

AGREEMENT FOR THE SALE OF

ROYALTY OIL

BETWEEN AND AMONG

THE STATE OF ALASKA,

AND

PETRO STAR INC.

AND

ARCTIC SLOPE REGIONAL CORPORATION

[Month] [Day], 2017

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**AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL**

This Agreement is between the State of Alaska (“State”), Petro Star Inc. (“Buyer”) and Arctic Slope Regional Corporation (“Guarantor”).

**ARTICLE I
DEFINITIONS**

As used in this Agreement, the terms listed below shall have the following meanings:

- 1.1 “Additional Sale Oil” is defined in Section 2.1.2.
- 1.2 “Affiliate” is defined in Section 21.1.
- 1.3 “ANS” means the Alaska North Slope.
- 1.4 “ANS Spot Price” is defined in Section 2.3.
- 1.5 “Assignee” is defined in Section 21.1.
- 1.6 “Business Day” means any day, or part of a day, during which federally chartered banks are open for business in the place designated in this Agreement for payment.
- 1.7 “Commissioner” means the Commissioner of the Alaska Department of Natural Resources or the Commissioner’s designee.
- 1.8 “Day” means a period of twenty-four consecutive hours, beginning at 12:01 a.m., Alaska Local Time.
- 1.9 “Day of First Delivery” is defined in Section 2.4.
- 1.10 “DBRS” means DBRS Inc., a nationally recognized statistical rating organization, a subsidiary of DBRS Limited, and its successors.
- 1.11 “Excess Royalty Oil” is defined in Section 2.1.2.
- 1.12 “Financial Analyst” is defined in Section 5.3.

- 1.13 “FERC” means Federal Energy Regulatory Commission.
- 1.14 “Force Majeure” is defined in Section 14.2.
- 1.15 “Leases” means the oil and gas leases issued by the State on the Alaska North Slope from which the State takes or may take Royalty Oil in-kind.
- 1.16 “Lessee” means a person owning a working interest in any of the Leases.
- 1.17 “Letter of Credit” is defined in Section 6.1.
- 1.18 “Line Loss” is defined in Section 2.3.
- 1.19 “Minimum Interstate TAPS Tariff” is defined in Section 2.3.
- 1.20 “Month” means a period beginning at 12:01 a.m., Alaska Local Time, on the first Day of the calendar Month and ending at 12:01 a.m., Alaska Local Time, on the first Day of the following calendar Month.
- 1.21 “Moody’s” means Moody’s Investor’s Services, Inc., a subsidiary of Moody’s Corporation, and its successors.
- 1.22 “Notice” means written notice in accordance with Article XV.
- 1.23 “Notice Effective Date” is defined in Section 15.2.
- 1.24 “Opinion Letter” is defined in Section 5.3.
- 1.25 “Parties” means, collectively, Buyer, Guarantor and State.
- 1.26 “Party” means Buyer, Guarantor or State, individually.
- 1.27 “Person” is defined in AS 01.10.060.
- 1.28 “Point of Delivery” means the transfer point at which the State receives Royalty Oil in-kind from the Lessees.
- 1.29 “Price” is defined in Section 2.3.
- 1.30 “Process” is defined in Section 4.1.

1.31 “PSVR Reference Stream” is the blended TAPS stream immediately downstream from the Petro Star Valdez Refinery.

1.32 “Refinery Turnaround” means a period not to exceed three months when Buyer, by notice to the State, may reduce the quantity of Sale Oil it nominates and purchases from the State to less than the minimum number of barrels per Day as designated for each Period in clause 2.1.1. because the Valdez, Alaska refinery or North Pole, Alaska refinery reduce the processing of Sale Oil for the purpose of performing planned or unplanned maintenance, repairs or capital improvements to the refinery.

1.33 “Quality Bank” means a system of calculations administered under the authority of the FERC that accounts for the differences in value between the individual tendered streams and the delivered co-mingled stream of TAPS.

1.34 “Quality Bank Adjustment” is defined in Section 2.3.

1.35 “Rating Agency” means Standard and Poor’s, Moody’s or DBRS.

1.36 “RIK Differential” means per barrel location differential used to determine the price of the Sale Oil and Additional Sale Oil under Section 2.3, and set at \$1.95 for this Agreement.

1.37 “Royalty Oil” means the total volume of crude petroleum oil and other hydrocarbons and associated substances from the Leases, including such substances as crude oil, condensate, natural gas liquids, or return oil from crude oil topping plants, that may be blended with crude oil before the Point of Delivery and tendered as a common stream to the State as Royalty Oil that the State may take in-kind, regardless of whether the State takes the Royalty Oil in-kind.

1.38 “Royalty Settlement Agreement” means any written royalty settlement agreement.

1.39 “Sale Oil” means the oil the State has agreed to sell to the Buyer, and the Buyer has agreed to purchase from the State under this Agreement.

1.40 “Standard and Poor’s” means Standard and Poor’s, a division of McGraw-Hill Companies, Inc. and its successors.

1.41 “Surety Bond” is defined in Section 6.4.

1.42 “TAPS” means the Trans-Alaska Pipeline System

1.43 “Tariff Allowance” is defined in Section 2.3.

1.44 “Term” is defined in Section 8.2.

1.45 “Unit” has the meaning defined in 11 AAC 83.395.

1.46 “Unit Agreement” means any unit agreement for a Unit from which the State takes or may take Royalty Oil.

ARTICLE II

SALE AND PURCHASE OF ROYALTY OIL

2.1 Quantity.

2.1.1 Sale Oil Quantity. The State agrees to sell to Buyer, and Buyer agrees to purchase from the State, an initial Sale Oil quantity based on the following schedule of a maximum and a minimum of barrels per Day averaged for the Month of Sale Oil delivery, as nominated by Buyer in accordance with Section 2.1.2 through 2.1.7.

Period 1: For the 12 months following the Day of First Delivery a maximum of 20,500 and a minimum of 16,400 barrels per Day averaged for the Month of Sale Oil delivery;

Period 2: For the 12 months following Period 1 a maximum of 16,500 and a minimum of 13,200 barrels per Day averaged for the Month of Sale Oil delivery;

Period 3: For the 12 months following Period 2 a maximum of 13,500 and a minimum of 10,800 barrels per Day averaged for the Month of Sale Oil delivery;

Period 4: For the 12 months following Period 3 a maximum of 10,500 and a minimum of 8,400 barrels per Day averaged for the Month of Sale Oil delivery.

2.1.2 Monthly Sale Oil Nomination. In accordance with 2.1.1, Buyer shall nominate the quantity of Sale Oil for each Month of Sale Oil delivery by giving Notice of Buyer's Sale Oil nomination. Except when the additional notice provisions of Section 2.1.7 are invoked by Lessees, Buyer's nomination shall be effective on the first Day of the Month following expiration of a minimum of one hundred Days after the Notice of Buyer's nomination. The State will make commercially reasonable efforts to nominate, in accordance with applicable Unit Agreements or Leases, percentages of the State's estimated Royalty Oil volume from one or more Units or non-unitized Leases, at the State's discretion, that will equal the Sale Oil quantity nominated by the Buyer each Month of Sale Oil delivery. Notwithstanding Buyer's Monthly nominations, any time the total commitments for Royalty Oil under all of the State's royalty-in-kind contracts exceed 95 percent of Royalty Oil in a Month, Buyer agrees that the State may limit its total nomination of Royalty Oil to an amount that does not exceed 95 percent of Royalty Oil in that Month of Sale Oil delivery and may employ the proration provisions as per 2.1.3. Buyer agrees to accept the volume of Royalty Oil delivered in accordance with the State's nomination. See Appendix 1 for an illustration of the State's nomination procedure for Sale Oil nominated from the Prudhoe Bay Unit for July 2014.

The Buyer may choose to nominate in the Notice additional quantity of Royalty Oil defined as Additional Sale Oil. Except when the additional notice provisions of Section 2.1.7 are invoked by Lessees, Buyer's nomination shall be effective on the first Day of the Month following expiration of a minimum of one hundred Days after the Notice of Buyer's nomination. If the total commitments for Sale Oil under all of the State's royalty-in-kind contracts fall below 95 percent

of estimated Royalty Oil in a Month, with this difference between 95 percent of estimated Royalty Oil in a Month and total commitments for Sale Oil under all of the State's royalty-in-kind contracts defined as Excess Royalty Oil, the State may in its sole discretion nominate fully or partially to satisfy Additional Sale Oil nominations up to the amount of Excess Royalty Oil. The State may nominate for each buyer up to the actual nominated volume of Additional Sale Oil. If total nominations for Additional Sale Oil under all of the State's royalty-in-kind contracts exceed Excess Royalty Oil, the State will allocate Excess Royalty Oil. If any buyer's actual nominated volume of Additional Sale Oil is not more than equal volumes of Excess Royalty Oil available to each buyer nominating Additional Sale Oil for that period determined by dividing Excess Royalty Oil by the number of nominations for Additional Sale Oil, that buyer will receive its full nomination. Those buyers, whose Additional Sale Oil nominations are not fully met with the calculated equal volumes of Excess Royalty Oil, will equally split the remaining available volumes up to the amount of actual nominated volume of Additional Sale Oil for each buyer. If there are remaining available volumes of Excess Royalty Oil, they will be allocated to the buyers whose actual nominated volume of Additional Sale Oil has not been satisfied.

The Buyer agrees to accept full or partial volumes of nominated Additional Sale Oil as determined by the State. Notwithstanding the nominations for Additional Sale Oil and acceptance of such by the State, the Buyer acknowledges and agrees that the State may satisfy nominations for Additional Sale Oil only after it satisfies Sale Oil nominations under all of the State's royalty-in-kind contracts. See Appendix 5 for an illustration of the nomination for the Additional Sale Oil.

2.1.3 Sale Oil Proration. Notwithstanding Section 2.1.1, Buyer agrees that for any Month of Sale Oil delivery in which the Buyer and all other buyers of Royalty Oil under all

of the State's royalty-in-kind contracts nominate more than 95 percent of the State's Royalty, the State may prorate the Buyer's Sale Oil nomination as well as Sale Oil nomination of the State's other purchasers.

If total Sale Oil nominations under all of the State's royalty-in-kind contracts exceed 95 percent of the Royalty Oil, then the State may reduce such nominations proportionately so that sum of such nominations does not exceed 95% of the Royalty Oil. The proration will occur according to this formula where a revised nomination under this contract is equal to $[(95\% * \text{Royalty Oil} / \text{Sum of nominations under the royalty in kind contracts}) * \text{Nomination submitted under 2.1.2.}]$. See Appendix 4 for an illustration of the proration process. For the avoidance of doubt this proration clause does not apply to Additional Sale Oil nomination described in 2.1.2.

2.1.4 Buyer's Election to Reduce Sale Oil Quantity.

(a) Buyer may elect to reduce the initial Sale Oil quantity by giving Notice. The initial Sale Oil quantity shall remain as stated in Section 2.1.1 for 12 Months after the Day of First Delivery. Notice of a reduction shall be delivered to the State at least six Months before the effective date of the reduction. The Commissioner may approve or deny a request for a reduction in Sale Oil quantity. The reduced maximum quantity shall be 137.5 percent of the reduced minimum quantity. For example, if the reduced minimum quantity is 4,000 barrels per Day, the reduced maximum quantity shall be 5,500 barrels per Day ($4,000 \text{ times } 1.375 = 5,500$).

