

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672
7655 SENATE RESOURCES

Pipeline and the TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to the Kuparuk Pipeline and TAPS and identification of tankers, if any, which will transport the Oil. In addition, Petro Star JV will provide the State, if requested by the State, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence, or assurances requested will, at the State's election by notice to Petro Star JV, be a material default under this Agreement.

2.10 Absolute Obligations. The obligations of Petro Star JV to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Petro Star JV, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.11 Date of First Delivery. The date of First Delivery will be the first Day of the first Month that is the later of (i) seven Months after the Effective Date or (ii) seven Months after Petro Star JV certifies that within seven Months the refinery will be ready to accept and process Oil. If requested by Petro Star JV, the State, in its sole discretion, may set an earlier date of First Delivery.

2.12 Performance Guaranty and Reservation Fee. If at

any time, Petro Star JV does not take the Maximum Quantity, Petro Star JV shall pay to the State, in addition to the purchase price on the actual quantity taken, an amount equal to .75% of the purchase price per barrel per Day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Petro Star JV for each Day Petro Star JV does not take the Maximum Quantity.

2.13 In-state Processing. Petro Star JV agrees that not less than 80% of the Royalty Oil sold under this Agreement, averaged on a quarterly basis, shall be processed through Petro Star JV's refinery near Valdez, Alaska, except as provided below. "Process" means producing refined petroleum products from the Oil in quantities not less than 20% of the volume of Royalty Oil run through Petro Star JV's refinery pursuant to this Agreement.

Petro Star JV's obligation to process Royalty Oil in-state may only be suspended or excused under (1) the provisions of Articles VIII and XI, or (2) during refinery maintenance.

The State may, at its sole option, waive the in-state processing requirement in whole or in part, if the State is satisfied that Petro Star JV is using its best efforts to process the Royalty Oil sold under this Agreement at Petro Star JV's Valdez refinery and that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III

REPRESENTATION AND OBLIGATIONS OF PETRO STAR JV

Petro Star JV warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. are and at all times during the operation of this Agreement shall remain, corporations organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia, and qualified to do business in, and in good standing with, the State of Alaska. Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. each have all necessary corporate power to enter into this Agreement and to perform the covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. entering into this Agreement and performing its covenants and obligations under this Agreement.

Petro Star Valdez Refinery Joint Venture is, and at all times during the operation of the Agreement, shall remain a joint venture consisting of Petro Star Valdez, Inc., Alaska Refining Inc., and Harbor Enterprises, Inc. Petro Star Valdez Refinery Joint Venture is organized and exists under and by virtue of the laws of the State of Alaska, and is qualified to do business in, and in good standing with, the State of Alaska. Petro Star

Valdez Refinery Joint Venture is authorized by and on behalf of Petro Star Valdez, Inc., Alaska Refining Inc., and Harbor Enterprises, Inc., to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary acts have been taken to authorize Petro Star Valdez Refinery's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to the State is complete and correct and fairly presents Petro Star JV's financial condition at the time the information was submitted to the State. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business, and properties of Petro Star JV have not been materially adversely affected in any way. Petro Star JV agrees to inform the State immediately if there is any material adverse change in its condition, business, or properties which may have an appreciable adverse effect on its ability to perform under this Agreement. Petro Star JV, in addition, will immediately inform the State of any significant change in ownership of Petro Star JV, affiliates, parent company, and of any change in Petro Star JV's operations or Agreements, which may appreciably affect Petro Star JV's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Petro Star JV, and in any event

within one hundred twenty Days thereafter, Petro Star JV will furnish to the State, at Petro Star JV's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by the State which will include each of Petro Star JV's balance sheet as of the close of the fiscal year and the income statement for that year, prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this article in the first year of this Agreement, Petro Star JV may submit, and the State will accept, the annual report of the corporate parties to this agreement filed with the United States Securities and Exchange Commission pursuant to Sec. 13 or 15(d) of the Security Exchange Act of 1934.

ARTICLE IV

MEASUREMENTS AND TESTS

The quantity and quality of Oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this Agreement shall be in accordance with the practices then in effect at Kuparuk River Unit, Alaska, between the Lessees and the operators of Kuparuk Pipeline.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Billing. The State will send to Petro Star JV, on or before the tenth business Day of each Month after delivery of Oil, an invoice statement of account of all Oil estimated to have been measured at the Central Production Facility Meter into the Kuparuk Pipeline and tendered to Petro Star JV under this Agreement during the immediately preceding Month according to the best information available to the State, the estimated purchase prices applicable to those deliveries, and the total amount due ("Initial Billing"). The estimates will be made by the State according to the best information reasonably available to the State. The State may render its Initial Billing to Petro Star JV based in part upon information reported by the Lessees to the State, information published by the U.S. Government, and information published in Platt's Oilgram Price Report or any other publicly available report. The State shall thereafter adjust its Initial Billing under this Article as soon as more accurate information concerning the quantity and purchase price of Oil delivered each Month is available. The State, however, shall not be required to adjust the Initial Billing before the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Initial Billing under Section 5.1, the next Monthly invoice will also state the State's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with

any additional or more accurate information which may have become available to the State. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Petro Star JV will make payment of each amount billed under this Article within ten Days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding, by wire transfer of immediately available funds to the State's account at the following address:

State Street Bank & Trust Company
Boston, Massachusetts
ABA #011000028
For credit to the State of Alaska
General Investment Fund, AY01
Account #00657189
Attn: Kim Chan, Public Funds

Payment may be made in such other manner or to such other address as the State may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business Day. It is recognized that the State may bill, and that Petro Star JV will pay, amounts that are based upon confidential information held or received by the State. If confidential information is used as the basis for a billing, then upon request, the State will furnish Petro Star JV with the certified statement of the Commissioner that the amounts billed

are correct based upon the best information available to the State. If a dispute concerning a bill arises, Petro Star JV agrees to pay the full amount billed by the State, except for obvious clerical mistakes, pending final resolution of the dispute.

5.4 Payment to Lessee. Petro Star JV, at the request of the State in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by the State of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by the State. The payment will be made within the time limit specified in Section 5.3. The State may authorize and designate a third party to make the request and designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent Months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Petro Star JV acknowledges that after the Initial Billing and initial adjustment, more accurate information concerning the quantity of or purchase price for Royalty Oil tendered may become available to the State. If any such information should later become available to the State, it shall promptly furnish a corrected invoice statement of account to Petro Star JV and the State will adjust the amount billed; and Petro Star JV will pay, or the State will credit or refund the amount of those adjustments. If

the State should render a corrected invoice to Petro Star JV, any amount to be credited or refunded from the State to Petro Star JV or paid from Petro Star JV to the State will be refunded or paid within thirty Days after the date of the corrected invoice. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. The amount of all sums, which are not paid when due under this Agreement or which are later determined to be due as an adjustment, shall bear interest from the date accrued until paid in full at the rate as provided in AS 38.05.135(d) or as may later be amended. Currently, that interest rate in a calendar quarter is at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first Day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last Day of that quarter. The term "date accrued" means the date of the receipt of the "Initial Billing plus ten Days." Interest shall apply to both adjustments for overpayments and underpayments.

5.7 Late Payment Penalty. If Petro Star JV fails to make a full payment within ten business Days of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of actual payment, Petro Star JV will pay an amount equal to five percent of the amount owed.

5.8 Payment to Third Parties. The State may direct

that Petro Star JV pay any amount due or which may become due directly to a third party in a manner and time as may be directed by the State in written notice to Petro Star JV if, in the State's sole discretion, the payment to the third party will assist State in monitoring or enforcing this Agreement.

