	11.000000%		
Section 2, Unsurveyed, All;	640.00											
Section 3, Unsurveyed, All;	640.00											
Section 10, Unsurveyed, All;	640.00											
Section 12, Unsurveyed, All;	640.00											
Section 15, Surveyed, All;	540.00											
TOTAL	5011.12											
3	ADL-397625	3/1/11				T. 4S., R. 11W., Tract B, Seward Meridian, Alaska						
						Section 19, Unsurveyed, All;	634.00	State of Alaska	Buccaneer Alaska, LLC	100.00%	Buccaneer Royalties, LLC	3.500000%
			Section 20, Unsurveyed, All;	637.88	12.5%				Stellar Oil & Gas, LLC	3.000000%		
			Section 21, Unsurveyed, All;	639.02					TOTAL	6.500000%		
			Section 30, Unsurveyed, All;	636.00								
			Section 31, Unsurveyed, All;	636.00								
			Section 32, Unsurveyed, All;	640.00								
			T. 4S., R. 11W., Seward Meridian, Alaska									
			Section 28, Surveyed, All;	639.90								
			Section 29, Surveyed, All;	640.00								
			Section 33, Surveyed, E1/2, N1/2SW1/4, E1/2NW1/4, SW1/4NW1/4, S1/2NW1/4NW1/4;	540.00								
			TOTAL	5647.80								
			4	ADL-397141	10/1/07	T. 3S., R. 11W., Tract B, Seward Meridian, Alaska						
						Section 19, Unsurveyed, All;	626.00	State of Alaska	Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.250000%
Section 20, Unsurveyed, All;	640.00	12.5%							Buccaneer Royalties, LLC	3.500000%		
Section 21, Unsurveyed, All;	640.00								Woodstone Resources, LLC	0.750000%		
Section 26, Unsurveyed, All;	640.00								Benchmark Oil & Gas Company	4.500000%		
Section 29, Unsurveyed, All;	640.00								TOTAL	11.000000%		
Section 30, Unsurveyed, All;	628.00											
Section 31, Unsurveyed, All;	629.00											
Section 32, Unsurveyed, All;	640.00											
Section 33, Unsurveyed, All;	5723.00											
TOTAL												