Buyer may elect additional reductions to the Sale Oil quantity following a reduction to the initial Sale Oil quantity. A reduction cannot be effective until at least 12 Months after the effective date of the most recent reduction in quantity. Notice of an additional reduction under this paragraph (a) shall be delivered to the State at least six Months before the effective date

of the additional reduction. The reduced maximum quantity shall be 137.5 percent of the reduced minimum quantity.

(b) Buyer may elect to reduce the Sale Oil quantity to zero barrels of Sale Oil per day for the Month of Delivery by giving Notice. If Buyer nominates zero barrels of Sale Oil for three consecutive Months, this Agreement shall terminate automatically, without Notice or further action by the State or the Buyer, on the last day of the third consecutive Month that the Buyer nominates zero barrels. If the Buyer in its Notice specifically cites “Refinery Turnaround” in section 1.32 as a reason for zero nominations, the Buyer may elect to reduce the quantity of Sale Oil it nominates and purchases from the State to zero for three consecutive Months without triggering automatic termination stipulated in this clause.

(c) Buyer’s elections to reduce Sale Oil quantities under this Section 2.1.4 are subject to the provisions of Section 2.1.7.

2.1.5 Increase in Quantity Following Elective Reduction. Following a reduction of Sale Oil quantity under Section 2.1.4, Buyer may request an increase in the Sale Oil quantity to an amount that does not exceed the maximum Sale Oil quantity in Section 2.1.1. The increased maximum quantity must be 137.5 percent of the increased minimum quantity. An increase is not effective until at least 12 Months after the effective date of the most recent change in quantity (*i.e.*, a decrease under Section 2.1.4 or an increase under Section 2.1.5). The Commissioner may approve or deny a request for an increase in Sale Oil quantity.

2.1.6 Temporary Sale Oil Quantity Reduction in Event of Force Majeure. In the event of a Force Majeure under Article XIV, Buyer may temporarily reduce the Sale Oil quantity by an amount equal to the reduction in Buyer's requirements that is a direct result of the Force Majeure event. To temporarily reduce the Sale Oil quantity in the event of Force Majeure, Buyer

shall include a Notice of temporary reduction in Sale Oil quantity due to Force Majeure under this Section with Notice of Buyer's monthly Sale Oil nominations of Sale Oil. Each notice of temporary reduction due to Force Majeure shall include documentation of the nature of the Force Majeure event and quantification of the direct impact of the Force Majeure on Buyer's Sale Oil requirements for the Month of nomination. Temporary reductions in Sale Oil quantity under this Section shall be effective only to the extent that the State is able, through the State's nomination process set out in Section 2.1.2, to reduce the volume of Royalty Oil that the State receives for the Month of Sale Oil delivery, or to sell the volumes from the temporary reductions in Sale Oil quantity as Additional Sale Oil to other buyers under the same price terms. Buyer shall accept delivery of the total volume of Royalty Oil delivered to the State in accordance with the State's nominations of Royalty Oil, unless the State sells the volumes from the temporary reductions in Sale Oil quantity as Additional Sale Oil to other buyers under the same or better price terms.

2.1.7 Additional Notice Provisions. Buyer acknowledges that the Leases from which the State must nominate Royalty Oil require 90 Days' notice to the Lessee prior to decreasing the State's nomination of Royalty Oil to be taken in-kind in any Month. Buyer acknowledges that if a Lessee invokes the Force Majeure provisions of its Royalty Settlement Agreement or the Leases, the State may be required to give up to 180 Days' (*i.e.*, an additional 90 Days) notice to the Lessee prior to decreasing the State's nomination of Royalty Oil to be taken in-kind in any Month. If a Lessee invokes the Force Majeure terms of its Royalty Settlement Agreement as a result of a reduction in Buyer's nomination in the event of Buyer's Force Majeure, Refinery Turnaround, or for any other reason, Buyer's reduced nomination shall not become effective until the end of the additional 90 Day notice period. If a Lessee invokes the Force Majeure terms of its Royalty Settlement Agreement and extends the notice period an additional 90

Days, the State agrees to make commercially reasonable efforts to reduce the volume of its Royalty Oil nominations.

2.1.8 No Guarantee of Sale Oil Quantity. The State shall exercise its rights under the Leases and Royalty Settlement Agreements to request that Royalty Oil be delivered as Sale Oil. The State can deliver Sale Oil only to the extent it receives Royalty Oil from the Lessees. The quantity of Royalty Oil available to the State may vary and may be interrupted from time to time depending on a variety of factors, including the rate of production from the Leases. The State disclaims, and Buyer waives, any guarantee, representation, or warranty, either express or implied, that a specific quantity of the total, daily, monthly, average, or aggregate Royalty Oil will be delivered as Sale Oil.

2.1.9 No Guarantee of Source of Sale Oil and Additional Sale Oil. The State will deliver, as Sale Oil and Additional Sale Oil, Royalty Oil produced from the Leases and delivered to the State as Royalty Oil in-kind. The availability to the State of Royalty Oil in-kind in any Month may vary depending on a variety of factors, including the rate of production from the Leases. The State disclaims, and Buyer waives, any guarantee, representation, or warranty, either express or implied, that Sale Oil and Additional Sale Oil delivered and sold by the State in any Month is from a certain Lease, Unit, or other area.

2.1.10 State's Warranty of Title. The State warrants that it has good and marketable title to the Royalty Oil delivered and sold as Sale Oil and Additional Sale Oil.

2.2 Quality.

2.2.1 No Guarantee of Quality of Sale Oil and Additional Sale Oil. The Royalty Oil the State delivers to Buyer as Sale Oil and Additional Sale Oil shall be of the same quality as the Royalty Oil delivered to the State at the Point of Delivery. The quality of the Royalty Oil

delivered to the State may vary from time to time. The State disclaims, and Buyer waives, any guarantee, representation, or warranty, either expressed or implied, of merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, and of any specific, average, or overall quality or characteristic of Sale Oil and Additional Sale Oil. Buyer specifically waives any claim that any liquid hydrocarbons, including such substances as crude oil, condensate, natural gas liquids, or return oil from the crude oil topping plant, delivered with the Sale Oil or Additional Sale Oil, are not Sale Oil or Additional Sale Oil for purposes of this Agreement.

2.3 Price of the Sale Oil and Additional Sale Oil. The price per barrel of Sale Oil and Additional Sale Oil delivered from each Unit or Lease by the State to the Buyer each Month shall be equal to

ANS Spot Price – RIK Differential – Tariff Allowance + Quality Bank Adjustment – Line Loss.

“ANS Spot Price” means the monthly average of the daily high and low assessments for the Month of Sale Oil and Additional Sale Oil delivery for ANS oil traded at the United States West Coast as reported by the Platts Oilgram Price report and Reuters online data reporting service. The ANS Spot Price calculation will not include days on which prices are not reported for both reporting services, such as weekends or holidays. If either of these publications ceases to report daily assessments for ANS oil traded at the United States West Coast, the Parties agree to calculate the ANS Spot Price using the data from the remaining reporting service. If either Buyer or State makes a good faith determination that the ANS Spot Price no longer accurately represents the price for ANS oil traded at the United States West Coast, Buyer and State will attempt in good faith to arrive at a mutually agreeable alternative source to establish, or substitute for, the ANS Spot Price. If Buyer and the State arrive at a mutually agreeable alternative source, that source shall be used

to determine the ANS Spot Price beginning the Month following the Month in which any of these publications ceased to report daily assessments for ANS oil traded at the United States West Coast. If Buyer and the State are unable to agree on an alternative source, the State will select the alternative source that most reliably represents the price for ANS oil traded at the United States West Coast based on the best information reasonably available to the State, and that source shall be used to determine the ANS Spot Price beginning the Month following the Month in which any of these publications ceased to report daily assessments for ANS oil traded at the United States West Coast. Any dispute between the Buyer and State concerning the ANS Spot Price under this section shall be administered in accordance with Section 12.1.

“Tariff Allowance” means the sum of (1) the average, weighted by ownership, of the Minimum Interstate TAPS Tariff (Pump Station No. 1 to Valdez Marine Terminal) on file with the Federal Energy Regulatory Commission (“FERC”) for each owner in effect on the Day the Sale Oil and Additional Sale Oil is tendered by the State to Buyer; and (2) tariffs on file with FERC for shipment of Sale Oil and Additional Sale Oil upstream of Pump Station No. 1. “Minimum Interstate TAPS Tariff” means the effective TAPS tariff on file with the FERC for each carrier on a given Day, excluding incentive tariffs. If the Minimum Interstate TAPS Tariff or tariffs on file with FERC for shipment of Sale Oil and Additional Sale Oil upstream of Pump Station No. 1 that have been used in the calculation of a Tariff Allowance are changed or subject to a refund order by the FERC, the Tariff Allowance will be recalculated using changed FERC-ordered Minimum Interstate TAPS Tariff or changed FERC-ordered tariffs for shipment of Sale Oil and Additional Sale Oil upstream of Pump Station No.1, the Sale Oil and Additional Sale Oil Price will be adjusted accordingly, and the resulting refund to the State (or credit to Buyer) will be made in accordance with Article III. If a FERC-ordered tariff is suspended or enjoined from implementation, the Tariff

Allowance shall not be recalculated until the suspension or injunction is lifted and the FERC order is implemented and goes into effect. Buyer shall, at the request of the Commissioner, provide the necessary documentation in the form of invoices, etc. from the TAPS and upstream pipeline carriers of tariff payments made by Buyer and any revised tariff payments including interest paid or received by Buyer as a consequence of those revised tariff payments.

The “Quality Bank Adjustment” is a per-barrel amount, positive or negative, that accounts for the difference in quality between the oil produced from the units on the North Slope and the co-mingled ANS TAPS stream value at the PSVR connection. The Quality Bank Adjustment for a Unit’s stream will be calculated each Month as the difference between the stream value for the PSVR Reference Stream and the stream value at the Point of Delivery. The stream value and PSVR Reference Stream are reported by the TAPS quality bank administrator. If the stream value or the PSVR Reference Stream is recalculated by the Quality Bank administrator, the Quality Bank Adjustment shall be recalculated and the Price shall be adjusted in accordance with Article III to apply to Sale Oil and Additional Sale Oil that has been delivered to Buyer beginning on the effective date of the adjustment.

“Line Loss” is a per barrel amount equal to $(0.0009) \times (\text{ANS Spot Price} - \$1.95 - \text{Tariff Allowance} + \text{Quality Bank Adjustment})$.

Appendix 2 is an illustrative example of the calculation of the Price of Sale Oil and Additional Sale Oil. If there is a conflict between Appendix 2 and Section 2.3, Section 2.3 shall control.

2.4 Delivery of Sale Oil and Additional Sale Oil.

2.4.1 Day of First Delivery. The State will make first delivery of the Sale Oil and Additional Sale Oil to Buyer at the Point of Delivery on or after January 1, 2018.

