



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Office of the Commissioner

550 W. 7th Avenue Suite 1400
Anchorage, Alaska 99501-3650
Main: 907.269.8431
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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

July 25, 2013

Teresa Imm, President
ASRC Exploration LLC
3900 C Street, Ste. 1000
Anchorage, AK 99503

Re: Placer Unit Notice of Default and Cure Demand
Failure to Fulfill Drilling Commitment

Dear Ms. Imm:

Effective September 8, 2011, the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division), approved the application to form the Placer Unit (PLU). The PLU is comprised of portions of four state leases totaling 1,480 acres. ASRC Exploration LLC (AELLC) is the designated unit operator and sole working interest owner of the PLU. The two-year Initial Plan of Exploration (Initial POE) for the PLU was approved through September 7, 2013. AELLC was required to conduct the proposed exploration activities in accordance with the timelines specified in the Initial POE.

On August 17, 2012, the Division received an application from AELLC requesting expansion of the PLU and modification of the Initial POE (Application). The Application requested the Division expand the PLU, based on new seismic interpretations, to include the entire area of the four AELLC lease tracts bordering the PLU. AELLC also requested a one-year deferral of the June 30, 2013 well drilling obligation to continue evaluation efforts of the PLU and surrounding areas. The Division denied the Application on both requests January 14, 2013. AELLC appealed the decision February 4, 2013; the appeal is still being considered by the Commissioner.

The Initial POE required that, by December 31, 2011, AELLC must have reprocessed and reinterpreted newly licensed seismic data which was shot across the PLU acreage. Additionally, the Initial POE required AELLC to drill and log a PLU exploratory well or, alternatively, re-enter and test the Placer No. 1 well by June 30, 2013. If AELLC failed to drill and test the PLU exploratory well or re-enter and test the Placer No. 1 well by June 30, 2013, the PLU would automatically terminate and those leases which primary terms have expired would be surrendered. AELLC reprocessed and reinterpreted the PLU seismic data prior to the December 31, 2011 deadline and the data was submitted to the Division. However, AELLC failed to drill and log a Unit exploratory well or re-enter and test the Placer No. 1 prior to June 30, 2013.

AELLC's failure to fulfill the June 30, 2013 drilling obligation detailed in the Initial POE is a default under Article 20 of the PLU unit agreement and 11 AAC 83.374(a). DNR has elected to

proceed with the default and cure process despite AELLC's commitment under the POE that the unit would automatically terminate. DNR hereby provides AELLC with notice of default on the Placer Unit and demands the following cure under 11 AAC 83.374(b).

1. By June 30, 2014, AELLC shall either drill and log a Unit exploratory well or, alternatively, re-enter and test the Placer #1 well.

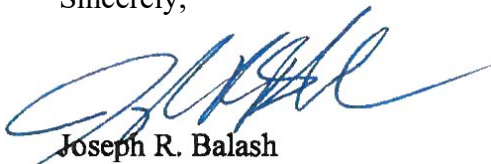
If AELLC fails to cure the default by the date indicated herein, the PLU unit agreement may be terminated as set forth in 11 AAC 83.374(c).

This notice of default defers the drilling deadline from June 30, 2013 to June 30, 2014, for an additional twelve months. This notice of default is not a reflection of the potential outcome of AELLC's pending appeal. DNR will consider the appeal independently, and will not weigh the fact that the PLU is now in default when deciding the appeal. DNR anticipates ruling on the appeal in advance of the June 30, 2014 deadline to cure. If DNR's decision on the appeal requires a change to this notice of default, DNR will do so at that time.

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

If you have questions regarding this decision, contact Kyle Smith with the Division at 907-269-8807 or via email at kyle.smith@alaska.gov.

Sincerely,



Joseph R. Balash
Acting Commissioner

Cc: W.C. Barron, Director, Division of Oil and Gas
Department of Law