ARTICLE VI

TERM

This Agreement shall become effective upon execution by the parties and after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by

December 31, 1993, or if Petro Star JV does not certify that it will within seven Months be ready and able to accept and process the Oil as required by Section 2.11 before December 31, 1993.

Subject to the other provisions contained in this Agreement, State's obligation to sell and Petro Star JV's obligation to buy Royalty Oil shall begin as provided above, and shall end December 31, 2003. As used in this Article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII

DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at the State's sole option, the State may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

- (i) At any time, Petro Star JV (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five Days, after written request from the State to provide the State with written affirmation of this Agreement and of Petro Star JV's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.9 reasonably satisfactory to the State); or
- (ii) Petro Star JV does not pay in full any sum owed under this Agreement at the time when payment is due; or
- (iii) Petro Star JV fails to observe or perform any of its other covenants and obligations under Article II; or
- (iv) Petro Star JV does not perform any act required or contemplated under this Agreement

and: (a) the nonperformance cannot be cured;
(b) the nonperformance continues for more than thirty Days after the State has notified Petro Star JV of Petro Star JV's nonperformance; or (c) Petro Star JV had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve Month period; or

(v) There is a material adverse change in Petro Star JV's condition, business, or property which may appreciably affect its ability to perform any of their obligations under this Agreement and Petro Star JV is unable or unwilling to give the State adequate assurance of continued performance either within five Days of a request for such an assurance or within such other shorter time period as the State may request under the circumstances; or

(vi) Any representation or warranty made by Petro Star JV in this Agreement was materially false or incorrect when made.

(vii) Petro Star JV's failure or inability for any reason (including reasons beyond Petro Star JV's control) to maintain the Security

described in Article XV, notwithstanding Petro Star JV's continuing willingness and ability to perform its other obligations and covenants under the Agreement.

7.2 Failure to Pay Debts. If Petro Star JV becomes unable to pay any of its debts when due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Petro Star JV will immediately give notice of that fact to the State. Whether that notice is given, if Petro Star JV becomes unable to pay any of its debts when due or should otherwise become insolvent, the State's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by the State; however, Petro Star JV will nevertheless be and remain liable for payment and performance of all its obligations and covenants under this Agreement with respect to Oil actually tendered by the State to and after any such termination. Within thirty Days after receipt of Petro Star JV's notice or, if no notice is given, after the State otherwise becomes aware (as determined in the State's sole discretion) of Petro Star JV's insolvency, the State will have the right, upon written notice to Petro Star JV, to reinstate all of the State's and Petro Star JV's obligations under this Agreement retroactively to the date of termination.

7.3 State's Remedies. If any Event of Default occurs or if the State's obligation to tender and sell Oil under this

Agreement is terminated or suspended, all Petro Star JV's obligations accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Petro Star JV will indemnify and hold the State harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorney's fees and disbursements) incurred by the State and arising out of the Event of Default, termination, or suspension. The State shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance.

Additionally, in its sole discretion, the State, upon occurrence of any Event of Default: (1) may dispose to third parties Royalty Oil to be tendered and sold under this Agreement and (2) may release Petro Star JV from the in-state processing obligations set forth in Article 2.13 until the Event of Default no longer exists or the obligation of Petro Star JV to take Oil under this Agreement expires. If the State disposes Oil to third parties, or if Petro Star JV is released from Article 2.13, whether or not this Agreement is terminated, Petro Star JV will nevertheless remain liable for the difference between the purchase price for that Oil under this Agreement and the price received by the State by disposition, including all of the expenses (including reasonable attorneys' fees and costs), and

losses incurred by the State arising out of the Event of Default or disposition.

7.4 Petro Star JV's Exclusive Remedies. Upon any breach of, or default in performance of any of the State's covenants or obligations under this Agreement, Petro Star JV agrees that its remedies will not include a temporary restraining order or preliminary injunction preventing the State from taking any action with regard to the Royalty Oil which is the subject of this Agreement.

ARTICLE VIII

DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Petro Star JV recognizes that the State may be required to give six Months notice under the Unit Agreement (or ninety Days if the amount increased or decreased is less than ten percent of the then current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. Petro Star JV agrees that the State's election to invoke its rights to return to taking its Royalty Oil in-value on less than six Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at the State's sole discretion. Notwithstanding termination of this Agreement for any reason, Petro Star JV shall continue to take and purchase the State's Royalty Oil in the amount and for the price set forth in this Agreement for up to six Months following termination if the State, in its sole discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Petro Star JV is unable or refuses to accept or receive any Oil tendered under this Agreement, Petro Star JV shall nevertheless be and remain responsible for the disposal of that Oil and for paying the State for the Oil as though it had been received and accepted by Petro Star JV unless the State, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Petro Star JV under Section 8.2 and Section 2.10, Petro Star JV shall, if the State requests, assign to the State all right, title and interest of Petro Star JV under any nominations, Leases, Agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Kuparuk Pipeline and the Trans Alaska Pipeline System; provided, that the State shall not have any liability or obligations under any such nominations, Leases, Agreements, contracts, charter parties or other arrangements unless, and to the extent that, the State shall actually exercise its rights to succeed to Petro Star JV's interest under them and shall obtain the benefits of them.

8.3 No Right to Storage or Underlift. Petro Star JV waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which the State is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX

WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X

VALIDITY

If any provision or clause of this Agreement or application of this Agreement is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI

FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Petro Star JV's obligations to pay for Oil tendered and to accept and

dispose of Royalty Oil, neither party shall be liable for any failure to perform when the failure is caused in whole or in substantial part, by force majeure. The term "force majeure" shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Petro Star JV is excused or suspended by a force majeure for three hundred sixty-five successive Days or more, the State will have the right to terminate this Agreement. Before the State exercises its right to terminate, the State and Petro Star JV shall in good faith negotiate to restore the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. If a party believes that force majeure has occurred, the party shall immediately notify the other party of its claim of force majeure. If force majeure

occurs, that occurrence shall, so far as possible, be remedied with reasonable diligence. Except for Petro Star JV's obligations to pay for Oil tendered and to accept and dispose of Oil, the disabled party's obligations to perform that are affected by the force majeure shall be suspended from the time that notification occurs until the disability should have been remedied with reasonable diligence, and for no longer. But, the settlement of strikes, lockouts, or industrial disputes or disturbances will be entirely within the sole discretion of the party having the difficulty.

ARTICLE XII

NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally, telecopied, or sent by registered or certified United States mail, postage prepaid, with a return receipt requested, to the party to be notified. Notice deposited in the mail in this manner shall be effective upon the expiration of seven Days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties shall be as follows:

If to the State: State of Alaska
 Commissioner of Natural Resources
 400 Willoughby Avenue
 Juneau, AK 99801

and

Commissioner of Revenue
P.O. Box S
Juneau, AK 99811-0400

and

Director, Division of Oil and Gas
P.O. Box 107034
Anchorage, AK 99510-0734

If to Petro Star JV:

Telecopy Number: _____

12.2 Change of Address. Each party may change its address for notice by giving written notice of the change.

ARTICLE XIII

RULES AND REGULATIONS

This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted of the State of Alaska.

ARTICLE XIV

SOVEREIGN POWER OF THE STATE

This Agreement shall not be interpreted as a limit on the State of Alaska's exercise of any of its sovereign or regulatory powers, whether conferred by constitution, statute or regulation, including, but not limited to, its regulatory power over the Leases. Its exercise of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of

Petro Star JV or to limit or impair any obligations or liability of Petro Star JV under this Agreement.