2.4.2 Subsequent Deliveries. After the first delivery, the State shall tender the Sale Oil and Additional Sale Oil to Buyer at the Point of Delivery immediately upon the receipt of the Royalty Oil from the Lessees at the Point of Delivery.

2.5 Passage of Title and Risk of Loss. Title to, and risk of loss of, the Sale Oil or Additional Sale Oil shall pass from the State to Buyer for all purposes when the State tenders delivery of the Sale Oil or Additional Sale Oil to Buyer at the Point of Delivery. Buyer shall bear all risk and responsibility for the Sale Oil and Additional Sale Oil after passage of title.

2.6 Indemnification After Passage of Title. Buyer shall indemnify and hold the State harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses, or causes of action arising from or related to any transaction or event in any way related to the Sale Oil and Additional Sale Oil after title has passed to Buyer. If Buyer suffers damages or losses caused by third parties and related to the Sale Oil or Additional Sale Oil, the State agrees to cooperate with the Buyer to permit Buyer to attempt to recover such damages or losses. The State will, on request, assign the State's claims to Buyer and cooperate in Buyer's pursuit of State assigned claims.

2.7 Transportation Arrangements. Buyer shall make all arrangements for transportation of the Sale Oil and Additional Sale Oil from the Point of Delivery, to, through and away from the TAPS, and all pipelines upstream from Pump Station No. 1, and shall be responsible for meeting any linefill and storage tank bottom requirements related to transportation of the Sale Oil and Additional Sale Oil after passage of title. On the State's request, Buyer shall provide the State with evidence of the arrangements for transportation of the Sale Oil and Additional Sale Oil from the Point of Delivery, through and away from TAPS, and all pipelines upstream from Pump Station No. 1, and evidence of arrangements for resale, exchange, or other disposal of the Sale Oil

and Additional Sale Oil. Buyer's failure to provide information, evidence, or assurances requested by the State shall, at the State's election and after Notice to Buyer, constitute a material default under this Agreement.

ARTICLE III **INVOICING AND PAYMENT**

3.1 Monthly Invoices. On or before the fifth calendar Day of each Month after the first Month of delivery of Sale Oil and Additional Sale Oil, the State shall send to Buyer, via facsimile transmission or electronic mail, a statement of account with an invoice for the total amount due for the estimated quantity of Sale Oil and Additional Sale Oil delivered to Buyer during the immediately preceding Month of Sale Oil and Additional Sale Oil delivery and the estimated Price applicable to those deliveries, and the amount of any adjustments for the previous Month. The State will base its estimates on the best information reasonably available to the State. The State shall adjust invoices as provided in Section 3.3.

3.2 Payment of Invoices. Buyer shall pay the total amount of each invoice, including adjustments for previous Months of Sale Oil and Additional Sale Oil delivery, in full, on or before the third Business Day after the date of the statement of account in which the invoice is included. If the third Business Day after the date of the statement of account does not fall on a Business Day then the invoiced amount is due on the immediately following Business Day. Any amount that Buyer does not pay in full on or before the payment due date calculated in accordance with this section shall accrue interest as provided in Section 3.6, and become subject to the late payment provisions of Section 3.7, and any other remedies available to the State under this Agreement and at law.

3.3 Adjustments. Buyer acknowledges that any time within eight years after an invoice is sent for a Month of Sale Oil and Additional Sale Oil delivery, the State or Buyer may receive

more accurate information concerning the ANS Spot Price, actual quantity of Sale Oil and Additional Sale Oil delivered to Buyer, the proper calculation of Tariff Allowance, and Quality Bank Adjustments that affect the Price of the Sale Oil and Additional Sale Oil. The State and Buyer agree that any time within eight years such information becomes available to the State or Buyer, the State shall make adjustments and invoice or credit Buyer the amount of the adjustments in accordance with the process and retroactivity limits described in Section 2.3. The interest that will bear on changes to the Tariff Allowance will equal the interest paid by the carriers to the shippers under the FERC's regulations. No accrued interest on these adjustments will be paid to the Seller or credited to the Buyer except for FERC ordered changes to Tariff Allowances.

3.4 Payment of Adjustments. The Buyer shall pay the total amount of each adjustment in full, on or before the third Business Day after the date of the statement of account that includes the adjustment invoice. If an adjustment is due to Buyer for an overpayment, the State shall credit to Buyer the amount of the overpayment on the following Month's invoice or, if no following Month invoice is provided, the State shall refund to Buyer the amount of the overpayment by the twentieth calendar Day of the following Month. Any amount the Buyer does not pay in full when due shall bear interest at the rate provided in Section 3.6 and become subject to the late payment provisions of Section 3.7, and any other remedies available to the State under this agreement and at law.

3.5 Adjustments After Termination. Buyer and State agree that the State shall continue to make adjustments, in compliance with and subject to the limitations set forth in the provisions of Section 3.3 above, after termination of this Agreement, and agree that the provisions of Articles III, shall survive termination of this Agreement for any reason. If following termination of this Agreement an adjustment is determined to be due to Buyer for overpayment in an amount

that exceeds the amount of all sums remaining due from Buyer to the State, the State shall credit the overpayment against any sums due from Buyer to the State, and shall refund to Buyer the remaining amount of the adjustment. Any adjustments made after termination must be paid within 30 Days after the date of the invoice.

3.6 Interest. All amounts under this Agreement that Buyer does not pay in full when due, or that the State does not credit Buyer or pay in full when due, shall bear interest from the date payment is due, calculated in accordance with Section 3.4, at the rate provided by Alaska Statute 38.05.135(d) or as that statutory provision may later be amended.

3.7 Late Payment Penalty. In addition to all other remedies available to the State, if Buyer fails to make timely payment in full of any amount due, including adjustments, Buyer shall pay the State as a late payment penalty an amount equal to five percent of the total amount not timely paid, in addition to the amount not timely paid, and interest on the late payment penalty amount and the amount not timely paid as provided in Section 3.4. The Commissioner shall waive imposition of the late payment penalty if the Buyer provides substantial evidence that the failure to make timely payment was not willful and was not due to a mistake in a chronic pattern of mistakes.

3.8 Disputed Payments. If a dispute arises concerning the amount of an invoice, Buyer agrees to pay in full all amounts when due, pending final resolution of the dispute according to the Dispute Resolution procedures in Article XII.

3.9 Confidential Information. The State and Buyer agree that pursuant to Section 3.3, the State may invoice Buyer for, and Buyer agrees to pay, amounts that are based upon confidential information held or received by the State. If confidential information is used as the basis for an invoice, upon receipt of a written request from Buyer, the State shall furnish to Buyer a certified

statement of the Commissioner to the effect that, based upon the best information available to the State, the invoiced amounts are correct. At the request and expense of Buyer, the Commissioner's certified statement will be based on an audit by an independent third party.

3.10 Manner of Payment. Buyer shall pay all invoices in full within the times specified and without any deduction, set off, or withholding. Buyer shall pay all invoices by either Automated Clearinghouse (ACH) or by Federal Reserve Wire Transfer (immediate funds available) according to the instructions provided to the Buyer by the Division of Oil and Gas's Royalty Accounting Manager.

Buyer must pay an invoice in such other manner or to such other address the State has specified in an invoice or by Notice. All other payments due shall be paid in the same manner and according to the same time schedule provided in this Article. If payment falls due on a Saturday, Sunday, or federal bank holiday, payment shall be made on the next Business Day.

ARTICLE IV **IN-STATE PROCESSING**

4.1 In-State Processing. Buyer agrees to use commercially reasonable efforts to process the Sale Oil and Additional Sale Oil at its refineries in Valdez and North Pole, Alaska. "Process" means the manufacture of refined petroleum products.

4.2 Exchange of Crude Oil. Buyer may exchange Sale Oil and Additional Sale Oil for other crude oil only as provided in this Article. An exchange of Sale Oil and Additional Sale Oil for other crude oil shall not reduce the price Buyer has agreed to pay the State for the Sale Oil and Additional Sale Oil. "Exchange" includes: (1) a direct trade of Sale Oil or Additional Sale Oil for and equal volume of other crude oil; (2) a direct trade of Sale Oil or Additional Sale Oil for other crude oil that involves either cash or volume adjustment, or both, based solely on the differences in quality or location of the crude oils exchanged; (3) sequential transactions in which the Buyer

trades Sale Oil or Additional Sale Oil to one party and, in exchange receives crude oil for a party other than the party to whom the Buyer traded the Sale Oil and Additional Sale Oil; and (4) matching purchases or sales of Sale Oil and Additional Sale Oil for other crude oil.

ARTICLE V
BUYER'S AND GUARANTOR'S REPRESENTATIONS AND OBLIGATIONS

5.1 Good Standing and Due Authorization of Buyer. Buyer warrants that it is, and shall remain at all times during the term of this Agreement: (1) qualified to do business in Alaska; and (2) in good standing with the State. Buyer warrants that it has all company power and authority necessary, and has performed all company action required, to enter into and fulfill its obligations under this Agreement.

5.2 Good Standing and Due Authorization of Guarantor. Guarantor warrants that it is, and shall remain at all times during the term of this Agreement: (1) qualified to do business in Alaska; and (2) in good standing with the State. Guarantor warrants that it has all company power and authority necessary, and has performed all company action required, to enter into and fulfill its obligations under this Agreement.

5.3 Financial Information. As soon as practicable after the execution of this Agreement and before the State's first Monthly Sale Oil Nomination under Section 2.1.2, Guarantor shall either provide a Letter of Credit or Surety Bond meeting the requirements of Sections 6.2 through 6.5 or cause a financial analyst (the "Financial Analyst") to submit an opinion to the Commissioner in the form of a letter (the "Opinion Letter") about Guarantor's current and expected future credit rating by a Rating Agency. The Financial Analyst shall be an independent contractor qualified to render an opinion as to the creditworthiness of the Guarantor and shall be in the business of understanding complex financial matters and financial statements to the extent required to render such opinion. Buyer shall have the right to designate the Financial Analyst, subject to approval

by the State. The Financial Analyst shall be a contractor to Guarantor, and Guarantor shall be responsible for entering into any necessary contractual arrangements with the Financial Analyst and paying the fees and expenses of the Financial Analyst.

The contract between Guarantor and the Financial Analyst and each Opinion Letter must recite that the Financial Analyst (1) has been provided a copy of this Agreement, (2) understands the significance of the Opinion Letter in the administration of this Agreement, (3) understands that the State will rely on the Opinion Letter, and (4) understands that the Opinion Letter is for the benefit of the State. The contract between Guarantor and the Financial Analyst shall be subject to approval by the State, and the State shall be given a copy of the contract and all amendments to it.