JUL 13 2012



Exhibit "B"
Attached to that certain West Eagle Unit Agreement

<u>Tract No.</u>	<u>Lease No.</u>	<u>Effective Date</u>	<u>Legal Description</u>	<u>Acres</u>	<u>Royalty Owner Percentage</u>	<u>Lessors of Record</u>	<u>Working Interest</u>	<u>ORRI Owners</u>	<u>ORRI Percentage</u>			
5	ADL-391148	10/1/07	T. 4S., R. 12W., Tract A, Seward Meridian, Alaska			Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.250000%			
			Section 1, Unsurveyed, All;	640.00	State of Alaska				Buccaneer Royalties, LLC	3.500000%		
			Section 2, Unsurveyed, All;	640.00	12.5%				Woodstone Resources, LLC	0.750000%		
			Section 3, Unsurveyed, All;	640.00					Benchmark Oil & Gas Company	4.500000%		
			Section 10, Unsurveyed, All;	640.00					TOTAL	11.000000%		
			Section 11, Unsurveyed, All;	639.17								
			Section 12, Unsurveyed, All; excluding U.S. Survey 4719;	640.00								
			Section 14, Unsurveyed, All;	640.00								
			Section 15, Unsurveyed, All;	640.00								
			Special Survey	5.00								
U.S. Survey 4719 with Sections 12 and 13;	5124.17											
TOTAL												
6	ADL-391149	10/1/07	T. 4S., R. 12W., Tract A, Seward Meridian, Alaska			Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.250000%			
			Section 22, Unsurveyed, All;	640.00	State of Alaska				Buccaneer Royalties, LLC	3.500000%		
			Section 23, Unsurveyed, All;	640.00	12.5%				Woodstone Resources, LLC	0.750000%		
			Section 24, Surveyed, All;	639.44					Benchmark Oil & Gas Company	4.500000%		
			T. 4S., R. 12W., Seward Meridian, Alaska						TOTAL	11.000000%		
			Section 25, Surveyed, All;	640.00								
			Section 26, Surveyed, All;	640.00								
			Section 27, Surveyed, All;	640.00								
			Section 36, Surveyed, All;	640.00								
			TOTAL	4478.44								
7	ADL-391142	10/1/07	T. 3S., R. 12W., Seward Meridian, Alaska			Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.750000%			
			Section 23, Surveyed, by Protraction, All;	640.00	State of Alaska				Buccaneer Royalties, LLC	3.500000%		
			Section 24, Surveyed, by Protraction, All;	640.00	12.5%				Woodstone Resources, LLC	0.750000%		
			Section 25, Surveyed, by Protraction, All;	640.00					Huckabay Exploration Company, LLC	0.500000%		
			Section 26, Surveyed, by Protraction, All;	640.00					Mark R. Landt & Carol L. Landt	0.600000%		
			Section 35, Surveyed, by Protraction, All;	640.00					Strong Energy Resources, LLC	0.500000%		
			Section 38, Surveyed, by Protraction, All;	640.00					Rutter & Wilbanks Corporation	2.500000%		
			TOTAL	3640.00					Total	11.000000%		
			8	ADL-391147	10/1/07	T. 4S., R. 12W., Tract A, Seward Meridian, Alaska			Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC	2.750000%
						Section 4, Unsurveyed, All excluding U.S. Survey 4718;	635.00	State of Alaska				Buccaneer Royalties, LLC
Section 5, Unsurveyed, All;	640.00	12.5%							Woodstone Resources, LLC	0.750000%		
Section 6, Unsurveyed, All;	831.00								Huckabay Exploration Company, LLC	0.500000%		
Section 7, Unsurveyed, All;	633.00								Mark R. Landt & Carol L. Landt	0.600000%		
Section 8, Unsurveyed, All;	640.00								Strong Energy Resources, LLC	0.500000%		
Section 9, Unsurveyed, All;	640.00								Rutter & Wilbanks Corporation	2.500000%		
Section 16, Unsurveyed, All;	640.00								Total	11.000000%		
Section 17, Unsurveyed, All;	640.00											
Section 18, Unsurveyed, All;	634.00											
Special Survey	5.00											
U.S. Survey 4718;	5735.00											

Exhibit "B"
Attached to that certain West Eagle Unit Agreement

<u>Tract No.</u>	<u>Lease No.</u>	<u>Effective Date</u>	<u>Legal Description</u>	<u>Acres</u>	<u>Royalty Owner Percentage</u>	<u>Lessee of Record</u>	<u>Working Interest</u>	<u>ORRI Owners</u>	<u>ORRI Percentage</u>
9	ADL-391148	10/1/07	T. 4S., R. 12W., Tract A, Seward Meridian, Alaska Section 19, Unsurveyed, All; Section 20, Unsurveyed, All; Section 21, Unsurveyed, All; T. 4S., R. 12W., Seward Meridian, Alaska Section 28, Surveyed, All; Section 29, Surveyed, All; Section 30, Surveyed, All; Section 31, Surveyed, All; Section 32, Surveyed, All; TOTAL	696.00 640.00 640.00 640.00 637.48 638.08 640.00 5111.56	State of Alaska 12.5%	Buccaneer Alaska, LLC	100.00%	Stellar Oil & Gas, LLC Buccaneer Royalties, LLC Woodstone Resources, LLC Huckabay Exploration Company, LLC Mark R. Landt & Carol L. Landt Strong Energy Resources, LLC Rutbar & Wilbanks Corporation Total	2.750000% 3.500000% 0.750000% 0.500000% 0.500000% 2.500000% 11.000000%
				TOTAL	46395.04				

ATTACHMENT THREE

WEU Exhibit G, Proposed Plan of Exploration, July 13, 2012

West Eagle Unit Agreement

EXHIBIT "G"

INITIAL UNIT PLAN OF EXPLORATION

Buccaneer Alaska Operations, LLC ("Buccaneer"), as a result of the detailed mapping of magnetic, gravity and geochemistry data in the West Eagle Unit Area and the reprocessing and interpretation of approximately 233 miles of 2D Seismic, has identified a potentially commercial accumulation of hydrocarbons on the West Eagle structure. Buccaneer intends to drill the first well to identify a potential gas source in the Hemlock formation. Buccaneer has 100% Working Interest in nine (9) leases in the proposed West Eagle Unit which comprise a total of approximately 46,395.04 acres.