ARTICLE XV

SECURITY

One hundred ninety Days before the Date of First Delivery, Petro Star JV shall cause to be issued and delivered to the State an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of the State by a state or national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars (\$100,000,000), or other banking institution acceptable to the State in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate purchase price for the approximate total amount of Oil to be tendered by the State to Petro Star JV during the first ninety Days following the Date of First Delivery. The letter of credit shall be in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or his designee and the Attorney General of the State of Alaska or his designee that Petro Star JV is liable to

the State for a sum equal to the amount of such draft, and that sum is due and payable in full and has not been timely paid. The letter of credit must be renewed ninety Days before its expiration so that a letter of credit is continuously valid for ninety Days after the date of the last delivery of Royalty Oil. If a replacement letter of credit, in a form satisfactory to the Commissioner in his sole discretion, is not received ninety Days before the expiration of the existing letter of credit, then Petro Star JV shall be deemed to have materially breached this Agreement, there shall have occurred an event of default under Article 7.1, and all obligations of Petro Star JV accrued, but not otherwise due and payable under this Agreement, will immediately become due and payable in full.

If the State has reasonable grounds for asserting any claims against Petro Star JV and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Petro Star JV shall upon the State's request (whether or not Petro Star JV may deny, reject or otherwise resist such claims) cause the principal face amount to be increased by an amount equal to the excess. Petro Star JV shall also automatically increase the principal face amount, without request from the State, whenever the face amount is less than the expected purchase price of ninety Days of Oil tenders, to an amount equal to the expected purchase price of ninety Days of Oil tenders. Petro Star JV may decrease the principal face amount upon approval of the State, if the face

amount is more than the expected purchase price of ninety Days of Oil tenders to an amount equal to the expected purchase price of ninety Days of Oil tenders.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 90th Day after the last delivery of Royalty Oil to Petro Star JV under this Agreement. The Commissioner may accept such other or additional security as he, in his sole discretion, considers adequate to protect the State.

ARTICLE XVI

PREFERENTIAL HIRING AND NON-DISCRIMINATION

Petro Star JV agrees to employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska in connection with the Agreement. "Alaska resident" means an individual who has resided in Alaska for one year at the time of employment and "Alaska companies" means companies incorporated in Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional, then Petro Star JV agrees to employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII

APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a state court of general jurisdiction sitting in the State of Alaska, and Petro Star JV hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII

WARRANTIES

The purchase and sale of Royalty Oil is subject only to the warranties of the State expressly set forth in this Agreement and the State disclaims and Petro Star JV waives all other warranties, express or implied in law, whatsoever.

ARTICLE XIX

AMENDMENT

This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the parties. Any amendment which appreciably reduces the

consideration received by the State requires prior approval of the Legislature of the State of Alaska.

ARTICLE XX

SUCCESSORS AND ASSIGNS

No assignment, pledge, or encumbrance of this Agreement shall be made by either party without the written consent of the other party. The Commissioner or his designee may grant or deny such consent in his sole discretion. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assignees.

ARTICLE XXI

HEADINGS

Headings used in this Agreement are for convenience only and shall not affect its construction.

ARTICLE XXII

RECORDS

22.1 Preservation of Records. Petro Star JV will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement including, but not limited to, the purchase or sale of Royalty Oil and its refined products, for a period of no less than six years from the date of transaction or last adjustment relating to the

transaction. Petro Star JV will also maintain and preserve all similar books, accounts, and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Petro Star JV nor the State shall be required to retain any records for more than six years unless retention of such records is specifically required by applicable law or regulation, or this Agreement. Petro Star JV shall either maintain its records within the State of Alaska or make such records available to the State at Petro Star JV's principal office in the State of Alaska within thirty Days after written request by the State.

22.2 Inspection of Records of Parties. Petro Star JV and the State will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Petro Star JV's or the State's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. The State shall not be required to disclose any information, data, or records which are required to be held confidential by state or federal law or regulation. If the information obtained by the State may be held confidential under state or federal law or regulation, Petro Star JV may request that information be held confidential by the State and the State will keep this information confidential.

ARTICLE XXIII

INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Petro Star JV will present the arguments supporting its view in writing to the Commissioner for his consideration. The Commissioner will subsequently issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for his conclusions. Petro Star JV agrees to accept findings by the Commissioner under this Article are supported by substantial evidence.

SIGNATURES

the State:

THE STATE OF ALASKA

Commissioner,
Department of Natural Resources

Date: _____

Petro Star Valdez Refinery
Joint Venture:

By: _____

Date: _____

Petro Star Valdez, Inc.

By: _____

Date: _____

Alaska Refining, Inc.

By: _____

Date: _____

Arctic Slope Regional Corp.

By: _____

Date: _____

Harbor Enterprises, Inc.

By: _____

Date: _____

ACKNOWLEDGMENT

STATE of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, appeared Harold C. Heinze, the Commissioner, Department of Natural Resources, State of Alaska; that Harold C. Heinze executed this document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this Agreement first above written.

Notary Public in and for Alaska
My commission expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____, who executed this document as _____ of _____ and _____ acknowledged to me that _____ signed the same as _____ of _____ in the name of and for and on behalf said corporation, freely and voluntarily and by authority of its Board of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day and year last above written.

Notary Public for _____
My commission expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____, who executed this document as _____ of _____ and _____ acknowledged to me that _____ signed the same as _____ of _____ in the name of and for and on behalf said corporation, freely and voluntarily and by authority of its Board of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day and year last above written.

Notary Public for _____
My commission Expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____, who executed this document as _____ of _____ and _____ acknowledged to me that _____ signed the same as _____ of _____ in the name of and for and on behalf said corporation, freely and voluntarily and by authority of its Board of Directors for the uses and purposes therein mentioned.

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Notary Public for _____
My commission expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____, who executed this document as _____ of _____ and _____ acknowledged to me that _____ signed the same as _____ of _____ in the name of and for and on behalf said corporation, freely and voluntarily and by authority of its Board of Directors for the uses and purposes therein mentioned.

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My commission Expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____, who executed this document as _____ of _____ and _____ acknowledged to me that _____ signed the same as _____ of _____ in the name of and for and on behalf said corporation, freely and voluntarily and by authority of its Board of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day and year last above written.

Notary Public for _____
My commission expires: _____

FISCAL NOTE

No. 2

Bill Version: SB 448

(S) Publish Date: 3-11-92

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: Approving the Sale of Kuparuk River Unit Royalty
Oil by the State of Alaska to Petro Star Valdez Refinery

Department Affected: Revenue
BRU: Revenue Operations
Component: Oil & Gas Audit

Sponsor: _____

Requestor: _____

Component Serial No.

0	.1	1	5
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE						
---------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS:

Prepared by: Robert L. Doss, Director

Phone: 276-1363 ext. 225

Division: Oil & Gas Audit Division

Date: Feb. 27, 1992

Approved by Commissioner: David K. ...

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

No. 1

Bill Version: SR 448

(S) Publish Date: 3-11-92

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Natural Resources

Title: Petro Star Royalty Oil Contract BRU: Petroleum Management

Component: Petroleum Management

Sponsor: Rules Committee for Governor

Requestor: _____ COMPONENT SERIAL NO.

	4	3	9
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	0	0	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
FUND SOURCE:						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER FUND SOURCE:						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

Division of Oil and Gas staff handles a number of royalty-in-kind contracts. Existing staff will handle the proposed contract with Petro Star Valdez Refinery Joint Venture.