The Opinion Letter shall (i) identify all documents reviewed in forming the opinion, (ii) identify people interviewed in forming the opinion and discuss the nature of the interview, (iii) state the current long term (and short term, if available) credit ratings of Guarantor by a Rating Agency and (iv) express an opinion whether those ratings are reasonably likely to fall below BBB- (Standard and Poor's), Baa3 (Moody's) or BBB (low) (DBRS) at any time during the following twelve Months. Guarantor shall cause the Financial Analyst to review evidence of the most current ratings by DBRS, Standard and Poor's, or Moody's of Guarantor's long and short term debt, all bank presentations provided to Guarantor's lenders, all reports on Guarantor prepared by a Rating Agency, all documents filed by Guarantor with the Securities and Exchange Commission, if any, any other documents reasonably necessary to deliver the Opinion Letter, and a complete set of year-to-year comparative, independently audited financial statements, including footnotes, prepared in accordance with generally accepted accounting principles.

Guarantor's contract with the Financial Analyst may require the Financial Analyst to protect the confidentiality of the information supplied to it under Section 5.3. The State may review the information supplied to the Financial Analyst under Section 5.3.

5.4 Financial Condition. Guarantor warrants (1) that all financial information submitted to the Financial Analyst or reviewed by the State under Section 5.3 is complete and accurate at the time of preparation, and fairly represents Guarantor's financial condition at the time of submission; and (2) that there has been no material change in Guarantor's financial condition, business operations, or properties since the financial information was prepared. Guarantor warrants that the financial statements were prepared in accordance with generally accepted accounting principles. Guarantor and Buyer shall immediately inform the State of any material change in Guarantor's ownership or ownership of Buyer, ownership of parent companies, or financial condition, business operations, agreements, or property that is likely to affect their ability to perform their obligations under this Agreement.

5.5 Absolute Obligations. Buyer's and Guarantor's obligations to pay amounts due, provide assurances of performance in accordance with Article VI, accept, and dispose of and pay for Sale Oil and Additional Sale Oil, are absolute. These obligations shall not be excused or discharged by the operation of any disability of Buyer or Guarantor, event of Force Majeure, impracticability of performance, change in conditions, termination of this Agreement, or other reason or cause.

5.6 Guaranty. Buyer is a wholly-owned subsidiary of Guarantor. Buyer does not have public financial statements and does not have debt rated by a Rating Agency. The State is not willing to make this Agreement based solely on the credit worthiness of Buyer. Guarantor therefore agrees that it guarantees performance of all of Buyer's obligations under this Agreement

as if Guarantor were the Buyer and legally indistinguishable from Buyer. The State may require Guarantor at any time to satisfy any unsatisfied obligation of Buyer.

5.7 Due Authorization of State. State warrants that it has all power and authority necessary, and has performed all action required, to enter into and fulfill its obligations under this Agreement.

ARTICLE VI

ASSURANCE OF PERFORMANCE

6.1 Credit Review. If Guarantor (i) elects to provide a Letter of Credit or Surety Bond pursuant to Section 5.3 in lieu of the Opinion Letter by a Financial Analyst or (ii) fails to timely submit its financial statements and other documents and information required under Article V such that the Financial Analyst is unable to timely submit the Opinion Letter; or (iii) if, in the opinion of the Financial Analyst, Guarantor's credit ratings have fallen below, or are reasonably likely in the twelve Months following the Opinion Letter, to fall below (a) "BBB-" (Standard and Poor's "Long term issuer"), (b) "Baa3" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings"), or "BBB (low)" (DBRS); (iv) or Guarantor is not rated by a Rating Agency, Guarantor shall immediately deliver to the State a one year irrevocable stand-by Letter of Credit or Surety Bond meeting the requirements of Sections 6.2 through 6.5.

Guarantor shall annually renew and continuously maintain the Letter of Credit or Surety Bond in effect until such time as, in the opinion of the Financial Analyst, Guarantor's credit rating is no longer reasonably likely to remain below (a) "BBB-" (Standard and Poor's "Long term issuer"); (b) "Baa3" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings"); or (c) "BBB (low)" (DBRS) at any time during the twelve Months following the Opinion Letter.

6.2 Letter of Credit or Surety Bond. In the event that Guarantor elects or is required to deliver a letter of credit or surety bond to the State in accordance with Section 6.1, the Letter of Credit or Surety Bond shall be in a form satisfactory to the Commissioner and shall be in effect on delivery. The Letter of Credit shall be issued for the benefit of the State by a state or national banking institution of the United States that is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus amount of not less than One Hundred Million Dollars (\$100,000,000) (“Issuer”), or other banking institution approved by the Commissioner, such approval not to be unreasonably withheld. The principal face amount of the Letter of Credit or Surety Bond shall be an amount reasonably estimated by the Commissioner to be equal to the Price of all Sale Oil and Additional Sale Oil to be delivered by the State to Buyer during the 50 Days immediately following delivery of the Letter of Credit or Surety Bond to the Commissioner. The Commissioner will calculate the amount of the Letter of Credit or Surety Bond as follows:

- The Price for the month immediately prior to the calculation date; *multiplied by*
- the maximum number of barrels of crude requested by Buyer for any day in the 50 days immediately following the calculation; *multiplied by*
- 50 days.

The Commissioner may review (or Guarantor may request that the Commissioner review) the amount of the Letter of Credit or Surety Bond one month from the date of this agreement and every three months thereafter to determine if, using the formula described above, an adjustment to the amount of the Letter of Credit or Surety Bond is required to satisfy the conditions of this Section 6.2.; *provided further*, that such adjustment will only be made to any existing Letter of Credit or Surety Bond, if such adjustment is equal to or greater than 10% of the amount of the Letter of Credit or Surety Bond in place. The Letter of Credit or Surety Bond shall not require the State to

submit any documentation in support of drafts drawn against it other than a certified statement by the Commissioner and the State's Attorney General that Guarantor is liable to the State for an amount of money equal to the amount of the draft, that the amount of money is due and payable in full, and it has not been timely paid. Any Surety Bond provided to the State hereunder may not be cancellable by the surety company without at least 60 days' prior written notice to the State (a "Cancellation Notice"). The Guarantor shall have 30 days from the date of receipt of a Cancellation Notice to provide other performance assurances to the State in compliance with this Agreement, or shall be in default hereunder and the State shall be entitled to immediately pursue the remedies described in Section 9.2.

6.3 Performance Assurance After Termination. If a Letter of Credit or Surety Bond is in effect immediately prior to termination of the Agreement, the Commissioner may require that after termination, a Letter of Credit or Surety Bond be maintained in an amount estimated by the Commissioner to be equal to the value of all adjustments which may be made under Article III. As an alternative to maintaining a Letter of Credit or Surety Bond after termination, and on commercial terms acceptable to the Commissioner, the Guarantor may require that Buyer establish and maintain an interest-bearing escrow account equal to the value of all adjustments that may be made under Article III and with the same payment terms as the Letter of Credit or Surety Bond. On request by the Guarantor, the Commissioner shall provide the Guarantor with the methodology used by the Commissioner to estimate the amount of the Letter of Credit or Surety Bond to be maintained after Termination. If a Letter of Credit or Surety Bond is to be maintained after Termination, the Guarantor may request, during the eight years following Termination, that the Commissioner review the amount of the Letter of Credit or Surety Bond required to be maintained if regulatory agency decision or court order may cause a change in the amount of the estimated

adjustment under Article III. The dispute resolution procedure in Article XII applies to a dispute between the parties as to any performance assurance required after Termination.

6.4 Other Performance Assurance. The Commissioner may allow Guarantor to provide security other than a Letter of Credit or Surety Bond if the Commissioner determines other security is adequate to protect the State's interest. The Commissioner may accept the Letter of Credit to be issued by a foreign banking institution that is rated at or higher by both (a) "A+" (Standard and Poor's "Long term issuer"), and (b) "A1" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings"); that has an aggregate capital and surplus amount of not less than Five Hundred Million Dollars (\$500,000,000); that uses its US branch, determined to constitute substantial operations by the Commissioner, to issue the Letter of Credit or alternatively arranges that the Letter of Credit is confirmed by a US banking institution; that is domiciled in France, UK, Spain, Japan, Netherlands, Italy or other jurisdictions acceptable to the Commissioner; that agrees to issue the Letter of Credit that is subject to Alaska courts or other jurisdiction acceptable to the Commissioner. The Commissioner may accept a Surety Bond to be issued by a surety company that is listed in the US Department of the Treasury's Listing of Approved Sureties (Department Circular 570) as certified to do business in Alaska and whose surety bond amount falls within the specified underwriting limitation listed in the Department Circular 570; that is rated at least A in terms of financial strength and XII for financial size by A.M. Best Company or its successors.

6.5 Correction of Defects in Letter. Guarantor shall have five Business Days to correct any defect in the Letter of Credit or Surety Bond beginning on the Business Day Guarantor first learns of the defect whether through Notice from the State or otherwise. A defect is any failure to comply with the terms and conditions of Article VI.

ARTICLE VII
MEASUREMENTS

7.1 Measurements. The quantity and quality of Sale Oil and Additional Sale Oil the State delivers under this Agreement shall be determined by measurement at the Point of Delivery. Procedures used for metering and measuring the Sale Oil and Additional Sale Oil shall be in accordance with the procedures in effect at the Point of Delivery.

ARTICLE VIII
EFFECTIVE DATE AND TERM

8.1 Effective Date. This Agreement shall become effective and enforceable on the date upon which it is signed by all parties (“Effective Date”).

8.2 Initial Term. The Initial Term of this Agreement shall begin on the Day of First Delivery defined in Section 2.4.1. and terminate on the fourth anniversary of the Day of First Delivery except that the Term of this Agreement may be changed as provided in Section 2.1.4 and Article X.

8.3 Continuation of Obligations. The provisions of Article III, Section 6.3, Section 6.4, Section 6.5, Section 8.3, Article IX and Article X shall survive termination of this Agreement for any reason or cause. Termination of this Agreement shall not relieve either Party from any expense, liability, or other obligation or any remedy that has accrued or attached prior to the date of termination. For Sale Oil and Additional Sale Oil delivered under this Agreement, termination of this Agreement shall not relieve State or Buyer of their respective obligations hereunder, including the obligation to pay all production Month invoices, initial adjustments, subsequent adjustments, and interest, and, where applicable, penalties, costs, attorney fees, and any other charges related to the Sale Oil and Additional Sale Oil actually delivered.

ARTICLE IX
DEFAULT OR TERMINATION

9.1 Default.

9.1.1 Events of Default. The Commissioner may suspend or terminate the State's obligations to tender, deliver and sell Sale Oil and Additional Sale Oil to Buyer, and may exercise any one or more of the rights and remedies provided in this Agreement, or at law, if any one or more of the following events of default occur:

(a) Buyer or Guarantor fails to pay in full any sum of money owed under this Agreement within five Business Days after the State gives Buyer Notice that payment is past due;

(b) Within five Business Days after Notice from the State, Buyer or Guarantor fails to provide written assurances satisfactory to the State of Buyer's or Guarantor's intention to perform its obligations under this Agreement and evidence or assurances of transportation arrangements under Section 2.7;

(c) There is a material change in Buyer's or Guarantor's financial condition, business operations, agreements, or property or ownership that is likely to affect Buyer's or Guarantor's ability to perform its obligations under this Agreement, and within five Business Days after Notice from the State, Buyer or Guarantor is unable or unwilling to provide performance assurances meeting the requirements of Article VI;

(d) Buyer or Guarantor fails to perform any of its obligations under this Agreement, and cannot cure the non-performance or the non-performance continues for more than 30 Days after the State has given Notice to Buyer or Guarantor of its non-performance;

(e) Any representation or warranty made by Buyer or Guarantor in this Agreement is found to have been materially false or incorrect when made; or

(f) Guarantor fails, or is unable for any reason (including reasons beyond Guarantor's control), to maintain performance assurances required under Article VI, regardless of Guarantor's willingness or ability to perform any other obligations under this Agreement.

