

PRUDHOE

BAY

CORROSION

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(FILE 2)

UNIT AGREEMENT
PRUDHOE BAY
UNIT
STATE OF ALASKA

UNIT AGREEMENT
PRUDHOE BAY UNIT
STATE OF ALASKA

AGO 10034215

**UNIT AGREEMENT
PRUDHOE BAY UNIT
STATE OF ALASKA**

THIS AGREEMENT, entered into as of April 1, 1977, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto, with the agreement and approval of the State of Alaska.

WITNESSETH:

WHEREAS, the A.R.Co.-Humble (now A.R.Co.-Exxon) Prudhoe Bay State No. 1 Well on land covered by State Lease No. ADL-28303 between the depths of 8,117 feet below Kelly Bushing and the top of the carbonate formation at 8,785 feet below Kelly Bushing (called "Permo-Triassic formation") as measured by the Schlumberger Dual Induction Laterolog, Run 4 dated February 8, 1968, and Run 5 dated March 9, 1968, and subsequent additional wells have established the discovery of a major oil and gas field in the Prudhoe Bay area of the Arctic Slope of Alaska; and

WHEREAS, Section 31.05.110 (a) of the Alaska Statutes (Oil and Gas Conservation) provides that to prevent, or to assist in preventing waste, to insure a greater ultimate recovery of oil and gas, and to protect the correlative rights of owners of interests in the tracts of land affected, these owners may validly integrate their interests to provide for the unitized development and operation of such tracts of land as a unit; and

WHEREAS, the Commissioner of Natural Resources, State of Alaska, is authorized by Chapter 38.05 of the Alaska Statutes where necessary or advisable in the public interest, to agree to and approve a unit plan of development or operation on behalf of the State of Alaska insofar as it covers and includes lands and mineral interests of the State of Alaska; and

WHEREAS, in order to accomplish the foregoing purposes, it is deemed necessary and desirable to enter into this agreement to

unitize the Oil and Gas Rights in and to the Unit Area, as herein established, in order to conduct the Unit Operations as herein provided;

Now, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, it is agreed as follows:

ARTICLE 1

DEFINITIONS

As used in this agreement:

1.1 *Director* is the Director, Division of Lands, Department of Natural Resources, State of Alaska, or his duly authorized representative, who is authorized and has been delegated the authority to act for and on behalf of the Commissioner of the Department of Natural Resources with respect to the agreement to and approval of this agreement by the State of Alaska and the giving of the various approvals called for in this agreement.

1.2 *Effective Date* is the time and date this agreement becomes effective as provided in Article 14.1 hereof.

1.3 *Gas Cap Gas* is natural gas (with all of its constituent elements, including condensate and gas plant liquids, derived or extracted from it after it leaves the Reservoir) which originally occurred in a Reservoir in gaseous form and not in solution with Oil.

1.4 *Gas Cap* is that portion of a Reservoir occupied by Gas Cap Gas originally in place and not by Oil or Solution Gas.

1.5 *Gas Cap Participating Area* shall have the meaning given to it by Section 5.1(c) hereof.

1.6 *Legal Subdivision of Land* is a section of land according to the governmental or protracted survey thereof, containing six hundred and forty (640) acres more or less, or the nearest equivalent in instances of irregular surveys.

1.7 *Oil* is any hydrocarbon produced in liquid form at the wellhead and originally existing in liquid form in the Reservoir.

1.8 *Oil and Gas Rights* are the rights to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds or value thereof.

1.9 *Oil Rim* is that portion of a Reservoir occupied by Oil and Solution Gas originally in place and not by Gas Cap Gas.

1.10 *Oil Rim Participating Area* shall have the meaning given to it by Section 5.1(e) hereof.

1.11 *Outside Substances* are all substances injected into a Reservoir which have been obtained from any source outside the Unit Area or on which payments for Royalty Interests previously have been made.

1.12 *A Participating Area* is a Tract or group of Tracts described and designated as such pursuant to this agreement for purposes of developing, producing and allocating one or more of the Unitized Substances from all or part of one or more Reservoirs, as determined for such Tract or group of Tracts in accordance with this agreement.

1.13 *Prudhoe Bay (Permo-Triassic) Gas Cap* shall have the meaning given to it by Section 5.1(b) hereof.

1.14 *Prudhoe Bay (Permo-Triassic) Oil Rim* shall have the meaning given to it by Section 5.1(d) hereof.

1.15 *Prudhoe Bay (Permo-Triassic) Reservoir* shall have the meaning given to it by Section 5.1(a) hereof.

1.16 *A Reservoir* is the portion of a porous and permeable underground formation containing or appearing to contain an individual and separate, continuous accumulation of producible Unitized Substances which is confined by impermeable rock or a defined oil-water or gas-water contact and is characterized by a single natural pressure system.

1.17 *Reservoir Limits* means the areal extent of a Reservoir in its original condition prior to the first withdrawal of any Unitized Substance therefrom.

1.18 *Royalty Interest* is a right to or interest in any portion of the Unitized Substances or proceeds or value thereof other than a Working Interest.

1.19 *Royalty Owner* is the State of Alaska and any other party hereto who owns a Royalty Interest.

1.20 *Solution Gas* for the purposes of distinguishing it from Gas Cap Gas, is any gaseous hydrocarbon which originally occurred in a Reservoir in solution with Oil. Solution Gas for purposes of distinguishing it from Oil, is any hydrocarbon which originally occurred in a Reservoir in solution with Oil and which was converted to a gaseous form by changes in pressure or temperature effected by ordinary production methods. In either case, the term Solution Gas includes all constituent elements including gas plant liquids derived or extracted therefrom after it leaves the Reservoir.

1.21 *Tract* is the land described as such and given a Tract number in Exhibit A as originally attached hereto or as such Exhibit A may be amended from time to time in accordance with the provisions hereof.

1.22 *Tract Participation* is the percentage assigned to a Tract for a Participating Area for allocating Unitized Substances to such Tract.

1.23 *Unit Area* is the land described by Tracts in Exhibit A and shown on Exhibit B as to which this agreement becomes effective or to which it may be extended as herein provided.

1.24 *Unit Equipment* is all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired by Working Interest Owners for use in Unit Operations.

1.25 *Unit Operating Agreement* is the agreement entered into by Working Interest Owners, having the same Effective Date as this agreement, entitled "Unit Operating Agreement, Prudhoe Bay Unit, State of Alaska", as amended or supplemented from time to time.

1.26 *Unit Operations* are all operations conducted pursuant to this agreement and the Unit Operating Agreement.

1.27 *Unit Operators* are the Working Interest Owners designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations, acting as operators and not as Working Interest Owners.

1.28 *Unitized Substances* are all oil, gas and associated substances other than Outside Substances within or produced from the Unit Area.

1.29 *Working Interest* is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, under or pursuant to which the owner of such interest has the right to drill for, develop and produce, or cause to be drilled for, developed and produced, oil and gas, and the owner of which interest is obligated to pay, either in cash or out of production or otherwise, a portion of the unit expenses. A Royalty Interest created out of a Working Interest subsequent to the execution of this agreement by the owner of such Working Interest shall continue to be subject to such Working Interest burdens and obligations that are stated in this agreement and the Unit Operating Agreement. For the purpose of this agreement the interest of BP ALASKA INC. as shown on Exhibit A shall be considered as a Working Interest.

1.30 *Working Interest Owner* is a party hereto who owns a Working Interest.

ARTICLE 2 EXHIBITS

2.1 *Exhibits.* The following exhibits, which are attached hereto, are incorporated herein by reference:

2.1.1 *Exhibit A* is a schedule that describes each Tract in the Unit Area and shows among other things the ownership of Oil and Gas Rights in each Tract.

2.1.2 *Exhibit B* is a map depicting the boundary line of the Unit Area and the Tracts therein.

2.1.3 *Exhibit C* is a description of the Oil Rim Participating Area, as defined in Section 5.1(e) of this agreement, and a description of the Gas Cap Participating Area, as defined in Section 5.1(c) of this agreement, and a schedule showing respective Tract Participations for each Participating Area.

2.1.4 *Exhibit D* consists of two maps labeled D-1 and D-2 depicting the boundary lines of the Oil Rim Participating Area, as defined in Section 5.1(e) of this Agreement, and the Gas Cap Participating Area, as defined in Section 5.1(c) of this agreement.

2.1.5 *Exhibit E* is the plan of development for the Oil Rim Participating Area, as defined in Section 5.1(e) of this agreement, and the Gas Cap Participating Area, as defined in Section 5.1(c) of this agreement.

2.1.6 *Exhibit E-1* is the plan of development and operation for lands not included in the Initial Participating Areas.

2.1.7 *Exhibit F* is a map depicting the Reservoir Limits of the Prudhoe Bay (Permo-Triassic) Reservoir.

2.2 *Reference to Exhibits.* When reference is made to an exhibit, it is to the exhibit as originally attached or, if revised, to the latest revision.

2.3 *Exhibits Considered Correct.* Exhibits A, B, C, D, E, E-1 and F shall be considered to be correct until revised as herein provided.

2.4 *Correcting Errors.* Shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Royalty or Working Interest ownership, should be divided into more than one Tract, or that any mechanical miscalculation or clerical error has been made, Unit Operators, with approval of Working Interest Owners, shall correct the mistake by revising the exhibits to conform to the facts. Such revision shall not include any re-evaluation of reservoir engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall

be effective as of the Effective Date. Each such revision thereafter made shall be effective at 12:01 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners as set forth in the revised exhibit.