Buccaneer proposes an initial two year (3-Year) Initial Plan of Exploration (Initial POE) for the West Eagle Unit. Prior to September 30, 2012, Buccaneer, in its capacity as the West Eagle Unit Operator, plans to drill the West Eagle No. 1 Well on Tract 1 (ADL 391145) to test a seismic anomaly in the Tyonek and Hemlock formations.

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

West Eagle Exploration Block A (Block A)

- a. Tract 1: ADL 391145
- b. Tract 2: ADL 391144
- c. Tract 3: ADL 391625
- d. Tract 4: ADL 391141

West Eagle Exploration Block B (Block B)

- a. Tract 5: ADL 391146
- b. Tract 6: ADL 391149
- c. Tract 7: ADL 391142
- d. Tract 8: ADL 391147
- e. Tract 9: ADL 391148

The Unit Operator shall submit to the Division the Second POE at least sixty days prior to the expiration of the Initial POE. The Second POE will describe plans for either drilling and completion of the second unit exploration well within Exploration Block B by September 30, 2014 or the completion of a new 3D seismic program. The Working Interest Owners (WIO's) agree that failure to either drill the second exploration well or complete the 3D seismic program within Exploration Block B by September 30, 2014, shall result in the contraction of Exploration Block B out of the West Eagle Unit (less any acreage included in either an approved or pending application for a participating area); and if acreage contracts out of the West Eagle Unit, the WIO's shall automatically surrender all expired State acreage that contracts out of the West Eagle Unit, effective the day the unit contracts.

As justification of an extension beyond the end of the primary term of leases, from September 30, 2012, Buccaneer as the West Eagle Unit Operator will undertake the following initial plan of exploration:

JUL 13 2012

DIVISION OF
OIL AND GAS

POE, YEAR 2012-2014

- I. On or before **September 30, 2012** the Unit Operator will commence operations to drill Initial Well within the Block A that meets the following minimum criteria:
 - a. Drill a well to the shallower of basement rock or the stratigraphic equivalent to the Tyonek interval as seen between 4965 feet and 5100 feet in the Socal #1 Anchor River well ;
 - b. Drill to a bottom hole location within Block A of the Unit area;
 - c. Log the well (GR or SP, Resistivity and neutron/Density or Porosity: appropriate triple combo log); and
 - d. Complete, suspend, or abandon the well.

- II. If the Unit Operator fails to commence operations to drill the Initial Well described in Section I above, by **September 30, 2012**:
 - a. The West Eagle Unit will terminate;
 - b. All leases, except ADL 391625 will terminate effective **October 1, 2012**; and
 - c. The Unit Operator and the WIOs will be released from all further obligations.

- III. On or before **September 30, 2014** the Unit Operator will either drill a well within the Block B that meets the following minimum criteria:
 - a. Drill a well to the shallower of basement rock or the stratigraphic equivalent to the Tyonek interval as seen between 4965 feet and 5100 feet in the Socal #1 Anchor River well ;
 - b. Drill to a bottom hole location within Block B of the Unit area;
 - c. Log the well (GR or SP, Resistivity and neutron/Density or Porosity: appropriate triple combo log); and
 - d. Complete, suspend, or abandon the well.

Or;

 - a. Acquire a new 3D Seismic Survey within Block B with parameters to be determined.

- IV. If the Unit Operator fails to commence operations to drill the Second Well or shoot a new 3D Seismic Survey described in Section III above, by **September 30, 2014**:
 - a. All leases in Block B will terminate effective **October 1, 2014**; and
 - b. The Unit Operator and the WIOs will be released from all further obligations in Block B.

POE General Provisions:

If the West Eagle Unit terminates for failure to fulfill any of the commitments in this Initial Unit POE, the WIOs will automatically surrender all expired State acreage within the Unit Area, effective the day the Unit terminates.

ATTACHMENT FOUR

WEU Exhibit G, Proposed Plan of Exploration, October 19, 2012



October 18, 2012

Ms. Wendy Woolf
State of Alaska, Department of Natural Resources
550 West Seventh Avenue, Suite 800
Anchorage, Alaska 99501

RECEIVED

OCT 19 2012

**DIVISION OF
OIL AND GAS**

Re: West Eagle Unit Application

Dear Wendy:

Thank you again for taking the time to meet last week to discuss the West Eagle Unit. As you heard from me while we were together, Buccaneer is excited about the West Eagle prospect. We believe the data demonstrates that the proposed unit boundary overlies a significant gas prospect. The following expands upon some of the concepts we discussed. Please let me know if you have any additional questions, or if you require any additional materials as you evaluate our unit application.