9.1.2 Default by Failure or Inability to Pay. Buyer or Guarantor shall immediately provide the State with Notice if Buyer or Guarantor is unable to pay any of its debts when due, makes an arrangement for the benefit of creditors, files a bankruptcy petition, or is otherwise insolvent. Upon Notice from Buyer or Guarantor, or if the State independently determines that Buyer or Guarantor is unable to pay any of its debts when due or is otherwise insolvent, the State's obligations to deliver and sell Sale Oil and Additional Sale Oil to Buyer shall automatically and immediately terminate without any requirement of Notice to Buyer or Guarantor or other action by the State. Upon termination of the State's obligations under this Section 9.1.2, Buyer and Guarantor shall be liable for payment and performance of all their obligations for Sale Oil and Additional Sale Oil the State delivered to Buyer before termination and for a minimum of one hundred Days after termination, plus an additional 90 Days if a Lessee invokes the force majeure term of its Royalty Settlement Agreement. Within 30 Days after termination under this Article 9.1.2, the State shall have the right, upon consent of Buyer or Guarantor, to reinstate all of the State's, Buyer's and Guarantor's obligations under this Agreement retroactive to the date of termination.

9.2 State's Remedies. If Buyer or Guarantor defaults under this Agreement, in addition to all other remedies available to the State under this Agreement or at law, the following remedies shall be available to the State:

9.2.1 Buyer's and Guarantor's Obligations Become Due. All monetary obligations Buyer or Guarantor has accrued under this Agreement, even if not yet due and payable, shall immediately be due and payable in full.

9.2.2 State May Dispose of Sale Oil and Additional Sale Oil. The State may dispose of some or all of the Sale Oil or Additional Sale Oil to third parties. If the State exercises this remedy, regardless whether this Agreement is terminated, Buyer and Guarantor shall be and shall remain liable to the State for the amount of the difference between the Price for the Sale Oil or Additional Sale Oil under Article II and the actual price the State receives from disposition of the Sale Oil or Additional Sale Oil to third parties.

9.2.3 Indemnification for Loss. Buyer and Guarantor shall hold the State harmless and indemnify it against all its liability, damages, expenses, attorney's fees and costs, and losses directly arising out of Buyer's or Guarantor's default, termination of the State's obligations, and disposal of the Sale Oil or Additional Sale Oil to third parties. Additionally, if Buyer or Guarantor defaults in the payment of any monetary amounts due to the State for Sale Oil or Additional Sale Oil tendered or delivered under this Agreement, Buyer or Guarantor shall pay the State 100 percent of reasonable actual costs and attorney fees incurred by the State in pursuing payment of the monetary amounts due, regardless of whether litigation is commenced and regardless of whether legal services are provided by the Attorney General's office or private counsel.

9.2.4 Other Rights and Remedies. The State shall have the right cumulatively to exercise all rights and remedies provided in this Agreement and by law, and obtain all other relief available under law or at equity, including mandatory injunction and specific performance.

9.3 Limitation of Buyer's and Guarantor's Remedies. If Buyer or Guarantor breaches or defaults in any of its obligations under this Agreement, Buyer or Guarantor shall not obtain a temporary restraining order or preliminary injunction preventing the State from disposing of the Sale Oil or Additional Sale Oil in accordance with Section 9.2.2.

9.4 Article Survives Termination. This Article survives termination of the Agreement.

ARTICLE X

DISPOSITION OF OIL UPON DEFAULT OR TERMINATION

10.1 Disposition of Oil Upon Default or Termination. Buyer and Guarantor acknowledge that the State may be required to provide six Months' notice to the Lessees before the State may decrease its in-kind nomination of Royalty Oil in any Month. If this Agreement terminates for default or any other reason after Buyer has nominated or is deemed to have nominated Sale Oil or Additional Sale Oil, Buyer shall continue to accept and pay for Sale Oil or Additional Sale Oil through the first Day of the Month following expiration of a minimum of 100 Days after the date of termination, if the Commissioner so requires. If, however, the additional notice provisions of Article 2.1.7 are invoked, Buyer shall continue to accept and pay for Sale Oil or Additional Sale Oil until the expiration of six Months and ten Days after the date of default or notice of termination.

10.2 Security for Disposal of Sale Oil and Additional Sale Oil. To secure the Buyer's obligations to purchase and dispose of Sale Oil or Additional Sale Oil, upon the Commissioner's request, if Buyer refuses to accept or receive Sale Oil or Additional Sale Oil under this Agreement, Buyer shall assign or otherwise transfer to the State, or its designee, all or part of Buyer's right to transport the Sale Oil or Additional Sale Oil through and away from the TAPS, and all pipelines upstream from Pump Station No. 1, whether such rights are under nominations, leases, contracts, tariffs, charter parties, or other agreements. The State will incur liability or obligations under such

assignment or transfer only to the extent the State actually exercises its rights to succeed to Buyer's interests under and obtain the benefits of the assignments.

ARTICLE XI **NONWAIVER**

11.1 Nonwaiver. The failure of a Party to insist upon strict or a certain performance, or acceptance by a Party of a certain performance or course of performance under this Agreement shall not: (1) constitute a waiver or estoppel of the right to require certain performance or claim breach by similar performance in the future; (2) affect the right of another Party to enforce any provision; or (3) affect the validity of any part of this Agreement.

ARTICLE XII **DISPUTE RESOLUTION**

12.1 Dispute Resolution. Any disagreement or dispute arising out of or related to this Agreement shall be decided according to the dispute resolution procedure set forth in this Article. The procedure set for in this Article shall be initiated by a Party by providing written Notice of the disagreement or dispute to the other Parties. No later than sixty Days after a Party provides written Notice, the Parties shall each present any arguments and evidence supporting its view of the disputed term, condition, right or obligation in writing to the Commissioner for consideration. Prior to consideration by the Commissioner, the State, Buyer, and Guarantor shall not have the right to civil litigation-type discovery or a civil litigation-type trial with the right to call or cross-examine witnesses unless granted by the Commissioner, after request. Within 30 Days after the Parties submit their final arguments and evidence, the Commissioner shall issue a finding set for the basis for the conclusion. Any Commissioner finding issued under the foregoing procedure shall be considered a final administrative order and decision appealable to the Alaska Superior Court pursuant to AS 22.10.020 and applicable Alaska Rules of Court.

ARTICLE XIII
SEVERABILITY

13.1 Severability. If a court decrees any provision of this Agreement to be invalid, all other provisions of this Agreement shall remain valid. If, however, invalidation of a provision impairs a material right or remedy under this Agreement, the Parties will negotiate in good faith to maintain the original intent and benefits of this Agreement. If the Parties cannot restore the original intent and benefits of this Agreement, then either Party may terminate this Agreement by giving Notice.

ARTICLE XIV
FORCE MAJEURE

14.1 Effect of Force Majeure. Except for Buyer's and Guarantor's obligations to pay amounts due, provide assurance of performance in accordance with Article VI, accept, dispose of, and pay for Sale Oil and Additional Sale Oil, no Party shall be liable for failure to perform if performance is substantially prevented by Force Majeure after commercially reasonable efforts to perform. Except, however, if Buyer or Guarantor is prevented by Force Majeure from performing any material obligation for 180 successive Days or more, the State shall have the right to terminate this Agreement on 60 Days' Notice. If the State is prevented by Force Majeure from performing any material obligation for 180 successive Days or more, Buyer may terminate this Agreement on 60 Days' Notice. Before a Party exercises the right to terminate this Agreement, the Party may request the other Parties to negotiate in good faith to restore performance.

14.2 Force Majeure. In this Agreement the term "Force Majeure" means an event or condition not within the reasonable control of the Party claiming "Force Majeure."

14.2.1 Force Majeure Events include, but are not limited to, the following events:

- (a). act of God, fire, lightning, landslide, earthquake, storm, hurricane,

hurricane warning, flood, high water, washout, explosion, well blowout, failure of plant, pipe or equipment, or;

(b). strike, lockout, or other industrial disturbance, act of the public enemy, war, military operation, blockade, insurrection, riot, epidemic, arrest or restraint by government of people, terrorist act, civil disturbance, or national emergency;

(c). act, order, or requisition of any governmental agency or acting governmental authority or any governmental proration, regulation, or priority.

14.2.2 Force Majeure events do not include changes in commercial or financial markets affecting the price of crude oil or processed petroleum products.

14.3 Notice and Remedy of Force Majeure. If a Party believes that Force Majeure has occurred, the Party shall immediately provide Notice to the other Parties of its claim of Force Majeure. The Party claiming Force Majeure shall use commercially reasonable efforts to remedy the Force Majeure. Except for Buyer's and Guarantor's absolute obligations to pay amounts due, provide assurances of performance in accordance with Article VI, and accept, dispose of and pay for Sale Oil and Additional Sale Oil, the disabled Party's obligations to perform that are affected by the Force Majeure shall be suspended from the time of Notice to the other Parties until the disability caused by the Force Majeure should have been remedied with reasonable diligence.

ARTICLE XV
NOTICE

15.1 Method of Notice. All notices, consents, requests, demands instructions, approvals, and other communications permitted or required shall be made in writing and delivered by any two of the following methods: (a) personally delivered, (b) delivered and confirmed by facsimile transmission, (c) delivered by overnight courier delivery service, (d) delivered and confirmed by electronic mail, or (e) deposited in the United States mail, first class, postage prepaid, certified or registered, return receipt requested, addressed as follows:

Commissioner of Natural Resources
550 West 7th Avenue, Suite 1400
Anchorage, Alaska 99501-3650
Facsimile Number: (907) 269-8918

and

Director, Division of Oil and Gas
550 West 7th Street, Suite 1100
Anchorage, Alaska 99501-3510
Facsimile Number: (907) 269-8938

the Buyer:

Petro Star Inc.
Address: 3900 C Street, Suite 802
Anchorage, Alaska 99503
Facsimile Number:
Attention: General Counsel

the Guarantor:

Arctic Slope Regional Corporation
Address: 3900 C Street, Suite 802
Anchorage, Alaska 99503
Facsimile Number:
Attention: General Counsel

or to any other place within the United States of America designated in writing by the State, Buyer or Guarantor.

15.2 Notice Effective Date. Notice given by personal delivery, or other reputable overnight courier delivery service, or United States mail, first class, postage prepaid, certified or registered, return receipt requested, shall be effective on the date of actual receipt at the appropriate address. Notice given delivered and confirmed by facsimile or electronic mail shall be effective on the date of actual receipt if received during recipient's normal business hours, or at the beginning of the next Business Day after receipt if received after recipient's normal business hours. The Notice Effective Date is the effective date of the first of the two Notices received.