Prepared By: Bob Loeffler Phone: 762-2578

Division: Oil and Gas Date: 2-27-92

Approved by Commissioner: Harold C. Heinze

Agency: Natural Resources Date: 2-27-92

AGREEMENT FOR THE SALE AND PURCHASE
OF
STATE ROYALTY OIL

to

PETRO STAR VALDEZ REFINERY JOINT VENTURE
PETRO STAR VALDEZ, INC.
ARCTIC SLOPE REGIONAL CORPORATION
HARBOR ENTERPRISES, INC.
ALASKA REFINING, INC.

THE STATE OF ALASKA
Department of Natural Resources

March 4, 1992

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AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL

THIS AGREEMENT is entered into as of March 4, 1992 by and between the State Of Alaska ("the State") and Petro Star Valdez Refinery Joint Venture, Petro Star Valdez, Inc., Alaska Refining, Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. (collectively hereinafter referred to as "Petro Star JV").

ARTICLE I

DEFINITIONS

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

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or his designee.

1.2 "Daily Royalty Oil" means the quantity of Royalty Oil available from the Lessees of the Kuparuk River Unit each day.

1.3 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.4 "Effective Date" shall have the meaning set out in Article VI.

1.5 "Field Cost Agreement" means the Agreement for Settlement of Cleaning, Dehydration and Transportation Charges Applicable to Royalty Oil Taken from the Kuparuk River Unit,

effective as of December 13, 1981, and attached to the Kuparuk River Unit Agreement of December 1, 1981 as Appendix I.

1.6 "Leases" means the Oil and Gas Leases which are subject to the terms of the Kuparuk River Unit Agreement.

1.7 "Lessee" means any person owning a working interest in any of the Leases.

1.8 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time, on the first Day of the calendar Month and ending at the same time on the first Day of the next succeeding calendar Month.

1.9 "Oil" shall have the same meaning as the word "Oil" under the Leases and the Kuparuk River Unit Agreement, except where inconsistent with Section 2.2 of this Agreement, in which case Section 2.2 shall control.

1.10 "Point of Delivery" shall have the meaning set out in Section 2.5.

1.11 "Royalty Oil" means the Oil which the State may take in-kind (in amount) as its royalty under the Leases whether or not the State has elected to take or is taking that royalty in-kind.

1.12 "Royalty Settlement Agreement" means the written royalty settlement agreements between the State and BP Exploration (Alaska) Inc. ("BP") dated December 31, 1991, and the State and Atlantic Richfield Company and Arco Alaska, Inc., ("ARCO") dated September 12, 1990.

1.13 "Royalty Value" means, with respect to each

Royalty Settlement Agreement, the royalty value calculated in accordance with BP's and Arco's Royalty Settlement Agreement for Kuparuk River Oil.

1.14 "TAPS" means the Trans Alaska Pipeline System.

1.15 "Unit Agreement" means the Kuparuk River Unit Agreement effective December 1, 1981, by and between the Lessees, as amended from time to time.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity. The State agrees to sell to Petro Star JV and Petro Star JV agrees to buy from the State that amount of Oil equal to 76.18% of the Daily Royalty Oil ("Maximum Quantity"). Petro Star JV may permanently decrease the Maximum Quantity only twice: (1) once by giving the State written notice seven months before the date of first delivery and (2) once thereafter by giving the State six Months and ten Days written notice.

Petro Star JV may at any time decrease or increase the amount of Oil to be tendered but not the Maximum Quantity except as provided above. To increase or decrease the amount of oil to be tendered, Petro Star JV must give the State at least six Months and ten Days written notice. If, however, the increase or decrease is less than ten percent of the then current nomination, Petro Star JV must give at least one hundred Days written notice. In addition, the new tendering will take effect on the first day

of the first month after the applicable notice period expires.

It is understood and agreed that the volume of Daily Royalty Oil available to the State will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. The State disclaims and Petro Star JV waives any representation, covenant or warranty, expressed or implied, as to the specific quantity or the total or daily, Monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. The State warrants that it has good title to the Oil tendered under this Agreement.

If the State underlifts or stores Royalty Oil at Kuparuk River Unit, or if the State recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered by the Lessees to the State at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. The State disclaims, and Petro Star JV waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this Agreement or as to any specific, average, or overall quality or characteristic of Oil to be sold or tendered under this

Agreement. Petro Star JV expressly waives any claim that any liquid hydrocarbons made available to the State by the Lessees, including such substances as crude oil, condensate, natural gas liquids, or return oil from the Kuparuk River Unit Crude Oil Topping Plant, that may be blended with crude by the Lessees before the Point of Delivery and tendered as a common stream by the Lessees to the State as Royalty Oil are not Oil, for purposes of this Agreement.

2.3 Price of the Royalty Oil. The price each Month for Oil purchased under this Agreement shall be the average Royalty Value (weighted by production volume) for that Month of all Oil delivered from the Kuparuk River Unit production for which the Royalty Value is determined by the Royalty Settlement Agreements plus field costs. See examples attached as Exhibits A and B.

Field costs are those costs as defined in the Field Cost Agreement. If a field cost different from that in the existing Field Cost Agreement is established through future written agreement, or settlement or final resolution of any litigation, then that new field cost shall apply to the portion of the liquid hydrocarbons deemed not to be covered by the now existing Field Cost Agreement. In the interim, Petro Star JV agrees to pay the State the field costs claimed by the Lessees for any Royalty Oil taken by Petro Star JV. Any future field cost adjustments shall bear interest as provided in Section 5.6.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will,

in the judgment of the State, operate to prohibit or prevent the State from receiving the full amount due under the above provision, Petro Star JV's obligation to pay the amount of the purchase price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for the State to comply with that law, rule or regulation.

2.4 Purchase Price Reopener. The State and Petro Star JV shall have the right to reopen this Agreement as to purchase price only. At any time after Petro Star JV receives Oil for two years from the Date of First Delivery (as defined in Section 2.11), the State or Petro Star JV may exercise the right to reopen by giving the other party one Month prior written notice. Upon issuance and receipt of a notice to reopen, Petro Star JV and the State will promptly commence good faith negotiations in an attempt to establish a new purchase price. If a new purchase price is not agreed to by Petro Star JV and the State within three Months after giving the notice to reopen, either Petro Star JV or the State may terminate this Agreement upon nine Months written notice to the other. The purchase price for Oil tendered during any period pending termination shall be determined in accordance with the price term in effect immediately before giving the notice of intent to reopen. If a new purchase-price provision is agreed to by Petro Star JV and the State, the new purchase-price provision shall become effective for Oil tendered in the Month following the written Agreement on the new purchase-price provision. Not less than two years after the conclusion of

the purchase-price reopener process described above, either Petro Star JV or the State again may reopen this Agreement, as to purchase price only, by giving notice of intent to exercise the right to reopen. At that time, the purchase-price reopener process described above may again be followed and every two years thereafter.

2.5 No Third-Party Intervention. Petro Star JV shall not voluntarily intervene or otherwise participate in any way regarding litigation, styled State of Alaska v. Exxon, et.al., Case No. 1-JU-77-847, ("ANS Royalty Litigation"), any future Royalty Settlement Agreements, or any reopeners or other discussions under or pertaining to Royalty Settlement Agreements. Any judgment resulting from the ANS Royalty Litigation, any future Royalty Settlement Agreements, or any reopener under any Royalty Settlement Agreement shall be conclusively binding upon Petro Star JV whether or not Petro Star JV agrees with or consents to the terms of any such judgment, settlement, or reopener. Furthermore, Petro Star JV has no independent right to invoke any of the provisions of any Royalty Settlement Agreement. If the Royalty Value is modified in the future as a result of a modification of any Royalty Settlement Agreement, a corresponding retroactive modification will be made to the price term of this Agreement and interest will apply to the modification, whether resulting in an overpayment or underpayment, as set forth in Section 5.6. Petro Star JV agrees to be conclusively bound by any such modification agreed to by

the State and BP or ARCO.

2.6 Point and Time of Delivery. Simultaneously with receipt of its Royalty Oil from its Lessees, the State shall tender the Oil to Petro Star JV at the point at which the State receives the Royalty Oil from its Lessees. That point as presently agreed to by the State and its Lessees in Section 2.3 of the Field Cost Agreement is the Central Production Facility Meter into the Kuparuk Pipeline.

2.7 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from the State to Petro Star JV for all purposes when the State tenders the Oil at the Point of Delivery.

2.8 Petro Star JV's Responsibility. Petro Star JV shall be responsible for the Oil after passage of title. Petro Star JV will indemnify and hold the State harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses, or causes of action arising from or in connection with any transaction or event which relates to the Oil after title has passed to Petro Star JV.

2.9 Transportation Arrangements. Petro Star JV shall make all necessary arrangements for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of the Kuparuk Pipeline and of TAPS, if any. If requested by the State, Petro Star JV shall submit specific information concerning its arrangement for transportation of the

Oil sold under this Agreement through and away from the Kuparuk Pipeline and the TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to the Kuparuk Pipeline and TAPS and identification of tankers, if any, which will transport the Oil. In addition, Petro Star JV will provide the State, if requested by the State, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence, or assurances requested will, at the State's election by notice to Petro Star JV, be a material default under this Agreement.

2.10 Absolute Obligations. The obligations of Petro Star JV to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Petro Star JV, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.11 Date of First Delivery. The date of First Delivery will be the first Day of the first Month that is the later of (i) seven Months after the Effective Date or (ii) seven Months after Petro Star JV certifies that within seven Months the refinery will be ready to accept and process Oil. If requested by Petro Star JV, the State, in its sole discretion, may set an earlier date of First Delivery.

2.12 Performance Guaranty and Reservation Fee. If at any time, Petro Star JV does not take the Maximum Quantity, Petro Star JV shall pay to the State, in addition to the purchase price on the actual quantity taken, an amount equal to .75% of the purchase price per barrel per Day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Petro Star JV for each Day Petro Star JV does not take the Maximum Quantity.

2.13 In-state Processing. Petro Star JV agrees that not less than 80% of the Royalty Oil sold under this Agreement, averaged on a quarterly basis, shall be processed through Petro Star JV's refinery near Valdez, Alaska, except as provided below. "Process" means producing refined petroleum products from the Oil in quantities not less than 20% of the volume of Royalty Oil run through Petro Star JV's refinery pursuant to this Agreement.

Petro Star JV's obligation to process Royalty Oil in-state may only be suspended or excused under (1) the provisions of Articles VIII and XI, or (2) during refinery maintenance.

The State may, at its sole option, waive the in-state processing requirement in whole or in part, if the State is satisfied that Petro Star JV is using its best efforts to process the Royalty Oil sold under this Agreement at Petro Star JV's Valdez refinery and that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III

REPRESENTATION AND OBLIGATIONS OF PETRO STAR JV

Petro Star JV warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. are and at all times during the operation of this Agreement shall remain, corporations organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia, and qualified to do business in, and in good standing with, the State of Alaska. Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. each have all necessary corporate power to enter into this Agreement and to perform the covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. entering into this Agreement and performing its covenants and obligations under this Agreement.

Petro Star Valdez Refinery Joint Venture is, and at all times during the operation of the Agreement, shall remain a joint venture consisting of Petro Star Valdez, Inc., Alaska Refining Inc., and Harbor Enterprises, Inc. Petro Star Valdez Refinery Joint Venture is organized and exists under and by virtue of the laws of the State of Alaska, and is qualified to do business in, and in good standing with, the State of Alaska. Petro Star

Valdez Refinery Joint Venture is authorized by and on behalf of Petro Star Valdez, Inc., Alaska Refining Inc., and Harbor Enterprises, Inc., to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary acts have been taken to authorize Petro Star Valdez Refinery's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to the State is complete and correct and fairly presents Petro Star JV's financial condition at the time the information was submitted to the State. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business, and properties of Petro Star JV have not been materially adversely affected in any way. Petro Star JV agrees to inform the State immediately if there is any material adverse change in its condition, business, or properties which may have an appreciable adverse effect on its ability to perform under this Agreement. Petro Star JV, in addition, will immediately inform the State of any significant change in ownership of Petro Star JV, affiliates, parent company, and of any change in Petro Star JV's operations or Agreements, which may appreciably affect Petro Star JV's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Petro Star JV, and in any event

within one hundred twenty Days thereafter, Petro Star JV will furnish to the State, at Petro Star JV's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by the State which will include each of Petro Star JV's balance sheet as of the close of the fiscal year and the income statement for that year, prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this article in the first year of this Agreement, Petro Star JV may submit, and the State will accept, the annual report of the corporate parties to this agreement filed with the United States Securities and Exchange Commission pursuant to Sec. 13 or 15(d) of the Security Exchange Act of 1934.

ARTICLE IV

MEASUREMENTS AND TESTS

The quantity and quality of Oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this Agreement shall be in accordance with the practices then in effect at Kuparuk River Unit, Alaska, between the Lessees and the operators of Kuparuk Pipeline.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Billing. The State will send to Petro Star JV, on or before the tenth business Day of each Month after delivery of Oil, an invoice statement of account of all Oil estimated to have been measured at the Central Production Facility Meter into the Kuparuk Pipeline and tendered to Petro Star JV under this Agreement during the immediately preceding Month according to the best information available to the State, the estimated purchase prices applicable to those deliveries, and the total amount due ("Initial Billing"). The estimates will be made by the State according to the best information reasonably available to the State. The State may render its Initial Billing to Petro Star JV based in part upon information reported by the Lessees to the State, information published by the U.S. Government, and information published in Platt's Oilgram Price Report or any other publicly available report. The State shall thereafter adjust its Initial Billing under this Article as soon as more accurate information concerning the quantity and purchase price of Oil delivered each Month is available. The State, however, shall not be required to adjust the Initial Billing before the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Initial Billing under Section 5.1, the next Monthly invoice will also state the State's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with

any additional or more accurate information which may have become available to the State. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Petro Star JV will make payment of each amount billed under this Article within ten Days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding, by wire transfer of immediately available funds to the State's account at the following address:

State Street Bank & Trust Company
Boston, Massachusetts
ABA #011000028
For credit to the State of Alaska
General Investment Fund, AY01
Account #00657189
Attn: Kim Chan, Public Funds

Payment may be made in such other manner or to such other address as the State may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business Day. It is recognized that the State may bill, and that Petro Star JV will pay, amounts that are based upon confidential information held or received by the State. If confidential information is used as the basis for a billing, then upon request, the State will furnish Petro Star JV with the certified statement of the Commissioner that the amounts billed

are correct based upon the best information available to the State. If a dispute concerning a bill arises, Petro Star JV agrees to pay the full amount billed by the State, except for obvious clerical mistakes, pending final resolution of the dispute.