2.5 *Exhibits for New Participating Areas.* Unit Operators shall prepare exhibits similar in form to Exhibits C and D for each new Participating Area created pursuant to Sections 5.3 and 5.4 of this agreement and shall submit the same promptly to Working Interest Owners and after approval by them to the Director for approval.

2.6 *Filing Revised Exhibits.* If an exhibit to this agreement is revised, Unit Operator shall execute an appropriate instrument with the revised exhibit attached and file the same for record in the Barrow Recording District and in the filing office of the Division of Lands in Anchorage, Alaska.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 *Oil and Gas Rights Unitized.* All Oil and Gas Rights in each of the Tracts described in Exhibit A are hereby unitized so that Unit Operations may be conducted as if the Unit Area had been included in a single lease executed by the State of Alaska and any other party who may have authority to execute oil and gas leases, as lessor, in favor of all Working Interest Owners, as lessees.

3.2 *Personal Property Excepted.* All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the land covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners and is hereby excepted from the provisions of this agreement. The rights and interests therein as among Working Interest Owners are set forth in the Unit Operating Agreement.

3.3 *Amendment of Leases and Other Agreements.* The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to respective Tracts or the production therefrom are amended to the extent necessary to make

them conform to the provisions of this agreement, but otherwise shall remain in effect.

3.4 *Continuation of Leases and Term Interests.* Except for the purpose of determining payments to the State of Alaska and other Royalty Owners, production from any part of the Unit Area, as such area may be enlarged or contracted, or other Unit Operations shall be considered as production from or operations upon each Tract, and such production or operations, so long as the particular Tract remains committed to this agreement, shall continue in effect each lease or term mineral or royalty interest as to all lands and formations covered thereby just as if such operations were conducted on and as if a well were producing from each Tract.

3.5 *Rental Settlement.* Rental or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor at the rates specified in the respective leases and in accordance with applicable laws and regulations, regardless of whether or not the primary term of said leases has expired, unless such rentals or minimum royalties are waived, suspended or reduced by law or by approval of the Director. Minimum royalty accrues on each lease, any part of which is in a Participating Area, and each other lease which is producing or certified by the Alaska Division of Lands as capable of producing in paying quantities, on the first day of each lease year and is payable at the end of the lease year. Rentals on all other leases shall be due and payable prior to the beginning of each lease year.

3.6 *Titles Unaffected by Unitization.* Nothing herein shall be construed to result in the transfer of title to the Oil and Gas Rights by any party hereto to any other party or to Unit Operators.

3.7 *Injection Rights.* Pursuant to an approved development and operation plan, Working Interest Owners may inject substances into the Unit Area for Unit Operations, together with the right to drill, use, and maintain injection wells on the Unit Area, and to use for injection purposes any nonproducing or abandoned wells or dry holes, and any producing wells completed in the Unit Area.

3.8 *Operating Rights.* Working Interest Owners, and Unit Operators in their behalf, shall have the same rights as are granted in the several oil and gas leases of ingress, egress, use of the surface and subsurface, use of water, use of other substances, use for the laying of pipelines and any other rights in said leases, which shall extend to and may be exercised for the benefit of the Unit Operations, the same as if the entire Unit Area were covered by a single oil and gas lease containing such provisions. Such rights shall extend to all lands hereafter added to the Unit Area and shall continue in full force and effect as to any lands hereafter excluded from the Unit Area (whether by virtue of Section 9.3 of this agreement or otherwise) which, when excluded, are either being utilized for the benefit of Unit Operations or to be utilized pursuant to an approved plan of development and operation.

ARTICLE 4

UNIT OPERATORS AND PLAN OF DEVELOPMENT AND OPERATION

4.1 *Unit Operators.* Working Interest Owners are concurrently herewith entering into the Unit Operating Agreement designating Unit Operators. BP ALASKA INC., with offices at 3111 "C" Street (P.O. Box 4-1379, 99509), Anchorage, Alaska, is designated as Unit Operator for the following identified leases or portions thereof included within the Unit Area:

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
47445	1
28235	2
28254	3
47469	9
47448	10
28256	11
28255	12
28237	13
47447	14
47446	15
25637	16
47449	17
28239	18
28238	19
28259	20
28258	21

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<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
28257	22 & 22-A
28279	23
28278	24
28277	25
28299	26
28304	43
28280	44
28281	45
28282	46
28260	47
28261	48
47450	49
28240	50
28241	51 & 51-A
28244	52
28245	53
28262	54 & 54-A
28263	55 & 55-A
47451	56
28283	57
28284	58
28285	59
28305	60
28310	75
28286	76
28287	77
28288	78
28264	79
47452	80
47453	81
28246	82
47454	83
28265	84
28289	85 & 85-A
47471	86
47472	87
28313	88
47475	103
47476	104
28290	105

ATLANTIC RICHFIELD COMPANY, with offices at 711 West 8th Avenue (P.O. Box 360, 99510), Anchorage, Alaska, is designated as Unit Operator for the following identified leases or portions thereof included within the Unit Area:

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
34625	4
34626	5
34627	6
34624	7
28297	8
28300	27
28301	28
34628	29
34629	30
34630	31
34635	32
- 34634	33
- - 34633	34
34636	35
28337	36
28338	37
28320	38
34631	39
34632	40
28302	41
28303	42
28306	61
28307	62
28321	63
28322	64
28323	65
28339	66
28340	67
28341	68
28343	69
28324	70
28325	71
28326	72
28308	73
28309	74
28312	89
28311	90
28329	91
28328	92
28327	93
28345	94
28344	95
28347	96
28346	97
28332	98
28331	99
28330	100

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
28315	101
28314	102
47482	106
28316	107 & 107-A
28335	108
28334	109 & 109-A
28333	110
28349	111

Further reference in this agreement and the Unit Operating Agreement to Unit Operators shall mean BP ALASKA INC., with respect to that portion of the Unit Area for which it is designated as Unit Operator, and ATLANTIC RICHFIELD COMPANY, with respect to that portion of the Unit Area for which it is designated as Unit Operator. Unit Operators shall have the right to conduct Unit Operations, which shall conform to the provisions of this agreement and the Unit Operating Agreement. By signature hereto, BP ALASKA INC. and ATLANTIC RICHFIELD COMPANY, hereby agree to accept the duties and obligations of Unit Operators for discovery, development and production of Unitized Substances as herein provided. A change of either Unit Operator may be made in accordance with the Unit Operating Agreement, and the Director shall be notified promptly of any such change. In the event of any such change, the Unit Operator herein designated, change of which is desired, shall continue in its capacity as a Unit Operator until a qualified successor shall have been selected and approval thereof is given by the Director and the successor shall have assumed its duties as a Unit Operator. No change of a Unit Operator shall become effective until approved by the Director. Upon a change of Unit Operator, the outgoing Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting Unit Operations and owned by the Working Interest Owners to the new, duly qualified and approved successor Unit Operator.

4.1.1 Each Unit Operator shall file with the appropriate State of Alaska office all applications for permits and make all reports and file all notices which pertain to wells, facilities or Unit Operations conducted or to be conducted within that portion of the Unit Area for which it is designated as a Unit Operator.

4.1.2 Both Unit Operators must accept joint responsibility for the following reports and filings, as may be lawfully required, by jointly submitting same:

4.1.2.1 Establishment and revision of any Participating Area.

4.1.2.2 Plans of development and operation.

4.1.2.3 Reports concerning monthly production including allocation of the royalty portion of such production to the Working Interest Owners for settlement with the State of Alaska.

4.1.2.4 Plans for gathering lines, injection systems and other facilities related geographically to both operating areas.

Whenever the State of Alaska should require both Unit Operators to take any action or to report any matter, such matter shall be submitted jointly. The Unit Operators shall act hereunder only as authorized in accordance with provisions of this agreement and the Unit Operating Agreement, and the State shall be entitled to rely upon any action by the Unit Operators hereunder as authorized in accordance with said Unit Operating Agreement.

4.2 *Method of Development and Operation.* To the end that Unitized Substances economically recoverable may be increased and waste prevented, Working Interest Owners shall with due diligence develop the Unit Area in accordance with good engineering and production practices. Such engineering and production practices shall include a plan of development and operation on a Reservoir basis (or portion thereof), designed to efficiently and economically produce Unitized Substances. The plan for development and operation of the Oil Rim Participating Area and the Gas Cap Participating Area, as those Participating Areas are respectively defined in Sections 5.1(e) and 5.1(c) of this agreement, is attached hereto as Exhibit E, and is approved by the Director's approval of this agreement. Modifications of Exhibit E shall be submitted to the Director for approval.

A plan for the development and operation of lands not included in the initial Participating Areas is attached hereto as Exhibit E-1

and is approved by the Director's approval of this agreement. Within five (5) years after the Effective Date, Unit Operators shall submit for the Director's approval a further plan of development and operation for lands not then included in a Participating Area. If Unit Operators fail to submit an acceptable further plan of development and operation or fail in a substantial respect to conduct the operations included in an approved plan, the Director may upon notice to Unit Operators and the affected Working Interest Owners exclude from Unit Area any lands not then included in a Participating Area; provided, however, that such lands shall not be excluded while bona fide drilling operations are being conducted on any such lands and continued diligently, with at least one well being commenced each calendar year and followed by a good faith attempt to complete such well during the winter drilling season; provided further that if Unit Operators have timely submitted a plan of development and operation on a Reservoir basis (or portion thereof), covering a portion of such lands, and such plan has been approved by the Director, then lands covered by such plan of development and operation shall not be excluded from the Unit Area so long as operations are being diligently conducted pursuant thereto. The Director may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted.