15.3 Change of Address. A Party may notify the other Parties of changes in its address by giving Notice.

ARTICLE XVI

RULES AND REGULATIONS

16.1 Rules and Regulations. This Agreement is subject to the laws of the State of Alaska, and orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency of the State of Alaska.

ARTICLE XVII

SOVEREIGN POWER OF THE STATE

17.1 Sovereign Power of the State. This Agreement shall not be interpreted to limit in any way the State's ability to exercise any sovereign or regulatory powers, whether conferred by constitution, statute or regulation. The State's exercise of any sovereign or regulatory power shall not be deemed to enlarge any of Buyer's or Guarantor's rights, or limit any of Buyer's or Guarantor's obligations or liabilities under this Agreement.

ARTICLE XVIII
APPLICABLE LAW

18.1 Governing Law. This Agreement, and all matters arising from or related to this Agreement, shall be governed, construed and determined by the laws of the State of Alaska.

18.2 Jurisdiction. Any legal action or proceeding arising out of or related to this Agreement shall be brought in a state court of general jurisdiction sitting in the State of Alaska, and the Parties irrevocably submit to the jurisdiction of that court in any action or proceeding.

18.3 Venue. The Parties agree that the venue for any legal action or proceeding arising out of or related to this Agreement shall be in the Alaska Superior Court sitting in Anchorage, Alaska.

ARTICLE XIX
WARRANTIES

19.1 Warranties. The purchase and sale of Royalty Oil under this Agreement are subject only to the warranties the State has expressly set forth in this Agreement. The State disclaims and Buyer and Guarantor waive all other warranties, express or implied in law.

ARTICLE XX
AMENDMENT

20.1 Amendment. This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the Parties, and, where required, only on approval under Alaska Statute 38.06.055.

20.2 Legislative Approval. Any material amendment to this Agreement that appreciably reduces the consideration received by the State requires prior approval of the legislature.

ARTICLE XXI
SUCCESSORS AND ASSIGNS

21.1 Assignments and Other Transfers. Buyer may freely assign its rights and obligations to an Affiliate formed under the laws of a state in the United States of America. An “Affiliate” shall mean an entity that is directly or indirectly controlled by Guarantor or Guarantor’s permitted assigns, or is directly or indirectly controlled by an entity that directly or indirectly controls Guarantor or Guarantor’s permitted assigns, where control means the right to vote more than fifty percent of the voting interest in the entity.

Buyer and Guarantor may, without consent of the State, collectively assign their rights and obligations under this Agreement to a Person that acquires all or substantially all of the Alaska refining assets of Buyer and Guarantor (the “Assignee”), provided that at least 45 Days before the effective date of the assignment the Assignee provides to the State (a) all of the financial information and warranties Guarantor is required to provide under Article V and (b) a copy of the form of the assignment, including Assignee’s obligation to assume and discharge all of Buyer’s and Guarantor’s obligations under this Agreement. If, based on the financial information supplied under Article V, Assignee is required to supply performance assurance under Article VI, the performance assurance in the form and amount required by Article VI must be provided to the State at least 30 Days before the effective date of the assignment. No assignment can be made to an Assignee with long term credit ratings of less than BBB (Standard and Poor’s) or Baa3 (Moody’s). From and after the effective date of the Assignment, Buyer and Guarantor shall be relieved of their rights and obligations under this Agreement except as to any surviving obligations expressed in the Agreement. No assignment shall be effective until after 45 Days’ Notice to the State.

Buyer and Guarantor may not otherwise assign their rights or obligations under this Agreement without first obtaining the written consent of the Commissioner, which may not be unreasonably withheld.

21.2 Binding on Successors. This Agreement shall be binding upon and inure to the benefit of the legal representative, Parties and their successors, and assigns of the Parties.

ARTICLE XXII

RECORDS

22.1 Inspection of Records. The Parties shall each accord to the other and the other's authorized agents, attorneys, and auditors access during reasonable business hours to any and all property, records, books, documents, or indices related to Buyer's, Guarantor's or the State's performance under this Agreement, and which are under possession or control of the Party from which access is sought, so the other Party may inspect, photograph, and make copies of the property, records, books, documents, or indices except: (1) the State shall not be required to disclose any information, data, or records that it is required by state or federal law or regulation, or by agreement with the Person supplying the record, to be held confidential; (2) the State's access to and treatment of Guarantor's financial records shall be limited by Section 5.3; and (3) no party shall be required to produce documents that are protected by the attorney-client privilege or in the case of the State deliberative process privilege. If information the State obtains from Buyer or Guarantor may be held confidential under state or federal law or regulation, Buyer may request in writing that the State hold the information confidential, and the State shall keep the information confidential to the extent and for the term provided by law.

ARTICLE XXIII
EMPLOYMENT OF ALASKA RESIDENTS

23.1 Employment of Alaska Residents. Buyer shall comply with all valid federal, state, and local laws in hiring Alaska residents and companies, and shall not discriminate against Alaska residents and companies. Within the constraints of law, Buyer voluntarily agrees to employ Alaska residents and Alaska companies to the extent they are available, willing, and at least as qualified as other candidates for work performed in Alaska in connection with this Agreement. “Alaska resident” means an individual who is physically present in Alaska with the intent to remain in the state indefinitely. An individual may demonstrate an intent to remain in the state by maintaining a residence in the state, possessing a resident fishing, trapping or hunting license, or receiving a permanent fund dividend. “Alaska companies” means companies incorporated in Alaska or whose principal place of business is in Alaska. If a court invalidates any portion of this provision, Buyer agrees to employ Alaska residents and Alaska companies to the extent permitted by law.

ARTICLE XXIV
COUNTERPARTS

24.1 Counterparts. This Agreement may be executed in multiple counterparts. It is not necessary for the Parties to sign the same counterpart. Each duly executed counterpart shall be deemed to be an original and all executed counterparts taken together shall be considered to be one and the same instrument.

ARTICLE XXV
MISCELLANEOUS

25.1 Agreement Not to Be Construed Against Any Party as Drafter. The Parties recognize that this Agreement is the product of the joint efforts of the Parties and agree that it shall not be construed against any Party as drafter.

25.2 Entire Agreement. This Agreement constitutes the entire agreement and understanding between the Parties about the subject matter of this transaction and all prior agreements, understandings, and representations, whether oral or written, about this subject matter are merged into and superseded by this written Agreement.

25.3 Headings. The headings throughout this Agreement are for reference purposes only and shall not be construed or considered in interpreting the terms and provisions of this Agreement.

25.4 Authority to Sign. Each Person signing this Agreement warrants that he or she has authority to sign the Agreement.

25.5 Further Assurances. The Parties agree to do such further acts or execute such further documents as may reasonably be required to implement this Agreement.

25.6 Currency. All dollar amounts are U.S. dollars.

SIGNATURES:

THE STATE OF ALASKA

Andrew T. Mack, Commissioner
Department of Natural Resources

Date:

PETRO STAR INC.

Doug Chapados
President and CEO

Date:

ARCTIC SLOPE REGIONAL
CORPORATION

Charles Kozak
EVP and Chief Financial Officer
Date:

**APPENDIX 1:
SALE OIL NOMINATION PROCEDURE**

Example Nomination Procedure for July 2014 Deliveries

	Prudhoe Bay & Satellites	Greater Pt McIntyre Area	MPU Total	DIU Total	KRU Total	Northstar Total	CRU Total	Badami Total	Oooguruk Total	Nikaitchuq Total	Total
March 15, 2014											
State receives preliminary barrel per day (bpd) production forecasts from the unit operator 105 days prior to the start of the production month	149,600	14,000	14,000	5,800	73,700	9,200	47,500	1,000	6,700	8,000	329,500
Not later than March 21, 2014											
RIK purchaser notifies state of monthly bpd nomination (a)											30,000
Not later than March 30, 2014											
State computes RIK %											
Estimated royalty rates	12.50%	13.34%	13.77%	14.42%	12.50%	27.50%	14.74%	14.80%	5.00%	12.50%	
State Ownership	100.00%	100.00%	100.00%	100.00%	100.00%	82.16%	67.82%	100.00%	100.00%	100.00%	
Total state estimated royalty bpd (bpd * royalty rate)	18,700	1,868	1,928	836	9,213	2,079	4,748	148	335	1,000	40,854
State's Total RIK nomination percentage (Purchaser RIK bpd/estimated royalty bpd)											73.43%
March 30, 2014											
State notifies unit operator of state's RIK nomination percentage	94.64%	94.64%	95.00%	95.00%	85.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
May 26, 2014											
Unit operator notifies state and working interest owners of updated production forecast											
Production forecast (bpd) for July production month	188,938	30,009	10,900	8,560	72,080	7,300	45,064	1,291	6,900	7,800	378,842
State calculates RIK bpd											
Royalty rates based on updated estimates (b)	12.50%	13.391158%	12.50%	12.50%	12.50%	27.50%	14.74%	14.80%	5.00%	12.50%	
State's RIK nomination percentage	94.64%	94.64%	95.00%	95.00%	85.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
RIK bpd (bpd production forecast * Royalty rate * nomination %)	22,351	3,803	1,294	1,017	7,659	0	0	0	0	0	36,124
State's Tendering percentage (RIK bpd/Production Forecast volumes)	11.83000000%	12.67339193%	11.87500000%	11.87500000%	10.62500000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	
May 31, 2014											
State notifies RIK purchaser of bpd volume available for July production month	22,351	3,803	1,294	1,017	7,659	0	0	0	0	0	36,124
August 2, 2014											
State invoices RIK purchaser for May production											
Metered volume for July 1-31, 2014	7,279,221	561,360	375,992	260,120	2,712,974	256,569	1,406,636	42,261	207,194	248,903	13,351,230
State's RIK Tendering percentage	11.83000000%	12.67339193%	11.87500000%	11.87500000%	10.62500000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	
Total RIK bbbls	861,131.84	71,143.35	44,649.05	30,889.25	288,253.49	-	-	-	-	-	1,296,067
bpd volume (Total RIK/31) (varies from forecast)	27,778	2,295	1,440	996	9,298	0	0	0	0	0	41,809
bpd volume varies from forecast	9,078	427	(488)	160	86						9,264

Table notes:

(a) The state determines from which units to nominate RIK volumes (section 2.1.2 of the Agreement)

(b) The estimated royalty percentage for Greater Pt McIntyre is a composite royalty rate from several fields and will vary with production

APPENDIX 2: EXAMPLE OF CALCULATION OF PRICE OF SALE OIL AND ADDITIONAL SALE OIL

The Price of the Sale Oil and Additional Sale Oil delivered by the State to the Buyer each Month for each Unit from which the Sale Oil and Additional Sale Oil is nominated is:

$$\text{Price} = \text{ANS Spot Price} - 1.95 - \text{Tariff Allowance} + \text{Quality Bank Adjustment} - \text{Line Loss}$$

ANS Spot Price

Table 2-1 illustrates the calculation of the ANS Spot Price for July 2014.