If the unit is approved, Buccaneer will commence operations to drill a gas well by July 1, 2013 or earlier if snow conditions allow. Upon obtaining positive results from the well, we also plan to shoot 3D seismic over the unit area to determine locations for the additional wells we anticipate for full-field development. We have just received an approved Land Use Permit from the Kenai Peninsula Borough for the acquisition of the 3D seismic. Assuming a commercial discovery, Buccaneer intends to initiate gas production by 2014 given the field's proximity to infrastructure.

To demonstrate our commitment to developing the anticipated gas resources at West Eagle, Buccaneer has revised the plan of exploration, which is attached, and is now proposing that the POE include the following commitments:

- The West Eagle Unit will be divided into two (2) exploration blocks.
- Buccaneer will submit to the Division a second POE at least sixty days prior to the expiration of the Initial POE.
- The Second POE will describe plans for either drilling and completion of the second unit exploration well within Exploration Block B by September 30, 2014, or the completion of a new 3D seismic program.

- The Working Interest Owners agree that failure to either drill the second exploration well or complete the 3D seismic program within Exploration Block B by September 30, 2014, shall result in the contraction of Exploration Block B out of the West Eagle Unit (less any acreage included in either an approved or pending application for a participating area); and if acreage contracts out of the West Eagle Unit, the WIO's shall automatically surrender all expired State acreage that contracts out of the West Eagle Unit, effective the day the unit contracts.

In addition to the foregoing modifications to the POE, Buccaneer also is willing to discuss a drilling commitment, including a firm drilling contract or a performance bond, timing surrounding the submission of a Plan of Development, timelines to place the unit resources onto production, and other measures that will enable DNR to better protect the public interest.

I look forward to seeing you again soon.

Sincerely,



Mark R. Landt
Vice President, Land and Business Development

RECEIVED

OCT 19 2012

**DIVISION OF
OIL AND GAS**

West Eagle Unit Agreement

EXHIBIT "G"-Rev 1

INITIAL UNIT PLAN OF EXPLORATION

Buccaneer Alaska Operations, LLC ("Buccaneer"), as a result of the detailed mapping of magnetic, gravity and geochemistry data in the West Eagle Unit Area and the reprocessing and interpretation of approximately 233 miles of 2D Seismic, has identified a potentially commercial accumulation of hydrocarbons on the West Eagle structure. Buccaneer intends to drill the first well to identify a potential gas source in the Hemlock formation. Buccaneer has 100% Working Interest in nine (9) leases in the proposed West Eagle Unit which comprise a total of approximately 46,395.04 acres.

Buccaneer proposes an initial two year (2-Year) Initial Plan of Exploration (Initial POE) for the West Eagle Unit. Prior to September 30, 2013, Buccaneer, in its capacity as the West Eagle Unit Operator, plans to commence operations to drill the West Eagle No. 1 Well on Tract 1 (ADL 391145) to test a seismic anomaly in the Tyonek and Hemlock formations.

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

West Eagle Exploration Block A (Block A)

- a. Tract 1: ADL 391145
- b. Tract 2: ADL 391144
- c. Tract 3: ADL 391625
- d. Tract 4: ADL 391141

West Eagle Exploration Block B (Block B)

- a. Tract 5: ADL 391146
- b. Tract 6: ADL 391149
- c. Tract 7: ADL 391142
- d. Tract 8: ADL 391147
- e. Tract 9: ADL 391148

The Unit Operator shall submit to the Division the Second POE at least sixty days prior to the expiration of the Initial POE. The Second POE will describe plans for either drilling and completion of the second unit exploration well within Exploration Block B by September 30, 2014 or the completion of a new 3D seismic program. The Working Interest Owners (WIO's) agree that failure to either drill the second exploration well or complete the 3D seismic program within Exploration Block B by September 30, 2014, shall result in the contraction of Exploration Block B out of the West Eagle Unit (less any acreage included in either an approved or pending application for a participating area); and if acreage contracts out of the West Eagle Unit, the WIO's shall automatically surrender all expired State acreage that contracts out of the West Eagle Unit, effective the day the unit contracts.