Development and operation of the Unit Area, as it may be enlarged or contracted, pursuant to a plan or plans submitted and approved by the Director in accordance with this Section 4.2, shall be deemed full performance of all obligations for development and operation with respect to each and every Tract included in such plan or plans, regardless of whether there is any development of any particular Tract or Tracts of the Unit Area, notwithstanding anything to the contrary in the lease.

A plan of development and operation for each subsequently established Participating Area shall be submitted to the Director for approval as information upon which to base such plan is developed.

4.3. *Rate of Prospecting, Development and Production.* The Director is hereby vested with authority to alter or modify from

time to time the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to State law or does not conform to any state-wide voluntary conservation or allocation program which is established, recognized and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alterations or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable State law.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than thirty (30) days from notice, and shall not be exercised in a manner that would (i) require any increase in the rate of prospecting, development or production in excess of that required under good and diligent oil and gas engineering and production practices; or (ii) alter or modify the rates of production from the rates provided in the approved plan of development and operations then in effect or, in any case, curtail rates of production to an unreasonable extent, considering unit productive capacity, transportation facilities available, and conservation objectives; or (iii) prevent this agreement from serving its purpose of adequately protecting all parties in interest hereunder, subject to applicable conservation laws and regulations.

4.4. *Drilling by Working Interest Owners.* Any Working Interest Owner shall be entitled to drill wells under circumstances and limitations prescribed in the Unit Operating Agreement. On approval by the Director, a plan of testing, evaluation and pilot production may be carried out by such Working Interest Owner to determine if such wells are capable of sustained commercial production of Unitized Substances in sufficient quantities to justify Working Interest Owners in developing and producing the Reservoir, or portions thereof, into which such well is completed; provided, how-

ever, that any such wells which are determined to be capable of such production must thereafter be produced by the Unit Operator.

ARTICLE 5

PARTICIPATING AREAS AND TRACT PARTICIPATIONS

5.1 *Definitions Pertaining to Participating Areas Within Prudhoe Bay (Permo-Triassic) Reservoir.*

5.1(a) *Prudhoe Bay (Permo-Triassic) Reservoir* means the accumulation of Unitized Substances correlating with the Unitized Substances found in the A.R.Co.-Humble (now A.R.Co.-Exxon) Prudhoe Bay State No. 1 well between the depths of 8,117 feet and 8,785 feet below Kelly Bushing as measured by the Schlumberger Dual Induction Laterlog, Run 4, dated February 8, 1968, and Run 5, dated March 9, 1968 (including also the Put River Sandstone, which is that sandstone interval that correlates with the interval 9,638 to 9,719 measured feet on the Borehole Compensated Sonic Log, Run 2, dated September 28, 1975, in the Atlantic Richfield-Exxon NGI No. 1 well, and any other formation that contains an accumulation of Unitized Substances in substantial hydrocarbon communication with the above-described portion of the Prudhoe Bay (Permo-Triassic) Reservoir), and which has Reservoir Limits shown on Exhibit F as such exhibit may be revised from time to time by the Working Interest Owners in accordance with the Unit Operating Agreement and Section 2.6 hereof. For the purposes of this agreement, the Prudhoe Bay (Permo-Triassic) Reservoir shall be considered as a separate, continuous accumulation of producible Unitized Substances, even if faults or other discontinuities may divide the Permo-Triassic formation within the designated area in Exhibit F into separate Reservoir segments.

5.1(b) *Prudhoe Bay (Permo-Triassic) Gas Cap* is that portion of the Prudhoe Bay (Permo-Triassic) Reservoir which originally contained Gas Cap Gas and which is distinguished from the Prudhoe Bay (Permo-Triassic) Oil Rim as being that portion of the Permo-Triassic Reservoir which originally existed above the gas-oil contact or contacts as determined by the Working Interest Owners.

5.1(c) *Gas Cap Participating Area* is the Participating Area described in Exhibit C and depicted in Exhibit D-2 as established for the Prudhoe Bay (Permo-Triassic) Gas Cap by Section 5.2 of this agreement.

5.1(d) *Prudhoe Bay (Permo-Triassic) Oil Rim* is that portion of the Prudhoe Bay (Permo-Triassic) Reservoir which originally contained Oil and Solution Gas and which was not originally occupied by Gas Cap Gas.

5.1(e) *Oil Rim Participating Area* is the Participating Area described in Exhibit C and depicted in Exhibit D-1 as established for the Prudhoe Bay (Permo-Triassic) Oil Rim by Section 5.2 of this agreement.

5.2 *Participation for Prudhoe Bay (Permo-Triassic) Reservoir Participating Areas.* The Oil Rim Participating Area shown on Exhibit D-1 and the Gas Cap Participating Area shown on Exhibit D-2 are hereby established as the initial Participating Areas. The Tract Participations initially agreed to by the Working Interest Owners for the Oil Rim and Gas Cap Participating Areas are shown in Exhibit C. Tract Participations have been assigned to the Tracts within the Oil Rim Participating Area primarily on the basis of Oil and Solution Gas originally in place and to the Gas Cap Participating Area primarily on the basis of Gas Cap Gas originally in place, as determined by agreement of the Working Interest Owners. Because development of the Tracts and the available information concerning Unitized Substances is not complete enough to allow final determination of Tract Participations as of the Effective Date, the Working Interest Owners agree that the initial Tract Participations shall be subject to adjustments or corrections as provided in the Unit Operating Agreement.

The Oil Rim and Gas Cap Participating Areas may be enlarged and/or contracted from time to time with approval of the Working Interest Owners, as set out in the Unit Operating Agreement, and of the Director. Such enlargement shall include Legal Subdivisions of Land, any portion of which is reasonably proved to be within the Reservoir Limits of the Prudhoe Bay (Permo-Triassic) Reservoir. Such contraction shall exclude Tracts reasonably proved to be wholly outside the Reservoir Limits of the Prudhoe

Bay (Permo-Triassic) Reservoir. Effective January 1, 1982, corrected Tract Participations resulting from enlargements, contractions or other corrections deemed necessary by the Working Interest Owners shall be assigned to the Tracts in the Oil Rim Participating Area and to Tracts in the Gas Cap Participating Area as determined by the Working Interest Owners in accordance with the Unit Operating Agreement.

Contractions of the Oil Rim and/or Gas Cap Participating Areas shall not be made after January 1, 1982. The Oil Rim and Gas Cap Participating Areas may be enlarged after January 1, 1982, to include Legal Subdivisions of Land any portion of which is reasonably proved to be within the Reservoir Limits of the Prudhoe Bay (Permo-Triassic) Reservoir upon the terms and conditions as may be determined by the Working Interest Owners, in accordance with the provisions of the Unit Operating Agreement, including provision for the allocation of a Tract Participation to the added Legal Subdivision of Land. For enlargements which may occur after January 1, 1982, the corrected Tract Participations of the Tracts in the Participating Area prior to the enlargement shall remain in the same ratio one to the other.

New exhibits showing such new Tracts, Tract Participations and boundaries shall be filed with the Director for approval.

5.3 *Participation—Other Participating Areas.* As to any other Reservoir which has been or may be discovered within the Unit Area and which shall have been reasonably proven to be capable of sustained commercial production of Unitized Substances in sufficient quantities to justify Working Interest Owners in developing and producing such Reservoir, or portion thereof, the affected Working Interest Owners shall establish a Participating Area for all or that portion of such Reservoir as has been reasonably defined. Such Participating Area may be established, enlarged or contracted to include lands which are reasonably proved to be within the Reservoir Limits of such Reservoir or portion thereof. The lands to be included shall be based on such subdivisions of the public land surveys as may be approved by the Director, but not less than the area approved by the well-spacing order affecting such lands for such Reservoir. Such lands and Tract Participations for each Participating Area shall be

determined by the Working Interest Owners and approved by the Director.

5.4 *Provisions Common to All Reservoirs.* For all Participating Areas, including the Permo-Triassic Oil Rim and Gas Cap Participating Areas, the Working Interest Owners and the Royalty Owners other than the State of Alaska shall have the right to allocate the Unitized Substances, other than the State's Royalty Interest share, in any way they see fit in accordance with the provisions of the Unit Operating Agreement.

Insofar as the interest of the State of Alaska is concerned, there shall be no retroactive adjustment of interest in Unitized Substances, or in the proceeds therefrom, upon the correction of Tract Participations, but as between themselves, the Working Interest Owners and the Royalty Owners other than the State of Alaska are free to provide otherwise in the Unit Operating Agreement if they desire.

The Working Interest Owners in any two or more Participating Areas established hereunder for any one or more Reservoirs or portion thereof may, with approval of the Director and as provided in the Unit Operating Agreement, combine such Participating Areas except that the approval of the Director shall not be required for combination of the Oil Rim Participating Area and the Gas Cap Participating Area.