Table 2-1: Calculation of ANS Spot Price						
Effective Date	Platt's Oilgram Price Report			Reuters On-line Data Reporting Service		
	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average
07/01/14	\$111.28	\$111.32	\$111.30000	\$110.49	\$110.59	\$110.54000
07/02/14	\$113.01	\$113.05	\$113.03000	\$112.44	\$112.54	\$112.49000
07/03/14	\$112.64	\$112.68	\$112.66000	\$112.20	\$112.30	\$112.25000
07/07/14	\$114.66	\$114.70	\$114.68000	\$114.22	\$114.32	\$114.27000
07/08/14	\$112.28	\$112.32	\$112.30000	\$111.74	\$111.85	\$111.79500
07/09/14	\$111.20	\$111.24	\$111.22000	\$110.79	\$112.13	\$111.45954
07/10/14	\$113.36	\$113.40	\$113.38000	\$114.60	\$114.70	\$114.65000
07/11/14	\$113.84	\$113.88	\$113.86000	\$114.84	\$114.94	\$114.89000
07/14/14	\$113.47	\$113.51	\$113.49100	\$113.60	\$113.70	\$113.65050
07/15/14	\$114.90	\$114.94	\$114.92000	\$115.19	\$115.29	\$115.24000
07/16/14	\$113.55	\$113.59	\$113.57000	\$114.08	\$114.18	\$114.13000
07/17/14	\$115.16	\$115.19	\$115.17500	\$115.45	\$115.55	\$115.50000
07/18/14	\$115.30	\$115.34	\$115.32000	\$115.39	\$115.49	\$115.44000
07/21/14	\$116.40	\$116.50	\$116.45000	\$116.18	\$116.28	\$116.23000
07/22/14	\$116.20	\$116.23	\$116.21500	\$116.81	\$116.94	\$116.87500
07/23/14	\$116.50	\$116.55	\$116.52500	\$116.15	\$116.25	\$116.20000
07/24/14	\$116.65	\$116.70	\$116.67500	\$116.54	\$116.64	\$116.59000
07/25/14	\$115.71	\$115.75	\$115.73000	\$115.35	\$115.45	\$115.40000
07/28/14	\$114.75	\$114.79	\$114.77000	\$114.39	\$114.50	\$114.44500
07/29/14	\$113.93	\$113.98	\$113.95500	\$114.64	\$114.75	\$114.69500
07/30/14	\$113.55	\$113.60	\$113.57500	\$113.18	\$113.28	\$113.23000
07/31/14	\$114.16	\$114.20	\$114.18000	\$114.46	\$114.54	\$114.50000
	Platt's Montly Avg. =		\$114.22641	Reuters Monthly Avg. =		\$114.29409

$$\text{ANS Spot Price}_{\text{July 2014}} = \$114.260250$$

Tariff Allowance

The Tariff Allowance (TA) is the sum of (1) the average, weighted by ownership, of the Minimum Interstate TAPS Tariff for each owner in effect on the Day the Sale Oil and Additional Sale Oil is tendered by the State to the Buyer; and (2) tariffs on file with FERC for shipment of Sale Oil upstream of Pump Station No. 1. Table 2-2, 2-3, and 2-4 illustrates how the state will calculate the TA for each of the Units from which Sale Oil and Additional Sale Oil may be offered.

Table 2-2: Calculation of TAPS Portion of Tariff Allowance

Ownership-Weighted Average Minimum Interstate TAPS Tariff – July 2014				
Pipeline Company	FERC No.	Percent Pipeline Company Ownership	Minimum Interstate TAPS Tariff (Pump Station No.1 to Valdez Marine Terminal) by Pipeline Company	TAPS Tariff times Company Ownership Percentage
ConocoPhillips Transportation Alaska, Inc.		29.61017%	\$5.04	\$1.49235
ExxonMobil Pipeline Company		21.28289%	\$5.06	\$1.07691
BP Pipelines (Alaska) Inc.		49.10694%	\$5.04	\$2.47499
		100.0000%		

Ownership-Weighted Average Minimum Interstate TAPS Tariff = \$5.04426

Table 2-3: Calculation of Portion of Tariff Allowance Upstream of Pump Station No. 1

Minimum Tariff on Pipelines Upstream of Pump Station No. 1 – July 2014			
Pipeline Company	FERC No.	Pipeline	Tariff
Kuparuk Transportation Company		Kuparuk River Unit to TAPS Pump Station No. 1	
			\$0.26400
Endicott Pipeline Company		Endicott Main Production Island to TAPS Pump Station No. 1	
			\$2.01000
Kuparuk Transportation Company		Milne Point Pipeline Connection to TAPS Pump Station No. 1	
			\$0.19300
Milne Point Pipeline Company		Milne Point Central Facilities to Kuparuk Transportation Company Tie-in	
			\$0.96000
		Total MPU Upstream Tariff Allowance:	\$1.15300
Kuparuk Transportation Company		Kuparuk River Unit to TAPS Pump Station No. 1	
			\$0.26400
Alpine Transportation Company		Colville, Alaska Alpine Field to Kuparuk River Unit	
			\$0.69000
		Total CRU Upstream Tariff Allowance:	\$0.95400
NORTHSTAR Pipeline Company		Northstar Unit Seal Island to TAPS Pump Station No. 1	
			\$2.14000

Table 2-4: Calculation of Tariff Allowance for Each Unit**Calculation of TA for Prudhoe Bay Unit**

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	\$5.04426
Upstream Tariff	<u>\$0.00000</u>
TA _{PBU}	\$5.04426

Calculation of TA for Kuparuk River Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	\$5.04497
Kuparuk Transportation Co. Tariff	<u>\$0.26400</u>
TA _{KRU}	\$5.30826

Calculation of TA for Duck Island Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	\$5.04426
Endicott Pipeline Co. Tariff:	<u>\$2.01000</u>
TA _{DIU}	\$7.05426

Calculation of TA for Milne Point Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	\$5.04426
Kuparuk Transportation Co. Tariff	\$0.19300*
Milne Point Pipeline Co. Tariff	<u>\$0.96000</u>
TA _{MPU}	\$6.19726

Calculation of TA for Colville River Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	\$5.04426
Kuparuk Transportation Co. Tariff:	\$0.26400
Alpine Transportation Company Tariff:	<u>\$0.69000</u>
TA _{MPU}	\$5.99826

Calculation of TA for Northstar Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	\$5.04426
NORTHSTAR Pipeline Company Tariff:	<u>\$2.14000</u>
TA _{NSU}	\$7.18426

*From Kuparuk Pipeline/Milne Point Pipeline connection to TAPS Pump Station No. 1.

Quality Bank Adjustment (QBA)

The TAPS Quality Bank compensates shippers of a high-value crude oil stream when a lower-value crude oil stream is blended in the common stream.¹ To calculate the Price of the Sale Oil and Additional Sale Oil at the Point of Delivery an adjustment must be made for the impact that the sale oil will have on the value of the commingled crude oil stream when it enters the TAPS Valdez terminal.

The QBA is a per-barrel value, either positive or negative, and will be calculated each Month by the State for Sale Oil and Additional Sale Oil from each Unit. The State will estimate a QBA for

¹ Mitchell & Mitchell, 8300 Douglas Avenue, #800, Dallas, TX 75225, administers the TAPS Quality Bank. Anyone who ships oil on TAPS must make prior arrangements with Mitchell & Mitchell to participate in the TAPS Quality Bank.

each applicable Unit for the initial billing. Typically, the State receives the data to calculate the actual QBA for the Month about two Months after the Month the Sale Oil and Additional Sale Oil is delivered. For this reason, the QBA will be subject to a routine true-up in a subsequent adjustment.

Table 2-5: Hypothetical TAPS Quality Bank Data
(as provided by the Quality Bank Administrator)

TAPS Quality Bank Stream Values and Total Stream Volume Shipped July 2014				
Sample Location	Stream	Volume (BBL)	Stream Value (\$/BBL)	Total Stream Value (\$)
PBU IPA	PBU IPA	6,339,237	\$110.4164400000	\$699,955,981.86
LISBURNE	LISBURNE	271,173	\$112.2028800000	\$30,426,391.58
ENDICOTT	ENDICOTT	202,497	\$109.5248100000	\$22,178,445.45
KUPARUK	KUPARUK	7,008,864	\$109.1719600000	\$765,171,420.25
NORTHSTAR	NORTHSTAR	396,155	\$115.0336100000	\$45,571,139.77
PS #1	PS #1 REFERENCE	14,217,926	\$109.9529832205	\$1,563,303,378.91
GVEA OFFTAKE	GVEA PASSING	10,748,066	\$109.9891900000	\$1,182,171,073.41
GVEA RETURN	GVEA RETURN	2,601,950	\$107.3460500000	\$279,309,054.80
GVEA	GVEA REFERENCE	13,350,016	\$109.4740357018	\$1,461,480,128.20
PSVR OFFTAKE	PSVR PASSING	11,912,350	\$109.4969400000	\$1,304,379,691.54
PSVR RETURN	PSVR RETURN	1,051,990	\$105.4520200000	\$110,934,470.52
PSVR	PSVR REFERENCE	12,978,304	\$109.1697812657	\$1,415,314,162.05

KTC Quality Bank Stream Values and Total Stream Volume Shipped July 2014				
Sample Location	Stream	Volume (BBL)	Stream Value (\$/BBL)	Total Stream Value (\$)
ALPINE	ALPINE	2,241,772	\$110.7967700000	\$248,381,096.68
MILNE POINT	MILNE POINT	638,565	\$108.6292500000	\$69,366,837.03
KUPARUK REFERENCE	KUPARUK REFERENCE	7,010,971	\$109.1719600000	\$765,401,445.57
NIKAITCHUQ	NIKAITCHUQ	210,697	\$107.4115200000	\$22,631,285.03
KUPARUK RIVER UNIT	KUPARUK RIVER UNIT	3,919,937	\$108.4257800166	\$425,022,226.84

Table 2-5 shows the kind of information supplied by the TAPS quality bank administrator that will be used to calculate the quality bank differential for Sale Oil and Additional Sale Oil produced from each Unit. The TAPS quality bank administrator provides this information to the State, pipeline owners, and shippers. As a shipper on TAPS, the Buyer will also receive this information. In the column titled “Stream Value (\$/BBL)” are the different per-barrel values of each stream produced from the Units from which Sale Oil and Additional Sale Oil may be delivered. The PSVR Reference Stream value is labeled “PSVR Reference” and is the stream value of the blended TAPS stream immediately downstream of the Petro Star Valdez Refinery return stream. The Quality Bank Adjustment is calculated as the difference between the stream value of each Unit and the PSVR Reference Stream.

For example, assume that the Month is July 2014 and the Sale Oil and Additional Sale Oil is produced from Lisburne. The QBA for Sale Oil and Additional Sale Oil from Lisburne

(QBA_{LIS}) is calculated as the per-barrel difference between the Stream value for Lisburne, indicated as “Lisburne” in Table 2.5, and the PSVR Reference Stream Value. In this example Sale Oil and Additional Sale Oil from Lisburne increases the value of the stream of oil measured at Valdez. Therefore, \$3.0330987343 per barrel is the QBA incorporated in the calculation of Price for Sale Oil and Additional Sale Oil from Lisburne.

Quality Bank Adjustment for Lisburne = the stream value for Lisburne minus the stream value of PSVR Reference (from Table 2-5)

$$QBA_{LIS} = 112.2028800000 - 109.1697812657$$

$$QBA_{LIS} = \$3.03310$$

Note: The Price of Sale Oil and Additional Sale Oil from the PBU IPA and Lisburne are invoiced separately.

Using the results of the example calculations above, Line Loss for Sale Oil and Additional Sale Oil delivered from Lisburne in July 2014 equals

$$\text{Line Loss}_{LIS} = (.0009) \times (\$114.26025 - \$1.95 - \$5.04426 + \$3.03310) = \$0.09927$$

Calculating the Price of Sale Oil and Additional Sale Oil

The Price of Sale Oil and Additional Sale Oil delivered from Lisburne in July 2014 is

$$\text{Price}_{LIS} = \$114.26025 - \$1.95 - \$5.04426 + \$3.03310 - \$0.09927 = \$110.19982$$

Note that each number in the equation is rounded to five decimal places. If a number's sixth decimal is 0, 1, 2, 3, or 4, the number shall be truncated to the fifth decimal. If a number's sixth decimal is 5, 6, 7, 8, or 9, the number shall be truncated to the fifth decimal and the fifth decimal shall be increased by 1.

APPENDIX 3
EXAMPLE OF CALCULATION OF INTEREST AND LATE PAYMENT PENALTIES

Sample Calculation of an Invoice for July 2014 Deliveries

Assumptions:

1. Month is August 2014.
2. Sale Oil and Additional Sale Oil delivered to the Buyer from Lisburne in July 2014 = 31,000 barrels (1,000 bpd).
3. July 2014 Price of the Sale Oil and Additional Sale Oil for Lisburne as initially estimated by the State = \$110.00000 per barrel.
4. Statement of account, with July 2014 invoice, sent to the Buyer on August 2, 2014.
5. July 2014 invoice payment due to the State = August 22, 2014.
6. Buyer pays State only \$1,000,000 on the due date, August 22, and pays the outstanding balance on August 25, 2014.
7. Annual interest rate provided by Alaska Statute 38.05.135(d) for August 2014 is 11 percent.

Method for calculating Buyer's invoice payment for July 2014 deliveries:

$$\begin{aligned} \text{Invoice Amount} &= \text{Quantity of Sale Oil and Additional Sale Oil} \times \\ \text{Buyer's Price of Sale Oil} &= 31,000 \times \$110.00000 = \$3,410,000.00 \end{aligned}$$

Because payment in full was not received by the State on or before August 22, 2014, interest will accrue on the unpaid balance from August 22, 2014 through the date the payment is received, and a late payment penalty will be assessed.

Below is a sample calculation of late payment penalty fee (assuming that it is not waived under Section 3.7) and interest. This sample calculation shows what will happen if the Buyer makes a partial payment on August 22 and the balance on August 25.

Late Payment Penalty Fee:

Statement of Account amount	=	\$3,410,000.00
Amount paid on August 22	=	<u>\$1,000,000.00</u>
Outstanding balance (8/22/11)	=	\$2,410,000.00
Late Payment Penalty Fee (\$2,410,000 x 5%) =	=	\$120,500.00

Interest:

\$2,410,000 x (11%/365) x 3 Days	=	<u>\$2,178.90</u>
Amount Buyer owes on August 25, 2014	=	\$2,532,678.90

Note: As more accurate data is received by the State, the State may adjust the Price and/or the actual quantity of Sale Oil and Additional Sale Oil and invoice the Buyer in the initial adjustment invoice submitted with the following Month's (August 2014) statement of account.

Sample Calculation of an Adjustment Invoice in September 2014

Assumptions:

1. Month is September 2014.
2. Sale Oil and Additional Sale Oil delivered in July 2014 has been revised to 30,000 barrels.
3. July 2014's price for Sale Oil and Additional Sale Oil is unchanged at \$110.00000 per barrel.
4. Date of the statement of account that contains the adjustment invoice is September 1, 2014.
5. Date the adjustment invoice payment is due to the State = September 20, 2014.

Method for calculating the Buyer's adjustment invoice amount for July 2014:

$$\begin{aligned}\text{Invoice Amount} &= \text{Quantity of Sale Oil and Additional Sale Oil} \times \\ \text{Buyer's Price of Sale Oil} &= 30,000 \times \$110.00000 \\ &= \$3,300,000.00\end{aligned}$$

Adjusted Invoice Amount for July 2014	=	\$3,300,000.00
Amount previously paid by the Buyer for July 2014	=	<u>\$3,410,000.00</u>
Overpayment for July 2014	=	(\$110,000.00)

Credit due the Buyer against statement of account amount dated September 1 due September 20, 2014.

Note: As more accurate data is received by the State, the State may adjust the Price and/or the actual quantity of Sale Oil and Additional Sale Oil and invoice the Buyer in the adjustment invoice submitted with the following Month's (October 2014) statement of account.

Sample Calculation of an Adjustment Invoice in October 2014

Assumptions:

1. Month is October 2014.
2. July 2014's price for Sale Oil and Additional Sale Oil is changed to \$110.05000 per barrel due to a change in the quality bank.
3. The statement of account that contains the adjustment invoice is October 4, 2014.
4. The adjusted invoice payment is due to the State = October 20, 2014.

Method for calculating the Buyer's adjustment invoice amount for July 2014:

$$\begin{aligned}\text{Production Month Invoice Amount} &= \text{Quantity of Sale Oil and Additional Sale Oil} \times \\ \text{Buyer's Price of Sale Oil} &= 30,000 \times \$110.05000 \\ &= \$3,301,500.00\end{aligned}$$

Adjusted Invoice Amount for July 2014	=	\$3,301,500.00
Amount previously paid by the Buyer for July 2014	=	<u>\$3,300,000.00</u>
Underpayment for July 2014	=	\$1,500.00

The underpayment is due the State on October 20, 2014.

APPENDIX 4

ILLUSTRATION OF PRORATION

Assume that the monthly Royalty Oil is equal to 40,000 barrels per day (bpd). Thus, 95% of that monthly Royalty Oil is 38,000 bpd. Also, suppose that the State has three RIK contracts:

As defined previously, proration will take place whenever the sum of the initial sale oil quantity nominations for all three RIK buyers is greater than 95% of the monthly Royalty Oil.

Case 1: 95% of the monthly Royalty Oil is not enough to meet the initial sale oil quantity nominations from the RIK buyers. In such a case, buyers will be prorated so that each such buyers' Sale Oil quantity as a percentage of total Sale Oil quantities under all contracts after proration is equal to the percentage of its initial monthly sale oil quantity nomination to the total initial monthly sale oil quantity nominations for all the buyers.

	Initial monthly sale oil quantity nomination (in BPD)	Monthly Sale Oil quantity after proration (in BPD)	
Buyer 1	22,000	16,077	<i>prorated</i>
Buyer 2	18,000	13,154	<i>prorated</i>
Buyer 3	12,000	8,769	<i>prorated</i>
Total	52,000	38,000	

Keeping the assumption that the State has 3 RIK contracts, we could describe the proration provision symbolically.

Let X_i denote the initial monthly sale oil quantity from buyer i , where $i = 1, 2, 3$. Let R represent the monthly Royalty Oil. And let Y_i be the Sale Oil quantity determined after proration.

$$\rightarrow \text{ If } (X_1 + X_2 + X_3) \leq 0.95 * R, \text{ then } Y_i = X_i$$

$$\rightarrow \text{ If } (X_1 + X_2 + X_3) > 0.95 * R, \text{ then } Y_i = \left(\frac{X_i}{X_1 + X_2 + X_3} \right) * 0.95 * R$$

APPENDIX 5

ILLUSTRATION OF ADDITIONAL SALE OIL NOMINATION

Assume that the monthly Royalty Oil is equal to 40,000 barrels per day (bpd). Thus, 95% of that monthly Royalty Oil is 38,000 bpd. Also, suppose that the State has three RIK contracts with the following Sale Oil nominations:

	Buyer 1	Buyer 2	Buyer 3
Sale Oil Nomination	10,000 bpd	8,000 bpd	10,000 bpd

Following from that, the State has Excess Royalty Oil of 10,000 bpd arrived at by subtracting total Sale Oil Nominations from 95% of Royalty Oil (38,000 bpd – (10,000 bpd + 8,000 bpd + 10,000 bpd)).

Case 1: Excess Royalty Oil is enough to meet all Additional Sale Oil nominations.

	Additional Sale Oil quantity nomination (in BPD)	Monthly Sale Oil quantity after allocation (in BPD)	
Buyer 1	2,000	2,000	<i>Original nomination</i>
Buyer 2	5,000	5,000	<i>Original nomination</i>
Buyer 3	2,000	2,000	<i>Original nomination</i>
Total	9,000	9,000	< 10,000 bpd of Excess Royalty Oil

Case 2: Excess Royalty Oil is not enough to meet all Additional Sale Oil nominations.

If total nominations for Additional Sale Oil under all of the State's royalty-in-kind contracts exceed Excess Royalty Oil, the State will allocate Excess Royalty Oil. The State may nominate for each buyer up to the actual nominated volume of Additional Sale Oil. If any buyer's actual nominated volume of Additional Sale is not more than equal volumes of Excess Royalty Oil available to each buyer nominating Additional Sale Oil for that period determined by dividing Excess Royalty Oil by the number of nominations for Additional Sale Oil, that buyer will receive its full nomination. Those buyers, whose Additional Sale Oil nominations are not fully met with the calculated equal volumes of Excess Royalty Oil, will equally split the remaining available volumes up to the amount of actual nominated volume of Additional Sale Oil for each buyer. If there are remaining available volumes of Excess Royalty Oil, they will be allocated to the buyers whose actual nominated volume of Additional Sale Oil has not been satisfied.

Equal volumes of Excess Royalty Oil available to each buyer nominating Additional Sale Oil in this scenario is 3,333 bpd derived by dividing 10,000 bpd by 3.

Buyer 1's Additional Sale Oil nomination is fully met with the calculated equal volumes of Excess Royalty Oil, thus Buyer 2 and Buyer 3, whose Additional Sale Oil nominations are not satisfied, will equally split the remaining available volumes at 4,000 bpd each calculated as $(10,000 \text{ bpd} - 2,000 \text{ bpd})/2$, up to the amount of each buyer's actual nomination. This means that Buyer 3 will only receive 3,500 bpd based on its actual nomination and buyer 2 will receive remaining 4,500 bpd.

	Additional Sale Oil quantity nomination (in BPD)	Monthly Sale Oil quantity after allocation (in BPD)	
Buyer 1	2,000	2,000	<i>Original nomination</i> <i>Remaining volumes equally split between buyers whose nominations were not met with equal volumes of Excess Royalty Oil (3,333 bpd) available to each buyer nominating Additional Sale Oil up to each buyer's actual nomination</i> =10,000 bpd of Excess Royalty Oil
Buyer 2	6,000	4,500	
Buyer 3	3,500	3,500	
Total	11,500	10,000	