5.4 Payment to Lessee. Petro Star JV, at the request of the State in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by the State of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by the State. The payment will be made within the time limit specified in Section 5.3. The State may authorize and designate a third party to make the request and designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent Months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Petro Star JV acknowledges that after the Initial Billing and initial adjustment, more accurate information concerning the quantity of or purchase price for Royalty Oil tendered may become available to the State. If any such information should later become available to the State, it shall promptly furnish a corrected invoice statement of account to Petro Star JV and the State will adjust the amount billed; and Petro Star JV will pay, or the State will credit or refund the amount of those adjustments. If

the State should render a corrected invoice to Petro Star JV, any amount to be credited or refunded from the State to Petro Star JV or paid from Petro Star JV to the State will be refunded or paid within thirty Days after the date of the corrected invoice. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. The amount of all sums, which are not paid when due under this Agreement or which are later determined to be due as an adjustment, shall bear interest from the date accrued until paid in full at the rate as provided in AS 38.05.135(d) or as may later be amended. Currently, that interest rate in a calendar quarter is at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first Day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last Day of that quarter. The term "date accrued" means the date of the receipt of the "Initial Billing plus ten Days." Interest shall apply to both adjustments for overpayments and underpayments.

5.7 Late Payment Penalty. If Petro Star JV fails to make a full payment within ten business Days of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of actual payment, Petro Star JV will pay an amount equal to five percent of the amount owed. The late payment penalty is due at the time of the next Month's payment.

5.8 Payment to Third Parties. The State may direct that Petro Star JV pay any amount due or which may become due directly to a third party in a manner and time as may be directed by the State in written notice to Petro Star JV if, in the State's sole discretion, the payment to the third party will assist State in monitoring or enforcing this Agreement.

ARTICLE VI

TERM

This Agreement shall become effective upon execution by the parties and after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by December 31, 1993, or if Petro Star JV does not certify that it will within seven Months be ready and able to accept and process the Oil as required by Section 2.11 before December 31, 1993. Subject to the other provisions contained in this Agreement, State's obligation to sell and Petro Star JV's obligation to buy Royalty Oil shall begin as provided above, and shall end December 31, 2003. As used in this Article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII

DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at the State's sole option, the State may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

- (i) At any time, Petro Star JV (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five Days, after written request from the State to provide the State with written affirmation of this Agreement and of Petro Star JV's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.9 reasonably satisfactory to the State); or
- (ii) Petro Star JV does not pay in full any sum owed under this Agreement at the time when payment is due; or
- (iii) Petro Star JV fails to observe or perform any of its other covenants and obligations under Article II; or
- (iv) Petro Star JV does not perform any act required or contemplated under this Agreement

- and: (a) the nonperformance cannot be cured;
- (b) the nonperformance continues for more than thirty Days after the State has notified Petro Star JV of Petro Star JV's nonperformance; or (c) Petro Star JV had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve Month period; or
- (v) There is a material adverse change in Petro Star JV's condition, business, or property which may appreciably affect its ability to perform any of their obligations under this Agreement and Petro Star JV is unable or unwilling to give the State adequate assurance of continued performance either within five Days of a request for such an assurance or within such other shorter time period as the State may request under the circumstances; or
- (vi) Any representation or warranty made by Petro Star JV in this Agreement was materially false or incorrect when made.
- (vii) Petro Star JV's failure or inability for any reason (including reasons beyond Petro Star JV's control) to maintain the Security

described in Article XV, notwithstanding Petro Star JV's continuing willingness and ability to perform its other obligations and covenants under the Agreement.

7.2 Failure to Pay Debts. If Petro Star JV becomes unable to pay any of its debts when due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Petro Star JV will immediately give notice of that fact to the State. Whether that notice is given, if Petro Star JV becomes unable to pay any of its debts when due or should otherwise become insolvent, the State's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by the State; however, Petro Star JV will nevertheless be and remain liable for payment and performance of all its obligations and covenants under this Agreement with respect to Oil actually tendered by the State to and after any such termination. Within thirty Days after receipt of Petro Star JV's notice or, if no notice is given, after the State otherwise becomes aware (as determined in the State's sole discretion) of Petro Star JV's insolvency, the State will have the right, upon written notice to Petro Star JV, to reinstate all of the State's and Petro Star JV's obligations under this Agreement retroactively to the date of termination.

7.3 State's Remedies. If any Event of Default occurs or if the State's obligation to tender and sell Oil under this

Agreement is terminated or suspended, all Petro Star JV's obligations accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Petro Star JV will indemnify and hold the State harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorney's fees and disbursements) incurred by the State and arising out of the Event of Default, termination, or suspension. The State shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance.

Additionally, in its sole discretion, the State, upon occurrence of any Event of Default: (1) may dispose to third parties Royalty Oil to be tendered and sold under this Agreement and (2) may release Petro Star JV from the in-state processing obligations set forth in Article 2.13 until the Event of Default no longer exists or the obligation of Petro Star JV to take Oil under this Agreement expires. If the State disposes Oil to third parties, or if Petro Star JV is released from Article 2.13, whether or not this Agreement is terminated, Petro Star JV will nevertheless remain liable for the difference between the purchase price for that Oil under this Agreement and the price received by the State by disposition, including all of the expenses (including reasonable attorneys' fees and costs), and

losses incurred by the State arising out of the Event of Default or disposition.

7.4 Petro Star JV's Exclusive Remedies. Upon any breach of, or default in performance of any of the State's covenants or obligations under this Agreement, Petro Star JV agrees that its remedies will not include a temporary restraining order or preliminary injunction preventing the State from taking any action with regard to the Royalty Oil which is the subject of this Agreement.

ARTICLE VIII

DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Petro Star JV recognizes that the State may be required to give six Months notice under the Unit Agreement (or ninety Days if the amount increased or decreased is less than ten percent of the then current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. Petro Star JV agrees that the State's election to invoke its rights to return to taking its Royalty Oil in-value on less than six Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at the State's sole discretion. Notwithstanding termination of this Agreement for any reason, Petro Star JV shall continue to take and purchase the State's Royalty Oil in the amount and for the price set forth in this Agreement for up to six Months following termination if the State, in its sole discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Petro Star JV is unable or refuses to accept or receive any Oil tendered under this Agreement, Petro Star JV shall nevertheless be and remain responsible for the disposal of that Oil and for paying the State for the Oil as though it had been received and accepted by Petro Star JV unless the State, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Petro Star JV under Section 8.2 and Section 2.10, Petro Star JV shall, if the State requests, assign to the State all right, title and interest of Petro Star JV under any nominations, Leases, Agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Kuparuk Pipeline and the Trans Alaska Pipeline System; provided, that the State shall not have any liability or obligations under any such nominations, Leases, Agreements, contracts, charter parties or other arrangements unless, and to the extent that, the State shall actually exercise its rights to succeed to Petro Star JV's interest under them and shall obtain the benefits of them.

8.3 No Right to Storage or Underlift. Petro Star JV waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which the State is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX

WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X

VALIDITY

If any provision or clause of this Agreement or application of this Agreement is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI

FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Petro Star JV's obligations to pay for Oil tendered and to accept and

dispose of Royalty Oil, neither party shall be liable for any failure to perform when the failure is caused in whole or in substantial part, by force majeure. The term "force majeure" shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Petro Star JV is excused or suspended by a force majeure for three hundred sixty-five successive Days or more, the State will have the right to terminate this Agreement. Before the State exercises its right to terminate, the State and Petro Star JV shall in good faith negotiate to restore the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. If a party believes that force majeure has occurred, the party shall immediately notify the other party of its claim of force majeure. If force majeure

occurs, that occurrence shall, so far as possible, be remedied with reasonable diligence. Except for Petro Star JV's obligations to pay for Oil tendered and to accept and dispose of Oil, the disabled party's obligations to perform that are affected by the force majeure shall be suspended from the time that notification occurs until the disability should have been remedied with reasonable diligence, and for no longer. But, the settlement of strikes, lockouts, or industrial disputes or disturbances will be entirely within the sole discretion of the party having the difficulty.