Except as hereinabove provided, the effective date for establishment, revision or consolidation of Participating Areas as to the State of Alaska shall be 12:01 a.m. of the first day of the calendar month following approval by the Director or such other appropriate date as may be agreed by the Director and Unit Operators, acting on behalf of Working Interest Owners. No land included in a Participating Area shall ever be excluded therefrom because of depletion of Unitized Substances.

5.5 *Failure to Agree.* The parties hereto agree, anything contained herein to the contrary notwithstanding, that failure or refusal of the Director to approve, or of Working Interest Owners or any of them to agree, to any matter or matters arising out of or in connection with the creation or operation of or production from any

Participating Area hereafter proposed or created in addition to the Oil Rim Participating Area and Gas Cap Participating Area established by this agreement shall not under any circumstances invalidate or otherwise affect this agreement, the Unit Operating Agreement, or continued Unit Operations on or production of Unitized Substances from the Oil Rim Participating Area and the Gas Cap Participating Area in the same manner and to the same extent as if no additional Participating Areas were ever proposed or created under the terms hereof.

ARTICLE 6

ALLOCATION OF UNITIZED SUBSTANCES

6.1 *Allocation of Unitized Substances Produced from Participating Areas.* All Unitized Substances produced and saved from the Unit Area shall be allocated to the Participating Area established for such Reservoir and to the Working Interest Owners therein; except that where there are separate Oil Rim and Gas Cap Participating Areas within a Reservoir, production therefrom of Gas Cap Gas shall be allocated to the Gas Cap Participating Area of such Reservoir, and to the Working Interest Owners therein, and production therefrom of Oil and Solution Gas shall be allocated to the Oil Rim Participating Area of such Reservoir and to the Working Interest Owners therein. Such allocations shall be in accordance with methods, formulas and procedures as provided in the Unit Operating Agreement.

Unitized Substances allocated to each Working Interest Owner in a Participating Area shall be allocated to the several Tracts in such Participating Area in which such Working Interest Owner owns a Working Interest in the proportion that the product of such Working Interest Owner's Working Interest in each such Tract multiplied by the current Tract Participation for such Tract bears to the sum of all such products for that Working Interest Owner. The amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 *Allocation of Unitized Substances from Reservoirs not in a Participating Area.* Prior to the effective date of a Participating Area established for any part of a Reservoir, production of any Unitized Substances from such part is allocated to the Tract from which such production is obtained.

The Unitized Substances allocated to each such Tract shall be accounted for among the Working Interest Owners on the basis set forth in the Unit Operating Agreement.

6.3 *Royalty Settlement.* The Unit Operator shall furnish to the State of Alaska a schedule for each month's total royalty production of Unitized Substances not taken in kind by the State, showing the allocation thereof to the Tracts and to the Working Interest Owners therein and each such Working Interest Owner shall make settlement for its share of such royalty production in accordance with its lease or leases and subject to the provisions of Section 7.2.

Provided, however, that if there is pending an application for certification for the benefit of discovery royalty pursuant to applicable laws and regulations, the State shall credit all such royalty proceeds (whether paid in kind or in value) as unearned until such time as (1) the pending application, if any, for discovery royalty finally is determined and (2) the pending application, if any, for establishment of such Participating Area shall have been approved by the Director. When both such events occur, the State shall refund the excess, if any, between the value of the royalty previously paid on such production (whether in kind or in value) and the amount which would have been due if the initial Participating Area (and the discovery royalty, if applicable) had been in effect from the date of first production, and credit the balance to the proper earned royalty account.

In the event of failure of any Working Interest Owner to make proper settlement of any royalty due from it, the State shall not be prejudiced hereby as to any recourse which it might have against the original lessee of the lease or leases from which such Working Interest originated.

6.4 *State of Alaska's Taking Royalty in Kind.* Notwithstanding any provision in the several State leases which may require the State of Alaska to elect to take in kind all or none of its royalty oil

and/or gas allocated under this agreement to those leases, it is expressly agreed that upon six (6) months advance written notice to Unit Operators the State of Alaska may elect (nominate) to take in kind all or a specified percentage of its royalty oil and/or gas from the Unit Area; except that Working Interest Owners shall give the State thirty (30) days advance written notice prior to initial production from the Unit Area, and any election by the State at the time of such initial production will be effective if advance written notice thereof is given within ten (10) days thereafter. While the State of Alaska is taking some or all of its royalty in kind the amount taken in kind may be increased or decreased by not more than ten percent (10%) of the then current nomination upon ninety (90) days written notice to Unit Operators, provided, however, the State of Alaska may not in any event take oil and/or gas in excess of the total royalty accrued on unit production for that period. All royalty taken in kind by the State of Alaska shall be deducted from the royalty oil and/or gas which, during the particular accounting period, otherwise would have been allocated under the provisions of this agreement to the several Working Interest Owners for settlement, in the same proportions as the total royalty oil and/or gas would have been so allocated in the absence of any taking in kind by the State of Alaska.

6.5 *Alaska Native Claims Settlement Act.* Notwithstanding anything to the contrary in the foregoing provisions of this Article 6 it is agreed that the State of Alaska shall account for, and pay from its Royalty Interest, the two percent (2%) royalty payable to the Alaska Native Fund as and to the extent provided in Section 9 of the Alaska Native Claims Settlement Act of December 18, 1971 (Public Law 92.203), the same as if this agreement had never been entered into.

6.6 *Royalty on Outside Substances.* If any Outside Substances consisting of natural gases are injected into any Reservoir by the Working Interest Owners of any Participating Area, eighty percent (80%) of any like substance contained in Unitized Substances subsequently produced from such Reservoir and allocated to such Participating Area and sold or used for other than Unit Operations shall be deemed to be a part of the Outside Substances so injected until

the total volume deemed to be such Outside Substances equals the total volume of such Outside Substances so injected. If any Outside Substances, which, prior to injection, are liquefied petroleum gases or other liquid hydrocarbons, are injected into any Reservoir by the Working Interest Owners of any Participating Area, ten percent (10%) of all Unitized Substances produced from such Reservoir and allocated to such Participating Area and sold after one year from the time injection of such Outside Substances was commenced, shall be deemed to be a part of the Outside Substances so injected until the total value of the production deemed to be such Outside Substances equals the total value (or delivered cost at Prudhoe Bay Field (if purchased) of the Outside Substances so injected. Such ten percent (10%) of the Unitized Substances deemed to be Outside Substances shall be in addition to that which is being recovered for natural gases as hereinabove provided, if both liquefied petroleum gases or other liquid hydrocarbons and natural gases are injected. No payment shall be due or payable to Royalty Owners on substances produced from any Reservoir that are deemed to be Outside Substances.

If any liquid hydrocarbons which have been obtained from any source outside the Unit Area, or on which payments for Royalty Interests have been made, are added to or mixed with Unitized Substances for purposes of Unit Operations, then eighty percent (80%) of all liquid hydrocarbon Unitized Substances subsequently produced and sold shall be deemed to be such added or mixed liquid hydrocarbons until the total volume of such production equals the total volume of the liquid hydrocarbons so added or mixed, and no payment shall be due or payable to Royalty Owners on such added or mixed liquid hydrocarbons.

ARTICLE 7

USE OR LOSS OF UNITIZED SUBSTANCES

7.1 *Use of Unitized Substances.* Working Interest Owners may use or consume Unitized Substances for Unit Operations, including, but not limited to, the injection thereof into any formation underlying the Unit Area.

7.2 *Royalty Payments.* No royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, unavoidably lost, stored or consumed in Unit Operations, including, but not limited to, the injection thereof into any formation underlying the Unit Area. If Unitized Substances are used or consumed in the operation of any facility the use of which is not exclusively devoted to Unit Operations, royalty, overriding royalty or production or other payments shall not be payable on that part of the Unitized Substances used or consumed in the facility which fairly is apportionable on a use basis to those Unit Operations being served by the facility.

ARTICLE 8

TITLES

8.1 *Removal of Tract from Unit Area.* If a Tract ceases to have its Working Interest Owners or Royalty Owners committed to this agreement because of failure of title, such Tract shall be removed from the Unit Area effective as of 12:01 a.m. on the first day of the calendar month in which failure of title is finally determined, unless within ninety (90) days after the date of final determination of the failure of title, the true Working Interest Owners or Royalty Owners of the Tract execute this agreement and, if a Working Interest Owner, the Unit Operating Agreement.

8.2 *Revision of Exhibits.* If a Tract in a Participating Area is removed from the Unit Area because of failure of title, Unit Operator shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits A, B, C and D accordingly; provided, however, the revised Tract Participations of the Tracts remaining in the Unit Area shall remain in the same ratio one to another. The revised exhibits shall be effective as of 12:01 a.m. on the first day of the calendar month in which such failure of title is finally determined.

8.3 *Failure of Title of Part of Tract.* In the event of failure of title of any party hereto as to a divided portion of any Tract, Unit Operators, with the approval of the Working Interest Owners and the Director, shall cause such Tract to be divided into separate

Tracts, and if such Tract is in a Participating Area, recompute the Tract Participation of each of the resulting Tracts (the sum of which shall equal the Tract Participation of the original Tract) and revise Exhibits A, B, C and D accordingly. Thereafter, such resulting Tract in which title was not affected shall remain in the Unit Area, and such resulting Tract in which title failed shall be subject to the provisions of Sections 8.1 and 8.2 above.