As justification of an extension beyond the end of the primary term of leases, from September 30, 2012, Buccaneer as the West Eagle Unit Operator will undertake the following initial plan of exploration:

POE, YEAR 2012-2014

- I. On or before **July 1, 2013** the Unit Operator will commence operations to drill Initial Well within the Block A that meets the following minimum criteria:
 - a. Drill a well to the shallower of basement rock or the stratigraphic equivalent to the Tyonek interval as seen between 4965 feet and 5100 feet in the Socal #1 Anchor River well ;
 - b. Drill to a bottom hole location within Block A of the Unit area;
 - c. Log the well (GR or SP, Resistivity and neutron/Density or Porosity: appropriate triple combo log); and
 - d. Complete, suspend, or abandon the well.

- II. If the Unit Operator fails to commence operations to drill the Initial Well described in Section I above, by **July 1, 2013**:
 - a. The West Eagle Unit will terminate;
 - b. All leases, except ADL 391625 will terminate effective **July 1, 2013**; and
 - c. The Unit Operator and the WIOs will be released from all further obligations.

- III. On or before **September 30, 2014** the Unit Operator will either drill a well within the Block B that meets the following minimum criteria:
 - a. Drill a well to the shallower of basement rock or the stratigraphic equivalent to the Tyonek interval as seen between 4965 feet and 5100 feet in the Socal #1 Anchor River well ;
 - b. Drill to a bottom hole location within Block B of the Unit area;
 - c. Log the well (GR or SP, Resistivity and neutron/Density or Porosity: appropriate triple combo log); and
 - d. Complete, suspend, or abandon the well.

Or;

 - a. Acquire a new 3D Seismic Survey within Block B with parameters to be determined.

- IV. If the Unit Operator fails to commence operations to drill the Second Well or complete a new 3D Seismic Survey described in Section III above, by **September 30, 2014**:
 - a. All leases in Block B will terminate effective **October 1, 2014**; and
 - b. The Unit Operator and the WIOs will be released from all further obligations in Block B.

POE General Provisions:

If the West Eagle Unit terminates for failure to fulfill any of the commitments in this Initial Unit POE, the WIOs will automatically surrender all expired State acreage within the Unit Area, effective the day the Unit terminates.

ATTACHMENT FIVE
Map of Lands within the Approved WEU

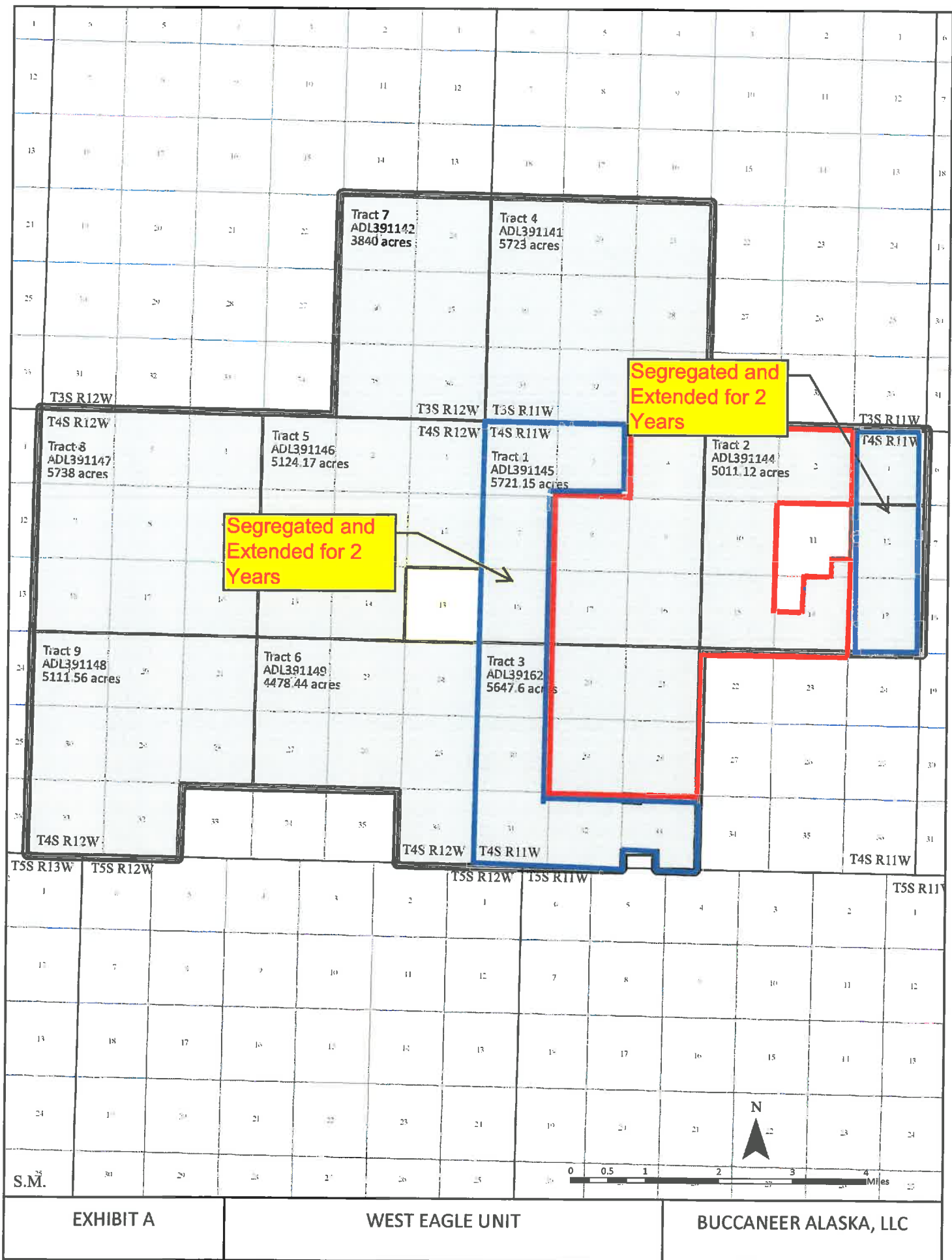


EXHIBIT A

WEST EAGLE UNIT

BUCCANEER ALASKA, LLC

ATTACHMENT SIX
Description of Lands within the Approved WEU

Tracts Included in WEU

Tract	Lease No	Effective Date	Legal Description	Acres	Royalty Rate	Expiration
1	ADL391145	10/1/2007	T. 4S., R. 11W, Section		12.50%	9/30/2012
			4	640		
			8	640		
			9	640		
			16	632.34		
			17	634.04		
				<u>3186.38</u>		
2	ADL391144	10/1/2007	T. 4S., R. 11W, Section		12.50%	9/30/2012
			2	640		
			3	640		
			10	640		
			11 SE 1/4SE1/4	40		
			14 NE1/4,S1/2,E1/2E1/2NW1/4	500		
15	640					
				<u>3100</u>		
3	ADL391625	3/1/2011	T. 4S., R. 11W, Section		12.50%	2/28/2016
			20	637.68		
			21	639.02		
			28	639.9		
			29	640		
				<u>2556.6</u>		
Gross Total				8842.98		

ATTACHMENT SEVEN
Description of Leases Severed from Approved WEU

Tracts Not Included in WEU Receiving Two Year Extension of Lease Term

Lease No	Effective Date	Legal Description	Acres	Royalty Rate	Expiration
ADL392387	10/1/2007	T. 4S., R. 11W, Section		12.50%	9/30/2014
		5	640		
		6	631		
		7	633		
		18	630.77		
			<u>2534.77</u>		
ADL392388	10/1/2007	T. 4S., R. 11W, Section		12.50%	9/30/2014
		1	640		
		12	640		
		13	631.12		
			<u>1911.12</u>		
ADL392389	3/1/2011	T. 4S., R. 11W, Section		12.50%	2/28/2018
		19	640		
		30	631		
		31	633		
		32	630.77		
		33	2534.77		
		E1/2, N1/2SW1/4, E1/2NW1/4, SW1/4NW1/4, S1/2NW1/4NW1/4	<u>630.77</u>		
			<u>2534.77</u>		
		Gross Total	<u>6980.66</u>		

ATTACHMENT EIGHT

Confidential Attachment: Geological, Geophysical and Engineering Analysis
(The above-noted attachment is held confidential under AS 38.05.035(a)(8)(c))