ARTICLE XII

NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally, telecopied, or sent by registered or certified United States mail, postage prepaid, with a return receipt requested, to the party to be notified. Notice deposited in the mail in this manner shall be effective upon the expiration of seven Days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties shall be as follows:

If to the State: State of Alaska
 Commissioner of Natural Resources
 400 Willoughby Avenue
 Juneau, AK 99801

and

Commissioner of Revenue
P.O. Box S
Juneau, AK 99811-0400

and

Director, Division of Oil and Gas
P.O. Box 107034
Anchorage, AK 99510-0734

If to Petro Star JV: Attn: Stephen T. Lewis
Petro Star Valdez Refinery Joint Venture

P.O. Box 61030

Fairbanks, Alaska 99706

Telecopy Number: (907) 474-0503

12.2 Change of Address. Each party may change its address for notice by giving written notice of the change.

ARTICLE XIII

RULES AND REGULATIONS

This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted of the State of Alaska.

ARTICLE XIV

SOVEREIGN POWER OF THE STATE

This Agreement shall not be interpreted as a limit on the State of Alaska's exercise of any of its sovereign or regulatory powers, whether conferred by constitution, statute or regulation, including, but not limited to, its regulatory power over the Leases. Its exercise of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of

Petro Star JV or to limit or impair any obligations or liability of Petro Star JV under this Agreement.

ARTICLE XV

SECURITY

One hundred ninety Days before the Date of First Delivery, Petro Star JV shall cause to be issued and delivered to the State an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of the State by a state or national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars (\$100,000,000), or other banking institution acceptable to the State in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate purchase price for the approximate total amount of Oil to be tendered by the State to Petro Star JV during the first ninety Days following the Date of First Delivery. The letter of credit shall be in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or his designee and the Attorney General of the State of Alaska or his designee that Petro Star JV is liable to

the State for a sum equal to the amount of such draft, and that sum is due and payable in full and has not been timely paid. The letter of credit must be renewed ninety Days before its expiration so that a letter of credit is continuously valid for ninety Days after the date of the last delivery of Royalty Oil. If a replacement letter of credit, in a form satisfactory to the Commissioner in his sole discretion, is not received ninety Days before the expiration of the existing letter of credit, then Petro Star JV shall be deemed to have materially breached this Agreement, there shall have occurred an event of default under Article 7.1, and all obligations of Petro Star JV accrued, but not otherwise due and payable under this Agreement, will immediately become due and payable in full.

If the State has reasonable grounds for asserting any claims against Petro Star JV and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Petro Star JV shall upon the State's request (whether or not Petro Star JV may deny, reject or otherwise resist such claims) cause the principal face amount to be increased by an amount equal to the excess. Petro Star JV shall also automatically increase the principal face amount, without request from the State, whenever the face amount is less than the expected purchase price of ninety Days of Oil tenders, to an amount equal to the expected purchase price of ninety Days of Oil tenders. Petro Star JV may decrease the principal face amount upon approval of the State, if the face

amount is more than the expected purchase price of ninety Days of Oil tenders to an amount equal to the expected purchase price of ninety Days of Oil tenders.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 90th Day after the last delivery of Royalty Oil to Petro Star JV under this Agreement. The Commissioner may accept such other or additional security as he, in his sole discretion, considers adequate to protect the State.

ARTICLE XVI

PREFERENTIAL HIRING AND NON-DISCRIMINATION

Petro Star JV agrees to employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska in connection with the Agreement. "Alaska resident" means an individual who has resided in Alaska for one year at the time of employment and "Alaska companies" means companies incorporated in Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional, then Petro Star JV agrees to employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII

APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a state court of general jurisdiction sitting in the State of Alaska, and Petro Star JV hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII

WARRANTIES

The purchase and sale of Royalty Oil is subject only to the warranties of the State expressly set forth in this Agreement and the State disclaims and Petro Star JV waives all other warranties, express or implied in law, whatsoever.

ARTICLE XIX

AMENDMENT

This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the parties. Any amendment which appreciably reduces the

consideration received by the State requires prior approval of the Legislature of the State of Alaska.

ARTICLE XX

SUCCESSORS AND ASSIGNS

No assignment, pledge, or encumbrance of this Agreement shall be made by either party without the written consent of the other party. The Commissioner or his designee may grant or deny such consent in his sole discretion. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assignees.

ARTICLE XXI

HEADINGS

Headings used in this Agreement are for convenience only and shall not affect its construction.

ARTICLE XXII

RECORDS

22.1 Preservation of Records. Petro Star JV will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement including, but not limited to, the purchase or sale of Royalty Oil and its refined products, for a period of no less than six years from the date of transaction or last adjustment relating to the

transaction. Petro Star JV will also maintain and preserve all similar books, accounts, and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Petro Star JV nor the State shall be required to retain any records for more than six years unless retention of such records is specifically required by applicable law or regulation, or this Agreement. Petro Star JV shall either maintain its records within the State of Alaska or make such records available to the State at Petro Star JV's principal office in the State of Alaska within thirty Days after written request by the State.

22.2 Inspection of Records of Parties. Petro Star JV and the State will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Petro Star JV's or the State's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. The State shall not be required to disclose any information, data, or records which are required to be held confidential by state or federal law or regulation. If the information obtained by the State may be held confidential under state or federal law or regulation, Petro Star JV may request that information be held confidential by the State and the State will keep this information confidential.

ARTICLE XXIII

INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Petro Star JV will present the arguments supporting its view in writing to the Commissioner for his consideration. The Commissioner will subsequently issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for his conclusions. Petro Star JV agrees to accept findings by the Commissioner under this Article are supported by substantial evidence.

ARTICLE XXIV

COUNTERPARTS

This Agreement may be executed in multiple counterparts, it not being necessary for all parties to sign the same counterpart. Each counterpart shall be deemed to be an original and all of which taken together shall be one and the same instrument.

SIGNATURES

the State:

THE STATE OF ALASKA

Harold C. Skung
Commissioner
Department of Natural Resources

Date: 3/4/92

Petro Star Valdez Refinery
Joint Venture

By: _____

Date: _____

Petro Star Valdez, Inc.

By: _____

Date: _____

Alaska Refining, Inc.

By: _____

Date: _____

Arctic Slope Regional Corp.

By: _____

Date: _____

Harbor Enterprises, Inc.

By: _____

Date: _____

SIGNATURES

the State:

THE STATE OF ALASKA

Commissioner
Department of Natural Resources

Date: _____

Petro Star Valdez Refinery
Joint Venture

By: *Stephen T. Linn*

Chairman of the Management Committee

Date: *3/5/92*

Petro Star Valdez, Inc.

By: *Stephen T. Linn*

President

Date: *3/5/92*

Alaska Refining, Inc.

By: _____

Date: _____

Arctic Slope Regional Corp.

By: *David Adams*

ORC

Date: *3/5/92*

Harbor Enterprises, Inc.

By: _____

Date: _____

SIGNATURES

the State:

THE STATE OF ALASKA

Commissioner
Department of Natural Resources

Date: _____

Petro Star Valdez Refinery
Joint Venture

By: _____

Date: _____

Petro Star Valdez, Inc.

By: _____

Date: _____

Alaska Refining, Inc.

By: _____


Date: _____

Arctic Slope Regional Corp.

By: _____

Date: _____

Harbor Enterprises, Inc.

By:  _____

Date: SRIP MARKET CO.
March 5, 1992

ACKNOWLEDGMENT

STATE of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 4th day of March, 1992, before me, appeared Harold C. Heinze, the Commissioner, Department of Natural Resources, State of Alaska; that Harold C. Heinze executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes state in the document.

Witness my hand and official seal the day and year in this Agreement first above written.

Shirley Howes
Notary Public in and for Alaska
My commission expires: 7/10/94

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 5th day of March, 1992, before me appeared Stephen T. Lewis, the person who has been lawfully authorized as the Chairman of the Comm. of Petco Star Ureide 2 Refinery JV to execute this document; that Stephen T. Lewis executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this Agreement first above written.

Carol Bagge
Notary Public in and for Alaska

My commission expires: 10-3-94

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 5th day of March 1992, before appeared Stephen T. Lewis, the person who has been lawfully authorized as the President of Peter Star Valdez, Inc. to execute this document; that Stephen T. Lewis executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal this day and year in this Agreement first above written.

Carol Bogue
Notary Public in and for Alaska

My commission expires: 10-3-94

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 5 day of March 1992, before me appeared Jacob Adams, the person who has been lawfully authorized as the President of Arctic Slope Reg'l Corp. to execute this document; that Jacob Adams executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this Agreement first above written.

C. W. B. Borne
Notary Public in and for Alaska

My commission expires: 10-3-94

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 5th day of March, 1992, before me appeared James S. Burns, the person who has been lawfully authorized as the Senior V.P. of Harder Ent. to execute this document; that James S. Burns executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for purposes stated in the document.

Witness my hand and official seal the day and year in this Agreement first above written.

James S. Burns
Notary Public in and for Alaska

My commission expires: 7/29/94

EXHIBIT A. INTEREST CALCULATION EXAMPLE

Numbers in this exhibit are illustrative. They do not represent accurate values that may have existed in the past or are forecasted for any time in the future. Companies A and B represent the illustrative Kuparuk netback values for ARCO and BP. Consistent with Section 2.3, the average monthly Kuparuk Netback of other lessees are not included in the price calculation.

Mechanics of the calculations include:

1. The annual interest rate specified in legislation is converted to a daily rate for calculations.
2. Credits are applied to the next monthly payment. Payment for an underpayment is due within 10 days of the time the bill is received, and interest on underpayments stops accruing when payment is received.

Example 1. Initial Billing

Assumptions

1. Month is February
2. Royalty Oil delivered to Petro Star JV in January = 800,000 bbls
3. Bill Received by Petro Star JV on February 10th; Payment due to State on February 20th.

Offtake for Calculating Price to Petro Star JV:

<u>Lessee</u>	<u>Monthly Reported Offtake</u>	<u>Average Monthly Kuparuk Netback plus Field Costs</u>
Company A (Arco or BP)	3,000,000 bbls	\$10.5000/bbl
Company B (other of ARCO or BP)	<u>4,500,000 bbls</u>	<u>\$10.7575/bbl</u>
Total for Calculating Price:	7,500,000 bbls	Weighted Average: \$10.6545/bbl

Notes and Calculations

There are other lessees in the Kuparuk Unit, but their offtake is not used for calculating the price to Petro Star JV.

Volume-weighted average price under Section 2.3 of the Agreement =

$$= \frac{(\$10.5000/\text{bbl} \times 3,000,000 \text{ bbls}) + (\$10.7575/\text{bbl} \times 4,500,000 \text{ bbls})}{7,500,000 \text{ bbls}} = \$10.6545/\text{bbl}$$

Billing

If billing received Feb. 10th; payment due Feb. 20th = 800,000 bbls x \$10.6545/bbl = \$8,523,600.00

Example 2. Initial Adjustment

Assumptions

1. Month is March.
2. Royalty Oil delivered to Petro Star JV during January = 800,000 bbls
3. Annual interest rate charged member banks for advances by 12th Federal Reserve District as of January 1 rate assumed to be 5%. Annual interest rate for contract = 11%
4. Petro Star receives notice of credit as of March 3rd.

Revised Offtake for Calculating January Price to Petro Star JV:

<u>Lessee</u>	<i>Revised Monthly Reported Offtake</i>	<i>Revised Average Monthly Kuparuk Netback plus Field Costs</i>
Company A (Arco or BP)	<i>3,200,000 bbls</i>	<i>\$10.5000/bbl</i>
Company B (other of ARCO or BP)	<i>4,500,000 bbls</i>	<i>\$10.7500/bbl</i>
Total for Calculating Price:	<i>7,700,000 bbls</i>	<i>Weighted Average: \$10.6461/bbl</i>

Notes and Calculations

Volume-weighted average price under Section 2.3 of the Agreement =

$$= \frac{(\$10.5000/\text{bbl} \times 3,200,000 \text{ bbls}) + (\$10.7500/\text{bbl} \times 4,500,000 \text{ bbls})}{7,700,000 \text{ bbls}} = \$10.6461/\text{bbl}$$

Billing

Revised January bill = 800,000 bbls x \$10.6461/bbl =	\$8,516,880.00
<u>Amount paid =</u>	<u>\$8,523,600.00</u>
Overpayment for January =	(\$6,720.00)

Difference between date when Petro Star notified of credit (March 3rd) and original due date (February 20th) = 12 days

Interest due = \$6,720.00 x (11%/366)*12 =	(\$24.24)
Credit due Petro Star for next month's billing =	(\$6,744.24)

Example 3. Subsequent Adjustment

This adjustment is assumed to occur after true-up of BP expenses, a reopener for one of the Royalty Settlement Agreements, or for some other reason. It is assumed to occur in June 5th.

Assumptions

1. Month is June.
2. Royalty Oil delivered to Petro Star JV during January = 800,000 bbls
3. Annual interest rate charged member banks for advances by 12th Federal Reserve District as of January 1 assumed to be 5%; as of April 1, 7%. Annual interest rate for contract = 11% for first quarter; 12% for second quarter
4. Petro Star JV receives notice of underpayment on June 5th.

Revised Offtake for Calculating January Price to Petro Star JV:

<u>Lessee</u>	<i>Revised</i> Monthly Reported <u>Offtake</u>	<i>Revised</i> Average Monthly Kuparuk Netback <u>plus Field Costs</u>
Company A (Arco or BP)	3,200,000 bbls	<u>\$10.6005/bbl</u>
Company B (other of ARCO or BP)	4,500,000 bbls	<u>\$10.7500/bbl</u>
Total for Calculating Price:	7,700,000 bbls	Weighted Average: \$10.6879/bbl

Notes and Calculations

Volume-weighted average price under Section 2.3 of the Agreement =

$$= \frac{(\$10.6005/\text{bbl} \times 3,200,000 \text{ bbls}) + (\$10.7500/\text{bbl} \times 4,500,000 \text{ bbls})}{7,700,000 \text{ bbls}} = \$10.6879/\text{bbl}$$

Billing

Revised January bill = 800,000 bbls x \$10.6879/bbl = \$8,550,320.00
Amount paid = \$8,516,880.00
 Underpayment for January = \$ 33,440.00

Days of interest in first quarter (Feb. 20th through March 31st) = 40
 Days of interest in second quarter (April 1 through June 5th) = 66
 Interest for first quarter = \$33,440.00 x (11%/366) x 40 = \$402.01
 Interest for second quarter = (\$33,440.00 + \$402.01) x (12%/366) x 66 = \$732.32
 Payment from Petro Star due state within 10 days of receiving bill = \$34,574.33