8.4 *Royalty Interest Titles.* If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

8.5 *Production Where Title is in Dispute.* If the title of the State of Alaska is in dispute then as to Unitized Substances which the State is taking in kind, Unit Operators shall require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title of the State fails in whole or in part.

If the title of the State of Alaska is in dispute then as to Unitized Substances for which the Working Interest Owners are settling the royalty in value, no payment of funds due the State of Alaska shall be withheld, but such funds of the State of Alaska shall be deposited with the State and held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

8.6 *Payment of Taxes to Protect Title.* The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment is located, is responsible for the payment of any ad valorem taxes on all such rights, interests, or property, unless such owner and Working Interest Owners otherwise agree. If any ad valorem taxes are not paid by or for such owner when due, Unit Operators may, with approval of Working Interest Owners, at any time prior to tax sale or expiration of period of redemption after tax sale, pay the tax, redeem such rights,

interests, or property, and discharge the tax lien. Any such payment shall be an item of unit expense. Unit Operators shall, as possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the costs of such payment or redemption, such withholding to be credited to Working Interest Owners. Such withholding shall be without prejudice to any other remedy available to Unit Operators or Working Interest Owners.

ARTICLE 9

ENLARGEMENTS AND CONTRACTIONS OF UNIT AREA

9.1 *Enlargement of Unit Area.* The Unit Area may be enlarged from time to time so as to include any additional lands reasonably determined to be within any Reservoir any portion of which is within the Unit Area. The lands to be included shall be based on such subdivisions of the public land surveys as may be approved by the Director, but not less than the area approved by the well-spacing order affecting such lands for such Reservoir. Such enlargement shall be effected in the following manner:

(a) Unit Operators, acting pursuant to the terms of the Unit Operating Agreement or on demand of the Director, shall prepare a notice of the proposed enlargement describing the contemplated additions to the Unit Area, the reasons therefor, and the proposed effective date, which shall be the first day of the calendar month following the date of final approval of the enlargement.

(b) Said notice shall be delivered to the Director and a copy thereof mailed to each Working Interest Owner, at its last known address, and to any other party believed by the Unit Operators to own any Oil and Gas Rights in any lands proposed to be added. Such notice shall state a definite period, which shall not end earlier than thirty (30) days after the mailing of such last notice to be mailed, during which any interested party may file with the Unit Operators written objections, and reasons therefor, to the proposed enlargement.

(c) Upon expiration of the period stated in (b) above, Unit Operators shall file with the Director evidence of mailing of the notice of enlargement together with copies of all objections which have been filed with Unit Operators, along with such applications for joinder executed by those owning Oil and Gas Rights in any land sought to be added as have been submitted to Unit Operators.

(d) After due consideration of all pertinent information, the Director shall render his decision, separately as to each lease or lands therein submitted for commitment. Such decision, unless otherwise stated therein to the contrary, shall become effective as of the time specified in the notice referred to in (a) above. Unit Operators shall notify all other interested parties upon receipt of the Director's decision.

9.2 *Non-Segregation of Lease Partially Committed on Effective Date.* Any lease having only a portion of its lands committed hereto on the Effective Date of this agreement shall not be segregated by such partial commitment, and both the committed portion and the non-committed portion shall be extended by Unit Operations or unit production. Such leases shall be subject to the provisions of Section 9.3 as if such lands initially had been committed hereto; however, no annual rentals shall be payable with respect to those leases covering lands any portions of which are included within any Participating Area until the provisions of Section 9.3 become effective as to such leases. Nothing herein shall operate to excuse further development on the portion of any lease outside the Unit Area where the circumstances would require a reasonably prudent lessee to further develop.

9.3 *Contraction of Unit Area.* Any lands not included or entitled to be included in a Participating Area on the tenth (10th) anniversary of the Effective Date shall be excluded from the Unit Area and from this agreement; provided, however, if only a portion of any lease is included or entitled to be included within a Participating Area, the lease, insofar as it covers the lands so excluded from the Unit Area, shall terminate upon the expiration of ninety (90) days following the date such contraction becomes effective unless annual rentals at the rate specified in the lease are paid on such excluded

lands as hereinafter provided. The lease, insofar as it covers such excluded lands, shall continue in force and effect so long thereafter as Utilized Substances are allocated to a portion of said lease and so long as annual rentals are paid on the portion not within the Participating Area; provided, further, that the first rental payment following contraction shall be paid (with allowance for proration) within ninety (90) days after the date such contraction becomes effective. Thereafter, annual rentals shall be due and payable on the anniversary date of the lease. Nothing herein shall operate to excuse further development on the portion of any lease lying outside the Unit Area where the circumstances would require a reasonably prudent lessee to further develop. Notwithstanding the foregoing provisions of this section, the payment of annual rentals shall not be required to maintain the lease on such excluded lands in force and effect when other provisions of said lease, as applied to the excluded land, will maintain the lease in effect.

9.4 *Segregation of Leases on Additions to Unit Area.* Any lease embracing land of the State of Alaska having no portion of its lands committed hereto on the Effective Date, but having a portion of its lands committed hereto, by enlargement of the Unit Area, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date of such enlargement; provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of Alaska having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is discovered and is capable of being produced in paying quantities from some part of the land embraced in such lease at the time of approval of the addition to the Unit Area by the State of Alaska; or if at the time of such approval by the State the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the lease as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted. If such operations result in the production of oil or gas in paying quantities,

said lease shall continue in full force and effect as to all the lands embraced therein so long thereafter as oil or gas is being produced in paying quantities from any portion of said lease. Furthermore, any lease segregated herein shall, as to the non-unitized portion, continue in force and effect for the term thereof, but for not less than two (2) years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities.

Any lease having production in paying quantities on said lease prior to commitment to this agreement by enlargement of the Unit Area shall not be segregated. The non-unitized portion shall not participate in the Unit Area but the lease thereon shall be extended by virtue of the production on the unitized portion and so long as it produces in paying quantities. Nothing herein shall operate to excuse further development on the portion of any lease lying outside the Unit Area where the circumstances would require a reasonably prudent lessee to further develop.

9.5 *Exclusion of Lands Committed.* As to any lands committed hereto which subsequently are excluded from the Unit Area other than by the application of Section 9.3, the lease thereupon shall continue in force and effect for the term of such lease, but for not less than ninety (90) days from the effective date of such exclusion, or as otherwise extended by applicable regulations, and so long thereafter as oil or gas is produced in paying quantities.

ARTICLE 10

CHANGE OF TITLE

10.1 *Successors and Assigns.* This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant and equitable servitude running with the lands, leases, and interests covered hereby.

10.2 *Transfer of Title.* Any conveyance of all or any part of any interest owned by any party hereto with respect to any Tract shall be made expressly subject to this agreement. No change of title shall be binding on Unit Operators, or any other party hereto

other than the party so transferring, until 12:01 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operators of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

ARTICLE 11

RELATIONSHIP OF PARTIES

11.1 *No Partnership.* The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

11.2 *No Joint Refining or Marketing.* This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances.

11.3 *Royalty Owners Free of Costs.* This agreement is not intended to impose, and shall not be construed to impose, upon the State of Alaska or any other Royalty Owner any obligation to pay unit expense, unless such Royalty Owner is otherwise so obligated.

11.4 *Confidentiality of Information.* Upon the request of the Unit Operators or Working Interest Owners, the Director shall hold as confidential to the extent authorized by statute, any engineering, geophysical, geological data (including but not limited to drilling logs), daily drilling reports, or any other data or information of like or similar nature which may be requested or required by the State for any purpose of this agreement. As to such of the above items also required to be submitted under the oil and gas conservation regulations, confidentiality shall be maintained to the extent and for such time as authorized by Sections 31.05.030 and 31.05.038, Alaska Statutes, and Section 22.535, Title II, Part 3, Alaska Administrative Code.

ARTICLE 12

LAWS AND REGULATIONS

12.1 *Laws and Regulations.* This agreement shall be subject to all valid applicable federal and state laws, rules, regulations and orders.

12.2 *Reports to the State of Alaska for Purposes of Conservation.* Notwithstanding the definitions for Gas Cap Gas, Solution Gas and Oil in Sections 1.3, 1.20 and 1.7, respectively, or any other provision herein to the contrary, reports to the State of Alaska for conservation purposes under Alaska Statutes 31.05 shall be made on the basis of the definitions of "oil" and "gas" appearing in Alaska Statutes 31.05.170.

ARTICLE 13

FORCE MAJEURE

13.1 *Force Majeure.* All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance, despite the exercise of due diligence, is prevented in whole or in part by labor disputes, fire, flood, war, civil disturbance, acts of God, Federal, State or municipal law; by any rule, regulation, or order of or delay or failure to act by a Federal, State, municipal or other governmental agency; by inability to secure required Federal, State, municipal or other governmental permits, easements or ordinances; by any judicial acts or restraints; by unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in the open market or delivery thereof to the site of use; or other matters beyond the reasonable control of the party, whether similar to matters herein enumerated or not. This agreement and the leases subject hereto shall not expire nor terminate during any period in which production of Unitized Substances or drilling or well reworking operations or other Unit Operations are suspended by virtue of this Article; provided, however, that nothing in this Article shall be construed to suspend the payment of rentals or of minimum royalties. No party shall be required against its will to adjust or settle any labor dispute.

ARTICLE 14

EFFECTIVE DATE

14.1 *Effective Date.* This agreement shall become binding upon each party hereto as of the date such party signs the instrument by which it becomes a party hereto and shall become effective as of 12:01 a.m. on April 1, 1977 after the signing of such an instrument by all of the Working Interest Owners shown on Exhibit A and the State of Alaska, and the signing of the Unit Operating Agreement by such Working Interest Owners. At least one counterpart of this agreement shall be filed for record by Unit Operators in the Barrow Recording District and in the filing office of the Division of Lands in Anchorage, Alaska.

14.2 *Automatic Termination.* If this agreement is not signed by Working Interest Owners shown on Exhibit A on or before June 1, 1977, pursuant to the provisions of Section 14.1 above, this agreement automatically shall cease to be binding on such date.

14.3 *Certificate of Effectiveness.* Unit Operators shall file for record in the Barrow Recording District, State of Alaska, and in the filing office of the Division of Lands in Anchorage, Alaska, a certificate stating the Effective Date.

ARTICLE 15

NONDISCRIMINATION AND LOCAL HIRE

15.1 *Nondiscrimination.* In connection with the performance of work under this agreement, Unit Operators agree to comply with all of the provisions of Section 202(1) to (7), inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference into this agreement.

15.2 *Employment of Residents.* Working Interest Owners shall comply with all valid and applicable laws and regulations with regard to the employment, including layoffs, of Alaska residents. Working Interest Owners shall employ qualified Alaska residents and shall not discriminate against Alaska residents, in accordance with AS 38.40 and the regulations adopted pursuant to it. However, if some or all of the requirements of AS 38.40 are held invalid or unconstitutional, this provision shall be void insofar as the statutory requirements are invalid or unconstitutional.

In implementing the provisions of this paragraph, Working Interest Owners shall use their best efforts to include in all collective bargaining agreements with labor unions covering work to be performed under this unit agreement provisions that will assure employment preference to Alaska residents in accordance with AS 38.40 and the regulations adopted pursuant to it. If applicable collective bargaining agreements are in force prior to execution of this unit agreement or commencement of work on this project, Working Interest Owners shall use reasonable efforts to negotiate amendments to those agreements to include appropriate resident employment provisions for the remainder of the term of the existing agreements. The State Department of Labor shall provide Working Interest Owners with any assistance that may be requested by Working Interest Owners in negotiating the required provisions.

ARTICLE 16

TERM

16.1 *Term.* The term of this agreement shall be for ten (10) years after the Effective Date and so long thereafter as Unitized Substances are produced in paying quantities or other Unit Operations are conducted without a cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

16.2 *Termination by Working Interest Owners.* This agreement or any Participating Area may be terminated by Working Interest Owners pursuant to the terms of the Unit Operating Agreement whenever Working Interest Owners so determine and with the approval of the Director.

16.3 *Effect of Termination.* Upon termination of this agreement, the further development and operation of the Unit Area as a unit shall be abandoned, and Unit Operations shall cease. Each oil and gas lease and other agreement covering lands within the Unit Area shall remain in force for the term provided for therein or for one (1) year after the date on which this agreement terminates, whichever is later, as fully and with the same effect as if there were production of oil and gas in paying quantities from each lease, and

thereafter for such further period as is provided by law, the lease or other agreement.

16.4 *Salvaging Equipment Upon Termination.* Working Interest Owners shall have the right for such period of time as may reasonably be necessary (but not less than three (3) years) after the date of termination of this agreement to salvage and remove Unit Equipment. The Director may extend such period of time for salvage and removal when in his opinion such action is warranted.

16.5 *Certificate of Termination.* Upon termination of this agreement, Unit Operators shall file for record in the Barrow Recording District and in the filing office of the Division of Lands in Anchorage, Alaska a certificate declaring that this agreement has terminated and its termination date.

ARTICLE 17

EXECUTION

17.1 *Original, Counterpart, or Other Instrument.* An owner of Oil or Gas Rights may become a party to this agreement by executing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The execution of any such instrument shall have the same effect as if all the parties had executed the same instrument.

17.2 *Joinder in Dual Capacity.* Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests within the Unit Area owned or controlled by such party.

ARTICLE 18

RELATIONSHIP OF AGREEMENTS

18.1 *Unit Agreement and Unit Operating Agreement.* Insofar as the respective rights and obligations of Working Interest Owners on the one hand and the State of Alaska on the other hand are concerned, this agreement shall control in case of any conflict between it and the Unit Operating Agreement. Insofar as the rights and obligations of the Royalty Interest Owners other than the State

of Alaska and of the Working Interest Owners are concerned, the Unit Operating Agreement shall control in cases of conflict between the two agreements. If they so desire and if they so provide in the Unit Operating Agreement, the Working Interest Owners and the Royalty Owners other than the State of Alaska shall have the right to establish a different method of accounting between themselves from that here provided as between the State of Alaska and the other parties hereto.

ARTICLE 19

GENERAL

19.1 *Amendments Affecting Working Interest Owners.* Amendments hereto relating wholly to Working Interest Owners may be made if executed by all Working Interest Owners.

19.2 *Action by Working Interest Owners.* Any action, determination or approval required or permitted by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

19.3 *Lien and Security Interest of Unit Operators.* Unit Operators shall have a lien upon and a security interest in seven-eighths ($\frac{7}{8}$) of all Unitized Substances and in all other interests of Working Interest Owners in the Unit Area as provided in the Unit Operating Agreement.

19.4 *Gender and Number.* As used herein, whenever the context so requires, the neuter gender includes the masculine and the feminine, and the singular includes the plural, and vice versa.

19.5 *Headings.* The table of contents contained in this agreement and the title headings of the respective articles of this agreement are inserted for convenience only and shall not be deemed to be part of this agreement or considered in construing this agreement.

**EXCERPTS OF
ALASKA
STATUTES
(Title 46)**

Sec. 46.03.822. Strict liability for the release of hazardous substances.

(a) Notwithstanding any other provision or rule of law and subject only to the defenses set out in (b) of this section, the exception set out in (i) of this section, the exception set out in AS 09.65.240, and the limitation on liability provided under AS 46.03.825, the following persons are strictly liable, jointly and severally, for damages, for the costs of response, containment, removal, or remedial action incurred by the state, a municipality, or a village, and for the additional costs of a function or service, including administrative expenses for the incremental costs of providing the function or service, that are incurred by the state, a municipality, or a village, and the costs of projects or activities that are delayed or lost because of the efforts of the state, the municipality, or the village, resulting from an unpermitted release of a hazardous substance or, with respect to response costs, the substantial threat of an unpermitted release of a hazardous substance:

(1) the owner of, and the person having control over, the hazardous substance at the time of the release or threatened release; this paragraph does not apply to a consumer product in consumer use;

(2) the owner and the operator of a vessel or facility, from which there is a release, or a threatened release that causes the incurrence of response costs, of a hazardous substance;

(3) any person who at the time of disposal of any hazardous substance owned or operated any facility or vessel at which the hazardous substances were disposed of, from which there is a release, or a threatened release that causes the incurrence of response costs, of a hazardous substance;

(4) any person who by contract, agreement, or otherwise arranged for disposal or treatment, or arranged with a transporter for transport for disposal or treatment, of hazardous substances owned or possessed by the person, other than domestic sewage, or by any other party or entity, at any facility or vessel owned or operated by another party or entity and containing hazardous substances, from which there is a release, or a threatened release that causes the incurrence of response costs, of a hazardous substance;

(5) any person who accepts or accepted any hazardous substances, other than refined oil, for transport to disposal or treatment facilities, vessels or sites selected by the person, from which there is a release, or a threatened release that causes the incurrence of response costs, of a hazardous substance.

AS 46.03.822(m)

(m) In this section, "damages" has the meaning given in AS 46.03.824 and includes damage to persons or to public or private property, damage to the natural resources of the state or a municipality, and damage caused by acts or omissions of a response action contractor for which the response action contractor is not liable under AS 46.03.823 or 46.03.825.

...

Sec. 46.03.824. Damages.

Damages include but are not limited to injury to or loss of persons or property, real or personal, loss of income, loss of the means of producing income, or the loss of an economic benefit.

...

Sec. 46.03.760. Civil action for pollution; damages.

(a) A person who violates or causes or permits to be violated a provision of this chapter other than AS 46.03.250 - 46.03.313, or a provision of AS 46.04 or AS 46.09, or a regulation, a lawful order of the department, or a permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 or AS 46.09 is liable, in a civil action, to the state for a sum to be assessed by the court of not less than \$500 nor more than \$100,000 for the initial violation, nor more than \$5,000 for each day after that on which the violation continues, and that shall reflect, when applicable,

(1) reasonable compensation in the nature of liquidated damages for any adverse environmental effects caused by the violation, which shall be determined by the court according to the toxicity, degradability, and dispersal characteristics of the substance discharged, the sensitivity of the receiving environment, and the degree to which the discharge degrades existing environmental quality;

(2) reasonable costs incurred by the state in detection, investigation, and attempted correction of the violation;

(3) the economic savings realized by the person in not complying with the requirement for which a violation is charged.

(b) Except as determined by the court under (e)(4) of this section, actions under this section may not be used for punitive purposes, and sums assessed by the court must be compensatory and remedial in nature.

(c) The court, upon motion of the department or upon its own motion, may defer assessment of all or part of that portion of the sum imposed upon a person under (a)(3) of this section conditioned upon the person complying, within the shortest feasible time, with the requirement for which a violation is shown.

(d) In addition to liability under (a) - (c) of this section, a person who violates or causes or permits to be violated a provision of AS 46.03.740 - 46.03.750 is liable to the state, in a civil action brought under AS 46.03.822, for the full amount of actual damages caused to the state by the violation, including

(1) direct and indirect costs associated with the abatement, containment, or removal of the pollutant;

(2) restoration of the environment to its former state;

(3) amounts paid as grants under AS 29.60.510 - 29.60.599 and as emergency first response advances and reimbursements under AS 46.08.070(c); and

(4) all incidental administrative costs.

...

Sec. 46.03.740. Oil pollution.

A person may not discharge, cause to be discharged, or permit the discharge of petroleum, acid, coal or oil tar, lampblack, aniline, asphalt, bitumen, or a residuary product of petroleum, into, or upon the waters or land of the state except in quantities, and at times and locations or under circumstances and conditions as the department may by regulation permit or where permitted under art. IV of the International Convention for the Prevention of Pollution of the Sea by Oil, 1954, as amended.

**EXCERPTS OF
ALASKA
STATUTES
(Criminal – Title 46)**

Sec. 46.03.710. Pollution prohibited.

Article 09. PROHIBITED ACTS AND PENALTIES

A person may not pollute or add to the pollution of the air, land, subsurface land, or water of the state.

...

Sec. 46.03.740. Oil pollution.

A person may not discharge, cause to be discharged, or permit the discharge of petroleum, acid, coal or oil tar, lampblack, aniline, asphalt, bitumen, or a residuary product of petroleum, into, or upon the waters or land of the state except in quantities, and at times and locations or under circumstances and conditions as the department may by regulation permit or where permitted under art. IV of the International Convention for the Prevention of Pollution of the Sea by Oil, 1954, as amended.

...

Sec. 46.03.755. Discharge reporting.

(a) A person in charge of a facility, operation, or vessel, as soon as the person has knowledge of any discharge from the facility, operation, or vessel in violation of AS 46.03.740 or 46.03.750, shall immediately notify the department of the discharge.

...

Sec. 46.03.790. Criminal penalties.

(a) Except as provided in (d) of this section, a person is guilty of a class A misdemeanor if the person with criminal negligence

(1) violates a provision of this chapter, AS 46.04, AS 46.09, or AS 46.14, a regulation or order of the department, or a permit, approval, or acceptance, or a term or condition of a permit, approval, or acceptance issued under this chapter, AS 46.04, AS 46.09, or AS 46.14;

(2) fails to provide information or provides false information required by AS 46.03.465, 46.03.475, 46.03.755, AS 46.04, or AS 46.09, or by a regulation adopted by the department under AS 46.03.020 (12), 46.03.460, 46.03.755, AS 46.04, or AS 46.09;

(3) makes a false statement or representation in an application, label, manifest, record, report, permit, or other document filed, maintained, or used for purposes of compliance with AS 46.03.250 - 46.03.313 applicable to hazardous wastes or a regulation adopted by the department under AS 46.03.250 - 46.03.313;

(4) makes a false statement, representation, or certification in an application, notice, record, report, permit, or other document filed, maintained, or used for purposes of compliance with AS 46.03.460 - 46.03.475, AS 46.14, or a regulation adopted under AS 46.03.020 (12), 46.03.460, or AS 46.14; or

(5) renders inaccurate a monitoring device or method required to be maintained under AS 46.14, a regulation adopted under AS 46.03.020 (12) or AS 46.14, a permit issued by the department or a local air quality control program under AS 46.14, or a permit issued by the department under the program authorized by AS 46.03.020 (12).

(b) *[Repealed, Sec. 5 ch 141 SLA 1990].*

(c) Each day on which a violation described in this section occurs is considered a separate violation.

(d) Notwithstanding (a) of this section, a person who with criminal negligence discharges oil in violation of AS 46.03.740 or who, when required by an oil discharge to comply with the provisions of an oil discharge contingency plan approved under AS 46.04.030, with criminal negligence fails to comply with the plan is guilty of

(1) a class C felony if the oil discharge is 10,000 barrels or more;

(2) a class A misdemeanor if the oil discharge is less than 10,000 barrels.

(e) *[Repealed, Sec. 5 ch 141 SLA 1990].*

(f) *[Repealed, Sec. 5 ch 141 SLA 1990].*

(g) In this section,

(1) "barrel" has the meaning given in AS 46.04.900;

(2) "criminal negligence" has the meaning given in AS 11.81.900;

(3) *[Repealed, Sec. 62 ch 21 SLA 1991].*

(h) Notwithstanding AS 12.55.035 (b), upon conviction of a violation of a regulation adopted under AS 46.03.020 (12) or of a violation related to AS 46.14 and described in (a) of this section, a defendant who is not an organization may be sentenced to pay a fine of not more than \$10,000 for each separate violation.

Article 06. DEFINITIONS

Sec. 11.81.900. Definitions.

(a) For purposes of this title, unless the context requires otherwise, ...

(4) a person acts with "criminal negligence" with respect to a result or to a circumstance described by a provision of law defining an offense when the person fails to perceive a substantial and unjustifiable risk that the result will occur or that the circumstance exists; the risk must be of such a nature and degree that the failure to perceive it constitutes a gross deviation from the standard of care that a reasonable person would observe in the situation.

**COMPETITIVE
OIL AND GAS
LEASE
(Form No. DL-1)**

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Lands

25637

LEASE NO. ADL _____

Competitive Oil and Gas Lease

THIS LEASE is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "Lessor", and

BP EXPLORATION COMPANY (ALASKA) INC., as to an undivided 50% interest, and

SINCLAIR OIL & GAS COMPANY, as to an undivided 50% interest,

hereinafter called "Lessee", whether one or more.

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and taking underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

Tract No. U-3-6-12

All Section 13, T12N, R10E, UM
All Section 14, " " "
All Section 23, " " "
All Section 24, " " "

containing 2560.00 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains the legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and by this reference made a part of this lease.

If said land is described above by protracted legal subdivision and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" mean all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of ten years from date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either - any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 4, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or assents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION. (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and actual production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then any such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or re-drilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or in a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence or are suspended under Paragraph 27 hereof, and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) if actual drilling has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence, such operations to include re-drilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under the laws of the United States granting lands to Alaska and the conditional lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

10-6
3-2-23

7. **EXTENSION BY SHUT-IN PRODUCTION.** If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so; provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. **EXTENSION BY SUSPENSION OF PRODUCTION.** This lease shall not expire because of any suspension of operations in or upon or production from said land if such suspension is made under any order or with the consent of Lessor.

9. **RENTAL.** This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 13 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business.

10. **MINIMUM ROYALTY.** Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. **ROYALTY ON PRODUCTION.** Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

- (a) On oil 12.5 per cent in amount or value of the oil produced and saved and removed or sold from said land.
- (b) On gas 12.5 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.
- (c) On associated substances 12.5 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. **REDUCTION OF ROYALTY RATES FOR DISCOVERY.** If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall not apply to all, but only, the production allocated to this lease under such agreement.

13. **REDUCTION OF RENTAL AND ROYALTY.** Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. **ROYALTY IN KIND.** Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. **ROYALTY IN VALUE.** At the option of Lessor, which may be exercised from time to time upon not less than six months notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts of gross production.

16. **PRICE.** The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. **PAYMENTS.** All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be tendered to Lessor at the place designated under Paragraph 43 for giving notices to Lessor.

18. **OFFSET WELLS.** Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessor receives a lower rate of royalty than the royalty under this lease, which well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land. In lieu of drilling any well required by this paragraph, Lessee may with Lessor's consent compensate Lessor in full each month for the estimated lost of royalty through drainage in the amount determined by Lessor.

19. **OTHER WELLS.** This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor or as well as the interests of Lessee.

20. **DILIGENCE; PREVENTION OF WASTE.** Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for the future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and on failure of Lessee so to do, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessee's expense; and shall, abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. **WELL LOCATIONS.** Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. **APPROVAL OF PLANS.** Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. **LOGS AND RECORDS.** An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty-four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof, including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative action relating to this lease or to the rights, interests, and obligations arising hereunder.

24. **RECORDS.** Lessee shall keep and maintain session books and records showing the production and disposition of all oil and gas produced on said land and shall permit Lessor, its agents, and assigns at all reasonable hours to examine the records and reports of production shall be based on such methods and techniques as shall be required by the most accurate figures reasonably available with the understanding that the Lessee to provide appropriate

payment for all damages sustained by said owner by reason of entering on said land; provided, that if said owner for any cause whatever refuses or neglects to settle said damages, Lessor or its Lessee shall have the right to institute such legal proceedings in any court of competent jurisdiction wherein the land is situated as may be necessary to settle said damages which the owner of such land shall offer. Lessee hereby agrees to pay any damages that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this lease will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BONDS.

(a) If required by Lessor, Lessee shall furnish a bond prior to the issuance of this lease in an amount equal to or least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00 and shall maintain said bond as long as required by Lessor.

(b) Before beginning drilling operations on said land Lessee must have furnished and shall maintain a bond in an amount of at least \$3,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. ACTS OF GOD. Should Lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond Lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter within which to resume operations, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph; provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. SUSPENSION. Lessor may from time to time direct or assent to the suspension of production or other operations or both under this lease if such action is necessary or justified in the interest of conservation.

29. RESERVATIONS. Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of Lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores of wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of Lessee under this lease.

30. UNDERGROUND STORAGE. This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling pressure maintenance, repressuring, or other similar operation designed to increase the ultimate recovery of oil or gas, or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by Lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of Lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of Lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. ASSIGNMENTS. This lease or any undivided interest herein may with the approval of Lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon Lessor unless approved by Lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of Lessor, where the transfer covers any distinct zone or geological horizon, or (3) where Lessor determines that the best interests of Lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of Lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of Lessor, or may upon request of the transferee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. UNITIZATION. Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, Lessee may unite with other Lessees of Lessor or with others owning or operating lands not belonging to Lessor including lands belonging to the United States and with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor. Lessor may with the consent of Lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of Lessee in connection with the institution and operation of any such cooperative or unit agreement as Lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of Lessor and may upon the request of Lessee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. SURRENDER. Lessee may at any time make and file with Lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of Lessor, of any separate and distinct zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of Lessee and his surety to make payment of all royalties theretofore accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to Lessor for suspension or abandonment; thereupon, Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

34. DEFAULT; TERMINATION. Whenever Lessee fails to comply with any of the provisions of this lease other than the payment of rental and Lessee fails within sixty days after written notice of such default to commence to remedy and thereafter prosecute diligently operations to remedy such default, Lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well or wells and such rights of way through said land as may be reasonably necessary to enable Lessee to drill and operate such retained well or wells.

35. EXCESS AREA. If for any reason said land includes more acreage than the maximum permitted under applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. RIGHTS ON TERMINATION. Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided, that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. INTEREST IN LAND. It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. LESSOR INTEREST. If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee.

39. CONDITIONAL LEASE. If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been patented to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent becomes effective. If for any reason such a selection is not finally approved or such a patent does not become effective, any rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. DRILLING OPERATIONS. As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

41. ACTUAL DRILLING. As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

42. RULES AND REGULATIONS. As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

43. INTERPRETATION. As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

44. NOTICES. Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessor

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska

To Lessee:

BP EXPLORATION COMPANY (ALASKA) INC.
900 Wilshire Boulevard
Los Angeles, California 90017

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

45. HEIRS AND ASSIGNS. Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

46. WILDLIFE STIPULATIONS. This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease effective as of the _____ day of FEB 1 1965 19____

BP EXPLORATION COMPANY (ALASKA) INC.

By [Signature] Vice President

STATE OF ALASKA

By [Signature] Secretary

SINCLAIR OIL & GAS COMPANY

By [Signature] Vice President

Attest: Carl L. Butler Asst. Secretary
LESSEE

By [Signature]
Title Minerals Officer LESSOR

THE UNITED STATES OF AMERICA }
STATE OF ALASKA }

This certifies that on the 29th day of January, 1965, before me, a notary public in and for the State of Alaska, duly

commissioned and sworn, personally appeared Norris C. Bakke, Jr., to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Depart-

ment of Natural Resources, or his authorized agent. The said Norris C. Bakke, Jr. executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska and for the Division of Lands, Department of Natural Resources.

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

Alberta V. Spracher Notary Public in and for Alaska. My Commission expires June 7, 1967

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL _____

Competitive Oil and Gas Lease

THIS LEASE is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, hereinafter called "Lessor", and

hereinafter called "Lessee", whether one or more.

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and using underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

containing _____ acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains the legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and B, this reference made a part of this lease.

If said land is described above by protected legal subdivision and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" mean all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of _____ years from date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 4, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or consents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION. (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and actual production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then any such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or re-drilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if, the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or at a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence as provided under Paragraph 27 hereof; and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) if actual drilling has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence, such operations to include re-drilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under the laws of the United States granting lands to Alaska and the conditions at lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

7. **EXTENSION BY SHUT-IN PRODUCTION.** If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. **EXTENSION BY SUSPENSION OF PRODUCTION.** This lease shall not expire because of any suspension of operations in or upon or production (if said land if such suspension is made under any order or with the consent of Lessor).

9. **RENTAL.** This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 12 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business.

10. **MINIMUM ROYALTY.** Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. **ROYALTY ON PRODUCTION.** Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil per cent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. **REDUCTION OF ROYALTY RATES FOR DISCOVERY.** If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall not apply to all, but only, the production allocated to this lease under such agreement.

13. **REDUCTION OF RENTAL AND ROYALTY.** Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. **ROYALTY IN KIND.** Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. **ROYALTY IN VALUE.** At the option of Lessor, which may be exercised from time to time upon not less than six months notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts of gross production.

16. **PRICE.** The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid by Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. **PAYMENTS.** All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be rendered to Lessor at the place designated under Paragraph 44 for giving notices to Lessor.

18. **OFFSET WELLS.** Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessor receives a lower rate of royalty than the royalty under this lease, which well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land, in lieu of drilling any well required by this paragraph. Lessee may with Lessor's consent compensate Lessor in full each month for the estimated loss of royalty through drainage in the amount determined by Lessor.

19. **OTHER WELLS.** This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor or as well as the interests of Lessee.

20. **DILIGENCE; PREVENTION OF WASTE.** Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for the future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and any failure of Lessee to do so, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessee's expense; and shall, abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. **WELL LOCATIONS.** Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. **APPROVAL OF PLANS.** Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. **LOGS AND RECORDS.** An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty-four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Director of Lands or the Director thereof, including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

24. **RECORDS.** Lessee shall keep and have in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be based upon such methods and techniques as shall insure the most accurate figures reasonably available without requiring the Lessee to provide a rate leakage for each well.

25. **DAMAGES.** AS 38.05.130 provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised

by lessor or its lessee until provision has been made to pay the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering on said lands provided, that if said owner for any cause whatsoever refuses to neglect to settle said damages, lessor or its lessee shall have the right to institute such legal proceeding in a court of competent jurisdiction where the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this lease will be regarded by lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BOND.

(a) If required by lessor, lessee shall furnish a bond prior to the issuance of this lease in an amount equal to at least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00 and shall maintain said bond as long as required by lessor.

(b) Before beginning drilling operations on said land lessee must have furnished and shall maintain a bond in an amount of at least \$5,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. ACTS OF GOD. Should lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter within which to resume operations, lessee's obligation to comply with such covenant shall be suspended and lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. SUSPENSION. Lessor may from time to time direct or assent to the suspension of production or other operations or both under this lease if such action is necessary or justified in the interest of conservation.

29. RESERVATIONS. Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores or wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of lessee under this lease.

30. UNDERGROUND STORAGE. This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling, pressure maintenance, repressuring, or other similar operation designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. ASSIGNMENTS. This lease or any undivided interest herein may with the approval of lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon lessor unless approved by lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of lessor, where the transfer covers any distinct zone or geological horizon, or (3) where lessor determines that the best interests of lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of lessor, or may upon request of the transferee and with the approval of lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. UNITIZATION. Whenever determined and certified by lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, lessee may unite with other lessees of lessor or with others owning or operating lands not belonging to lessor including lands belonging to the United States and with others, jointly or separately, in collectively adapting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including lessor. Lessor may with the consent of lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of lessee in connection with the unitization and operation of any such cooperative or unit agreement as lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of lessor and may upon the request of lessee and with the approval of lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. SURRENDER. Lessee may at any time make and file with lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of lessor, of any separate and distinct zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of lessee and his surety to make payment of all royalties therefor accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to lessor for suspension or abandonment thereupon. Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

34. DEFAULT; TERMINATION. Whenever lessee fails to comply with any of the provisions of this lease other than the payment of rental and if lessee fails within sixty days after written notice of such default to commence to remedy and thereafter prosecute diligently operations in conformity with such default, lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be canceled only by judicial proceedings. In the event of any cancellation under this paragraph, lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well or wells and such rights of way through said land as may be reasonably necessary to enable lessee to drill and operate such retained well or wells.

35. EXCESS AREA. If for any reason said land includes more acreage than the maximum permitted in or applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. RIGHTS ON TERMINATION. Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. INTEREST IN LAND. It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. LESSEE INTEREST. If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee simple estate.

39. CONDITIONAL LEASE. If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been granted to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent becomes effective. If for any reason such a selection is not finally approved or such a patent does not become effective, any rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. DRILLING OPERATIONS. As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

41. ACTUAL DRILLING. As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

42. RULES AND REGULATIONS. As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

43. INTERPRETATION. As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

44. NOTICES. Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessee

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska 99501

To Lessor

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

45. HEIRS AND ASSIGNS. Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

46. WILDLIFE STIPULATIONS. This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease effective as of the _____ day of _____ 19____

STATE OF ALASKA

By _____

LESSEE

This _____ LESSOR

THE UNITED STATES OF AMERICA }
STATE OF ALASKA }

This certifies that on the _____ day of _____ 19____ before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____ to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said _____ executed said lease in my presence and alive being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska and for the Division of Lands, Department of Natural Resources.

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

Notary Public in and for Alaska. My Commission expires _____

Relevant Sections from DL-1 Lease
(Sections 7 and 20)

"7. EXTENSION BY SHUT-IN PRODUCTION. If, upon the expiration of the primary term or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and lessee fails to do so, provided that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor." ...

"20. DILIGENCE, PREVENTION OF WASTE. Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for the future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land and on failure of Lessee to do so. Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessee's expense; and shall abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease."