

FILE COPY

IN THE SUPREME COURT FOR THE STATE OF ALASKA

STATE OF ALASKA, DEPARTMENT
OF NATURAL RESOURCES,)

Appellant,)

vs.)

EXXONMOBIL CORPORATION,)
OPERATOR OF THE POINT)
THOMSON UNIT; BP)
EXPLORATION (ALASKA) INC.;)
CHEVRON U.S.A. INC.;)
CONOCOPHILLIPS ALASKA, INC.,)

Appellees.)

Supreme Court Case No. S-13730
Trial Court Case No. 3AN-06-13751
(Consolidated Appeals)
Case No. 3AN-06-13760 CI
Case No. 3AN-06-13773 CI
Case No. 3AN-06-13799 CI
Case No. 3AN-07-04634 CI
Case No. 3AN-07-04620 CI
Case No. 3AN-07-04621 CI

**REVIEW ON PETITION FROM THE SUPERIOR COURT
FOR THE STATE OF ALASKA, THIRD JUDICIAL DISTRICT
THE HONORABLE SHARON GLEASON, SUPERIOR COURT JUDGE**

APPELLANT'S EXCERPT OF RECORD
VOLUME 1 OF 2

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State of Alaska, this 10th day of May, 2011.

Marilyn May, Clerk

By: 

Deputy Clerk

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Alaska, Department of Natural
Resources**

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STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Lands
Competitive Oil and Gas Lease

LEASE NO. ADL

88-80

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

SOCONY MOBIL OIL COMPANY, INC. AND

PHILLIPS PETROLEUM COMPANY

hereinafter called "Lessee", whether one or more.

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

T9N, R23E, UM

Sec. 17 - All

Sec. 18 - All

Sec. 19 - All

Sec. 20 - All

Tr. C14-276

containing 2544 acres, more or less, hereinafter called "said land".

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

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

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

3. TERM. This lease is issued for an initial primary term of 10 years from date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

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

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

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

Exc. 000001

PTU Rec_0019960

see 7-19-65 DC

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

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

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

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

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

- (a) On oil 12 1/2 per cent in amount or value of the oil produced and saved and removed or sold from said land.
- (b) On gas 12 1/2 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.
- (c) On associated substances 12 1/2 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

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

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

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

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

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

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

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

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

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

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

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

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

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

EXC. 000002

PTU Rec 0019961

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

26. BOND.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor

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

To Lessee

SOCONY MOBIL OIL COMPANY, INC.

612 So. Flower Street
Los Angeles, Calif. 90054

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

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

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

IN WITNESS WHEREOF the parties have executed this lease effective as of the First day of September 1965

SOCONY MOBIL OIL COMPANY, INC.

STATE OF ALASKA

By RL Howe

Attorney-In-Fact

By Erle Mathis

PHILLIPS PETROLEUM COMPANY

By Robert

Attorney-In-Fact

LESSEE

Title Minerals Officer LESSOR

THE UNITED STATES OF AMERICA
STATE OF ALASKA

This certifies that on the 10th day of September, 1965, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared Erle Mathis

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

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

Notary Public in and for Alaska. My Commission expires May 13, 1968

Exc. 000004

PTU Rec 0019963

C14-276

T 9 N-R 22 E

T 9 N-R 23 E

R 22 E

T 8 N-R 23 E

T 8 N-R 24 E

Exc. 000005

EXHIBIT "A"

T 7 N-R 23 E

PTU Rec 0019964

T 7 N-R 24 E

R 22 E

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Lands

LEASE NO. ADL 28081

Competitive Oil and Gas Lease

THIS LEASE is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "Lessor", and HUMBLE OIL & REFINING COMPANY, a Delaware corporation, 612 SOUTH FLOWER STREET
555 SOUTH FLOWER STREET

LOS ANGELES, CALIFORNIA 90054 ADL-QF #4 LOS ANGELES, CALIFORNIA 90017 ADL-QF #63

hereinafter called "Lessee", whether one or more.

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

TRACT C14-277

T. 9 N., R. 23 E., U. M.

Section 15: All
Section 16: All
Section 21: All
Section 22: All

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

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

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

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

3. TERM. This lease is issued for an initial primary term of 5 years from date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

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

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

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

PTU Rec_0020099

see 7-19-65 Doc.

Exc. 000006

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

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

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

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

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

- (a) On oil 12 3/4 per cent in amount or value of the oil produced and saved and removed or sold from said land.
- (b) On gas 12 3/4 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.
- (c) On associated substances 12 3/4 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

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

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

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

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

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

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

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

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

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

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

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

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

24. RECORDS. Lessee shall keep and maintain in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be maintained in accordance with the most accurate figures reasonably available without requiring the Lessee to provide separate

Exc. 000007

PTU Rec_0020100

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

26. BONDS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor:

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

To Lessee:

RICHFIELD OIL CORPORATION
555 SOUTH FLOWER STREET
LOS ANGELES, CALIFORNIA 90054

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

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

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

IN WITNESS WHEREOF the parties have executed this lease effective as of the first day of October, 1965.

RICHFIELD OIL CORPORATION

By [Signature]
Its Attorney in Fact

STATE OF ALASKA

HUMBLE OIL & REFINING COMPANY

By [Signature]
Its Attorney in Fact

By Erle Mathis

This Minerals Officer LESSOR

THE UNITED STATES OF AMERICA }
STATE OF ALASKA }

This certifies that on the 14th day of Sept, 1965 before me, a notary public in and for the State of Alaska, duly

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

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

[Signature] Notary Public in and for Alaska. My Commission expires 5/3/68

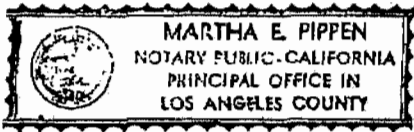
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NOTARY

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

ON THIS 3rd day of July, 1965, before me, the undersigned, a Notary Public in and for said County and State personally appeared I. D. JACKSON, JR., known to me to be the person whose name is subscribed to the within instrument, as the Attorney in Fact of HUMBLE OIL & REFINING COMPANY, a corporation, and acknowledged to me that he subscribed the name of HUMBLE OIL & REFINING COMPANY thereto as principal and his own name as Attorney in Fact.
WITNESS my hand and official seal.



Martha E. Phippen
MARTHA E. PIPPEN
My Commission Expires October 5, 1968
(Print, stamp or type name)
Notary Public in and for Said County and State.

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

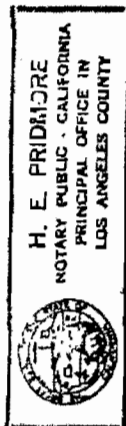
On this 6th day of JULY, in the year 1965, before me, H. E. PRIMORE, a Notary Public in and for the said County and State, personally appeared G. R. SHEPPHARD, known to me to be the person whose name is subscribed to the within instrument, as the attorney-in-fact of RICHFELD OIL CORPORATION, and acknowledged to me that he subscribed the name of RICHFELD OIL CORPORATION thereto as principal, and his own name as attorney-in-fact.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires MAY 13, 1966

H. E. Primore
Notary Public in and for said County and State.

ALASKA - ATTORNEY-IN-FACT
ROC 2025-S 10-64
PRTO. IN U.S.A.



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Exc. 000010

UNIT OPERATING AGREEMENT

POINT THOMSON UNIT AREA

COUNTY OF

STATE OF

ALASKA

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Exc. 000015

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Exc. 000016

UNIT OPERATING AGREEMENT

POINT THOMSON UNIT AREA

STATE OF ALASKA

~~COUNTY OF~~

THIS AGREEMENT made as of the 13th day of March 1977
by and among the parties who execute or ratify this agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE POINT THOMSON UNIT AREA, Alaska

State of ALASKA, dated as of the 13th day of March 1977
and hereinafter referred to as the "Unit Agreement", covering the lands described in Exhibit I, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement,
NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE I

DEFINITIONS

1.1 Unit Agreement Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 "Unit Operator" means EXXON CORPORATION and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

1.3 "Party" means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 "Costs" means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 3 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 "Committed Working Interest" means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

1.6 "Participation Basis" ~~describes the basis of participation by the Parties within the Unit Area, a participating area, or other area designated pursuant to this agreement in voting, Costs, or Production, or in participation by each such Party in the proportion that the acreage of its Committed Working Interest in such area bears to the total acreage of the Committed Working Interests of all such Parties therein.~~ For the purposes of this definition, (a) the acreage of the working interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement; and (b) if there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.

1.7 "Production" means all Utilized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this agreement.

1.8 "Lease Burdens" means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 "Drilling Party" means the Party or Parties obligated to bear the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement at the commencement of such operation.

1.10 "Non-Drilling Party" means a Party who has had the optional right to participate in the Drilling, Deepening or Plugging Back of a well and who has elected not to participate therein.

1.11 "Drill" means to perform all operations reasonably necessary and incident to the Drilling of a well, including preparation of roads and drill site, testing, and, if productive of Utilized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.12 "Deepen or Plug Back" means to perform all operations reasonably necessary and incident to Deepening or Plugging Back a well, testing, and, if productive of Utilized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.13 "Initial Test Well" means a test well specifically provided for in Section 9 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.14 "Subsequent Test Well" means a test well Drilled after the Drilling of the Initial Test Well or Wells, and before discovery of Utilized Substances in paying quantities in the Unit Area.

1.15 "Development Well" means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

1.16 "Exploratory Well" means a well other than a Development Well Drilled after discovery of Utilized Substances in paying quantities in the Unit Area.

1.17 "Approval of the Parties" or "Direction of the Parties" means an approval, authorization or direction which receives the affirmative vote specified in Section 14.2 of the Parties entitled to vote on the giving of such Approval or Direction.

1.18 "Salvage Value" of a well means the value of the materials and equipment in or appurtenant to the well determined in accordance with Exhibit 2, less the reasonably estimated Costs of salvaging the same and plugging the well.

1.19 Each Party is herein referred to by the neuter pronoun, "it".

1.20 Mobilization/Demobilization Costs - Article 38.1.

ARTICLE 2

NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

2.1 No Liability Without Consent. No party shall be liable without its consent for any portion of the Costs of Drilling, Deepening or Plugging Back a well except as provided in Section 10.4 with respect to Required Wells, and except as provided in Article 13 dealing with Investment Adjustment. Nothing herein shall be construed to relieve a Party of any obligation assumed by it pursuant to Exhibit 3 to participate in the Costs of the Initial Test Well.

ARTICLE 3

INITIAL TEST WELL

3.1 Location. Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

3.2 Costs of Drilling. Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

* excluding

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ARTICLE 4
SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be on such terms and conditions as the Parties shall agree; provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells.

ARTICLE 5 - See Article 40.1

ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least 30 days before filing the same with the Director. The date of proposed filing must be shown on the proposal. If the proposal receives the Approval of the Parties within the proposed participating area, then such proposal shall be filed on the date specified in the notice.

5.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the Director.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, then Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within 40 days from the submission of the first proposal, then Unit Operator shall file with the Director a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 Rejection by Director. If a proposal filed by Unit Operator, as above provided, is rejected by the Director, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 6

APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 Apportionment and Ownership Within Participating Area. Except as otherwise provided in Article 8 dealing with Development Wells, Part 1 of Exhibit 4 dealing with Exploratory Wells, and Part 2 of Exhibit 4 dealing with Attempted Completion, Deepening and Plugging Back:

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of Untreated Substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on the Participation Basis in effect at the time.

B. Production. All Production from a participating area shall be allocated in accordance with the Unit Agreement to the tracts of land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon, and as if this agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area shall be owned by the Parties within such participating area on the applicable Participation Basis.

6.2 Ownership and Costs Outside Participating Area. If a well completed as a producer is not included within a participating area, such well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by the Party or Parties who constituted the Drilling Party for such well, and all Costs incurred in the operation of the well shall be charged to and borne by such Party or Parties, and all Lease Burdens payable in respect of Production from the well shall be borne and paid by such Party or Parties. If the Drilling Party comprises two or more Parties, apportionment among them of ownership, Costs and Lease Burdens shall be in the same proportions that they bore the Costs incurred in Drilling the well.

6.3 PARTIAL IN KIND. Subject to the provisions of Exhibit 7, each Party shall currently as produced take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 13.5 dealing with Lease, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of its share of Production, and on all purchases or sales such Party shall exercise its division order or contract of sale pertaining to its interest.

6.4 TAKING IN KIND. Subject to the provisions of Exhibit 7, if any Party shall fail to make the arrangements to take in kind or separately dispose of its share of Production, any or all of the other Parties shall have the right, in proportion to their respective Participation Basis interests, but not the obligation, for the time being and subject to reversion at will by the Party owning the share, to purchase or sell to others such share at not less than the fair market value of like Production of like quality in such market and not less than the value realized by the Party disposing of such share for the twenty percent (20%) portion of its own share of like Production having the lowest such restriction. Any purchase or sale shall be only for such reasonable periods of time as are consistent with the custom and usage of the industry under the circumstances, but in no event shall the term exceed one (1) year. The proceeds of the Production so disposed of shall be paid by the Party or Parties disposing thereof to the Party entitled thereto. Notwithstanding the foregoing, no Party shall make a sale into interstate commerce of any other Party's share of gas Production without the written consent of such other Party.

6.5 Surplus Materials and Equipment. Materials and equipment acquired by the Parties, or any of them pursuant to this agreement, may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein written notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by written notice given to Unit Operator within thirty (30) days after classification thereof as surplus, except that such right shall not apply to junk or to any item having a replacement cost less than one thousand dollars (\$1,000.00).

B. Surplus materials and equipment not divided in kind (other than junk and any item having a replacement cost of less than one thousand dollars (\$1,000.00)) shall be offered to the Parties owning interests therein and sold to the highest bidder or bidders. (\$5,000.00)

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this section shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 7

PLANS OF DEVELOPMENT

7.1 Wells and Projects Included. Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

7.2 Notice of Proposed Plan. At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

7.3 Notice of Approval or Disapproval. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In the case of disapproval, Unit Operator shall state in such notice the reasons therefor.

7.4 Amendments. If any Party or Parties shall have elected to proceed with Drilling, Deepening or Plugging Back operation in accordance with the provisions of this agreement, and such operation is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

7.5 Cessation of Operations Under Plan. If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such Drilling or other operations and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with the Unit Agreement by the Parties chargeable with such Costs.

* to each Party chargeable with the costs incurred thereunder

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other than cost resulting from the removal or idle

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ARTICLE 8 DRILLING OF DEVELOPMENT WELLS

8.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling a Development Well otherwise than by the written consent of all Parties within the participating area involved. The Drilling of a Development Well pursuant to the procedure herein set forth shall, however, be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of Approval of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof, but will mean only that such Party considers the Drilling of the well consistent with the ordinary development of the participating area involved and has no objection to the Drilling thereof.

8.2 Notice of Proposed Drilling. Subject to the provisions of Section 8.1, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed, or an authorized exception thereto.

8.3 Response to Notice. Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein, in writing, whether or not it wishes to participate in Drilling the proposed well. If all the Parties within such participating area so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties within the participating area. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling the proposed well.

8.4 Notice of Election to Drill. Unless all Parties within the participating area agree to participate in response to said notice, then within fifteen (15) days after expiration of said period of thirty (30) days, each Party within the participating area who then desires to have the proposed well Drilled shall give to all other Parties within the participating area written notice of election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

8.5 Effect of Election to Drill. If one or more, but not all of the Parties within the participating area so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party.

8.6 Subsequent Election. If election to Drill the proposed well is made, any Party within the participating area who has not previously elected to participate therein may do so by written notice given to all other Parties within the participating area at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

8.7 Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

ARTICLE 9 EXPLORATORY WELLS

9.1 Procedure for Drilling. The Drilling of Exploratory Wells shall be governed by the provisions of Part 1 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 10 REQUIRED WELLS State of Alaska

10.1 Definition. For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Conservation. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

10.2 Election to Drill. Any Party desiring to Drill, or participate in the Drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall Drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein, provided, however, that if the Required Well is a Development Well it shall not be drilled unless it receives the Approval of the Parties. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 8 dealing with Development Wells, if the same is a Development Well, or Article 9 dealing with Exploratory Wells, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 Alternatives to Drilling. If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. Compensatory Royalties. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well, if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

C. Termination. If the required well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the required well under whichever of the following provisions is applicable:

A. Development Well. If the required well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. Exploratory Well. If the required well is an Exploratory Well, it shall be Drilled by Unit Operator for the account of the Party or Parties who would be obligated to bear the Costs thereof in accordance with Part 1 of Exhibit 4.

ARTICLE 11 ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

11.1 Procedure. The attempted completion, Deepening, or Plugging Back of any well not completed as a producer, the abandonment of a producing well and the Deepening or Plugging Back of any well abandoned in the stratum in which it was completed as a producer, shall be governed by the provisions of Part 2 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 12 RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 Scope of Article. Subject to such contrary or inconsistent provisions, if any, as are contained in Exhibit 4, the rights and obligations of the Drilling Party and Non-Drilling Party in respect of a well which is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, shall be governed by the succeeding provisions of this article.

12.2 Relinquishment of Interest by Non-Drilling Party. When a well is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to such well. In the case of a Deepening or Plugging Back, if a Non-Drilling Party owned an interest in the well immediately prior to the Deepening or Plugging Back, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

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On the applicable Participation Basis to

12.3 Reversion of Relinquished Interest. If the well is completed as a producer of Unitized Substances, and if the well is a Development Well, or results in the establishment or enlargement of a participating area to include such well, then the operating rights and working interest relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds of that portion of the Production obtained from the well after such relinquishment which is allocated to the share of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

B. 500% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back or completing the well that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back is involved (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.2 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, there shall be added to and deemed part of the Costs incurred in the Deepening or Plugging Back, the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer.

12.4 Effect of Reversion. From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on a participation basis in the ownership of the well, the operating rights and working interest therein, the materials and equipment in or pertaining to the well, the Production therefrom and the Costs of operating the well.

12.5 Rights and Obligations of Drilling Party. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back or completed shall pay and bear all Costs incurred therein, and shall own the well, the materials and equipment in the well or pertaining thereto, and the production therefrom, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well, or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall pay and bear (a) that portion of the costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party, and (b) all Lease Burdens that are payable in respect of that portion of the Production from such well which is allocated to the share of such Non-Drilling Party. If the Drilling Party includes two (2) or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on a Participation Basis among themselves.

ARTICLE 13

ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 When Adjustment Made. Whenever, in accordance with the Unit Agreement, a participating area is established or revised by contraction or enlargement or the final Participation Basis is established, and whenever two or more participating areas are combined (the participating area or final Participation Basis, resulting from such establishment, revision or combination being hereinafter referred to as a "resulting area") an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment, revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area.

13.2 Definitions. As used in this Article 13:

A. "Useable well" within a resulting area means a well which is either (1) completed in and is in use or has received Approval of the Parties for use in producing unitized substances from a pool or zone for which such resulting area is created, or (2) used as a disposal well, injection well or otherwise, in connection with the production of Unitized Substances from such resulting area.

B. "Intangible value" of a useable well within a resulting area means the amount of Costs incurred in Drilling such well, or Deepening it, down to the deepest pool or zone for which such resulting area is created, and which contribute to the Production of Unitized Substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, plus interest on such costs computed at 115% of the monthly (one-twelfth of the annual) prime interest rate in effect for substantial, responsible commercial borrowers on the last day of the prior month at Citibank, N.A., and beginning the first whole month after such cost is incurred and ending on the effective date of the adjustment for the resulting area or commencement of production therefrom, whichever occurs first. For each month during any part of which such well has been used for production prior to the effective date of such resulting area, its intangible value (including interest) shall be reduced at the following rates:

(1) five-tenths per cent (0.5%) per month for a cumulative total of 150 months,

and

(2) Zero per cent (0%) per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the Production of Unitized Substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this agreement.

D. "Value" of tangible property means the amount of Costs incurred therefor, including Costs incurred in the construction or installation thereof (excepting installation costs properly classified as part of the intangible costs incurred in connection with a well plus interest on such costs computed at 115% of the monthly (one-twelfth of the annual) prime interest rate in effect for substantial, responsible commercial borrowers on the last day of the prior month at Citibank, N.A., beginning on the first whole month after such Cost is incurred and ending on the effective date for the adjustment for the resulting area or commencement of production therefrom, whichever occurs first. For each month during any part of which such tangible property has been used in connection with production from the participating area prior to the effective date of

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such resulting area, its value (including interest) shall be reduced, in the case of tangible property which is generally regarded as depreciable, at such reasonable rates of depreciation as receive the Approval of the Parties within such resulting area, for the period of time between the acquisition date thereof and the effective date of such resulting area.

13.3 Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by establishment or enlargement of a participating area, or by changing to the final Participation Basis, and as of such effective date an adjustment shall be made in accordance with the following provisions except to the extent otherwise specified in Section 13.6.

A. The intangible value of each useable well within such resulting area on the effective date thereof shall be credited to the Party or Parties who own such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of useable wells shall be charged to all parties within the resulting area on the applicable Participation Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties who own such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of tangible property shall be charged to all Parties within the resulting area on the applicable Participation Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or useable well, which also serves another participating area or other participating areas, the value of such tangible property and useable well (including intangible value thereof) shall be determined in accordance with Subdivision B of Section 13.2, and such value may be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and useable well (including intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as the value of tangible property serving only the resulting area.

D. The calculation of all credits and charges above provided for shall be made by Unit Operator, in such manner that an adjustment shall be made for the intangible value of useable wells separate and apart from an adjustment for the value of tangible property. Unit Operator shall give notice to all affected Parties of the total amount of each such adjustment credited and charged to each of the Parties. For purposes of this paragraph, an owing Party is any Party who, in such adjustment, is charged an amount in excess of the amount credited to it and an owed Party is any Party who, in such adjustment, is credited with amounts in excess of the amounts charged to it. On each adjustment for tangible property, each owing Party shall pay promptly to owed Parties an amount of its excess credits which is proportional to the ratio of such owing Parties' excess charges divided by the total excess charges of all owing Parties. Such payment shall be considered as Costs chargeable to such owing Party for all purposes of this agreement. On each adjustment for the intangible value of useable wells, each owing Party shall pay promptly to owed Parties an amount of its excess credits which is proportional to the ratio of such owing Parties' excess charges divided by the total excess charges of all owing Parties or at each owing Parties' election an owing Party shall pay an amount over and above that amount attributable to its Participation Basis share of the intangible Costs of all wells drilled subsequent to the effective date for use by the resulting area until the remaining balance of such adjustment plus interest thereon (computed at 11% of the monthly (one-twelfth of annual) prime interest rate in effect for substantial, responsible commercial borrowers on the last day of the prior month at Citibank, N.A. beginning on the effective date of the adjustment) has been paid to Unit Operator. Unit Operator, taking into account budget Drilling expenditures, shall determine the amount such owing Parties shall be charged in excess of their Participation Basis share in order to complete the adjustment as soon as reasonably possible before the end of three (3) years after the effective date of the resulting area. To the extent that intangible Costs for each well are paid by such owing Parties, such Costs chargeable to each owed Party shall be proportionately reduced. Unit Operator shall report monthly the remaining balance of each Parties' excess charges or excess credits including interest to all such Parties. At the end of three (3) years after the effective date of the resulting area, any owing Party with an outstanding balance of excess charges shall promptly pay to each of the owed Parties with outstanding balances of excess credits remaining at that time, an amount of such outstanding excess credits with interest thereon (computed as aforesaid), which is proportional to the ratio of such owing Parties' outstanding excess charges with interest divided by the sum of all owing Parties' outstanding excess charges with interest. Such payments shall be considered as Costs chargeable to such owing Party for all purposes of this agreement. The Costs so charged and credited shall be considered as adjustments to 1) the respective tax basis of the tangible equipment contributed by each Party, and 2) the Parties' respective contributions to the unadjusted cost basis of such property. For purposes of securing payment of adjusted amounts, each owed Party shall be subrogated to the lien of Unit Operator in accordance with section 15.5 hereof.

13.4 Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of any contraction of a participating area, an adjustment shall be made with each Party owning a Committed Working Interest in and excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B hereof and a separate adjustment for tangibles shall be made in accordance with Subdivision C hereof.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest in accordance with the accounting procedure set forth in Exhibit 2 as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of such excluded interest as intangible value of useable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, is delivered to such Party in respect of such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, and (2) the total amount credited to such Party in respect of such excluded interest as intangible value of useable wells, in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest, in accordance with the accounting procedure set forth in Exhibit 2, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on a participation basis against the Parties who remain in the participating area after such contraction, and shall be paid by said Parties to Unit Operator upon receipt of invoice therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 Ownership of Wells and Tangible Property. From and after the effective date of a resulting area, all useable wells within such area and all tangible property serving such resulting area shall be owned by the Parties within such area on a participation basis except that (a) in the case of tangible property serving a participating area of such area in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment above provided for shall be owned by the parties within the resulting area on a participation basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a useable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party, until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 Relinquished Interests of Non-Drilling Parties. If the interest relinquished by a Non-Drilling Party in a well which is a useable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date then insofar, and only insofar, as relates to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein U a sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party in respect of (1) such Non-Drilling Party's Committed Working Interest or interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back or Completed, otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B or Section 13.3, in respect of its Committed Working Interests other than those referred to in (1) or (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party, if the well had been Drilled, Deepened, Plugged Back or Completed for the account of all Parties entitled to participate therein, exceeds the amount provided in Subdivision A above to be charged against the Drilling Party, such excess shall be applied against the reimbursement to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14 SUPERVISION OF OPERATIONS BY PARTIES

14.1 Right of Supervision. Each operation conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this article by the Parties who are chargeable with the Costs thereof.

14.2 Voting Control. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote thereon in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on a participation basis, except as provided in the Unit Agreement and except as otherwise specified herein (particular reference being made to Section 23.1, Consent Required to Commence Secondary Recovery and Pressure Maintenance; Section 27.4, Surrender or Release Within Participating Area, and that portion of Part 2, Exhibit 4 relating to Abandonment of producing wells outside of a participating area). The affirmative vote of Parties having sixty-five per cent (65%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has sixty-five per cent (65%) or more but less than seventy-five per cent (75%) of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one (1) additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than thirty-five per cent (35%) but less than fifty per cent (50%) of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless there is a negative vote of at least one (1) additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or negative. Any Approval or Direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 Meetings. Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party or Parties having five per cent (5%) or more of the voting power on such matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote (herein written notice of the time, place and purpose of the meeting. Unit Operator representative shall be chairman of such meetings.

14.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail or telegraph (or telephone confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail or telegraph (or telephone, confirmed in writing not later than the next business day), within such period as may be designated in the notice given by Unit Operator (which period shall not be less than ten (10) nor more than thirty (30) days) provided, however, that if within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

* If any proposal to enlarge the Unit Area or a participating area after establishment of the final Participation Plan, the affirmative vote of not less than two (2) Parties having an aggregate of ninety percent (90%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to

materials, equipment or other property used in connection with operations under this agreement, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

15.2 Insurance.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation Law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. Contractor's. Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation Law of the state in which the Unit Area is located and to maintain such insurance as is required by Direction of the Parties.

C. Automotive Equipment. In the event Automobile Public Liability insurance is specified in said Exhibit 5 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

16.3 Compliance with Regulations. In connection with the performance of work conducted under this agreement, the Unit Operator agrees to comply with the provisions which are contained in Exhibit 6 attached hereto and by reference made a part hereof.

16.4 Drilling Contracts. Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 Uninsured Losses. Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided to be maintained by Unit Operator shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17

LIMITATIONS ON UNIT OPERATOR

17.1 Specific Limitations. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. Change in Operations. Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. Limit on Expenditures.

Refer to Exhibit "8"

C. Partial Relinquishment. Make any partial relinquishment of its rights as Unit Operator or appoint any sub-operator. Ten thousand (\$10,000.00)

D. Settlement of Claims. Pay in excess of Five Hundred Dollars (\$500.00) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. Determinations. Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this agreement.

ARTICLE 18

TITLES

18.1 Representations of Ownership. Each Party represents that it is the owner of the respective working interests set forth opposite its name in Exhibit B to the Point Thomson Unit Agreement and hereby agrees to indemnify and hold harmless the other Parties from any loss due to failure, in whole or in part, of its title to any such interest: Provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of production attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of costs, or retroactive allocation of production or the proceeds therefrom, as a result of title failure.

18.3 Title Examination. Promptly after all title papers covered pursuant to Section 18.2B, C or D have been received, Unit Operator shall deliver such title papers to an attorney or attorneys approved by the Parties. Unit Operator shall arrange to have the same examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties as soon as they are received. After a title examination has been completed and a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party copies of title opinions and a report concerning the title examination with written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing within fifteen (15) days after receipt of such title opinions or reports of approval or disapproval of titles.

18.4 Option For Additional Title Examination. Any Party who furnishes materials for title examination pursuant to Section 18.2B, C or D shall have the right to examine all materials furnished Unit Operator. If such additional title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove title according to the provisions of this Article 18.

18.5 Expense of Title Examination and Curative Work. All expenses incurred at the direction of the Unit Operator in examination of titles to an area designated pursuant to Section 18.2 shall be charged as Costs incurred in Drilling the well for which title examination is made and all expenses incurred in examination of titles upon establishment or enlargement of a participating area shall be charged as Costs incurred in the operation of such participating area as established or enlarged. Such curative work as is performed to meet title requirements concerning a Committed Working Interest shall be performed by and at the expense of the Party claiming such interest.

18.6 Withdrawal from Drilling Party. Any Party included in the Drilling Party for a well for which title examination is made as above provided, who has disapproved title to a Committed Working Interest which has been examined in connection with the Drilling of such well may withdraw from the Drilling Party by giving written notice of such withdrawal to all other Parties included in the Drilling Party within fifteen (15) days after the recommendation of the Unit Operator on a title examination made in connection with the Drilling of the well, and the drilling of such well shall not be commenced until the expiration of said fifteen (15) day period.

In the event any Party so withdraws, the proposed well shall not be drilled unless within fifteen (15) days after the giving of such notice of withdrawal, a Party or Parties included in the Drilling Party agrees in writing to bear that proportion of the Costs incurred in Drilling such well that would have been borne by the withdrawing Party.

18.7 Approval of Titles on Establishment or Enlargement of a Participating Area. Within fifteen (15) days after the receipt of the recommendation of the Unit Operator on title examination made upon the establishment or enlargement of a participating area, each Party within the participating area as established or enlarged shall notify each of the other Parties therein whether it accepts or rejects title to such Committed Working Interest within such participating area as established or enlarged. Any Party rejecting title shall state the reasons therefor in writing.

If title to a Committed Working Interest is rejected by any Party by notice given as above provided, the Parties within the participating area as established or enlarged shall vote in accordance with Article 14 dealing with Supervision of Operations by Parties on the Approval of such title. If, on such vote, the title receives the Approval of the Parties, such title shall be deemed Approved; if not, it shall be deemed disapproved. If no Party has rejected title to a Committed Working Interest by notice given as above provided, then title to such interest shall be deemed Approved without vote of the Parties.

18.8 Effect of Disapproval of Title on Establishment or Enlargement of Participating Area. If title to the Committed Working Interest in a tract within a participating area is disapproved as provided in Section 18.7, the Party claiming such Committed Working Interest may, within thirty (30) days after such disapproval provide indemnity in such terms and in such amount as receives the Approval of the Parties (other than the indemnifying Party) within such participating area, on an Acreage Basis among themselves. In the absence of such indemnity, the proceeds of the Production from such tract or of the Production allocated thereto (whichever is the greater) to the extent attributable to such Committed Working Interest, after deducting Lease Burdens payable thereon, shall be paid to Unit Operator and held in suspense until title to such Committed Working Interest receives the Approval of the Parties within such participating area or until such time as such Committed Working Interest is lost through title failure; provided, however, that Unit Operator shall apply such proceeds in payment of Costs incurred in the development or operation of such participating area to the extent chargeable in respect of such Committed Working Interest.

18.9 Failure of Title to Committed Working Interest. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this agreement and the following provisions shall apply:

A. Loss of Production. The Party whose title has failed shall not be entitled to receive, after the date of such title failure, any Production that would otherwise accrue to such interest. If Unit Operator holds in suspense in accordance with Section 18.8 the proceeds of any Production on account of such Committed Working Interest, such proceeds shall be distributed either to the Parties or to others as their respective interests may appear.

B. Loss of Ownership in Wells and Property. Such interest as the Party claiming such Committed Working Interest may have in wells, materials, equipment and other property on account of such Committed Working Interest shall pass to and vest in the other Parties owning the same in proportion to their respective interests therein among themselves.

C. Liabilities to Third Parties. Any liability to account to third parties for prior production of Unitized Substances which arises by reason of such title failure shall be borne by the Parties in the same proportions in which they shared in such prior Production. Any and all other liabilities to third parties shall be borne by the Party claiming the Committed Working Interest title to which has failed.

D. Reimbursement for Investment. If at the time of such title failure the tract affected thereby is within a participating area, the Party whose Committed Working Interest therein has been lost shall be credited with the same amount as would be credited to it for the interest owned by it, by reason of such Committed Working Interest, in useable wells and tangible property within such participating area (other than useable wells and tangible property located on the tract affected by the title failure, to the extent affected by the title failure) if at such time an investment adjustment were made for the participating area in accordance with Section 13.3 dealing with Method of Adjustment. If the amount so credited is in excess of the proceeds or market value of that portion of the Production from such participating area which was received by such Party prior to the title failure, by reason of such Committed Working Interest after deducting Lease Burdens paid in respect of said portion, then after such title failure such Party shall (1) be entitled to that portion of the Production from such participating area as then constituted or thereafter revised which it would have received had title to such Committed Working Interest not failed, less Lease Burdens payable on said portion and (2) be charged with a like portion of its Costs incurred in the operation of wells within such participating area, until such time as the proceeds or market value of said portion of Production, less said portion of operating Costs, shall equal such excess; provided, however, that such Party shall not have any voice in the conduct or supervision of operations within such participating area or in any revision of such participating area other than such as it may be entitled to by reason of ownership of Committed Working Interests within the participating area that are not affected by the title failure.

18.10 Joinder by True Owner. A true owner of a well or interest title to which has failed may join in this Agreement or enter upon a separate operating agreement with the Parties to this agreement upon such terms and conditions as receive the Approval of the Parties within the Unit Area.

ARTICLE 19 UNLEASED INTERESTS

19.1 Parties as Lessee. If a Party owns in fee oil or any part of the oil and gas rights in any tract within the Unit Area which is not subject to any oil and gas lease, or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached hereto as Exhibit 6.

19.2 Execution of Lease. In any provision hereof where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party, such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall execute an oil and gas lease to such other Party on the form attached hereto as Exhibit 8, which shall satisfy the requirement for assignment or conveyance of a Committed Working Interest.

ARTICLE 20
RENTALS AND LEASE BURDENS

20.1 Rentals. Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or in respect of its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payments provided it has acted in good faith.

20.2 LEASE BURDENS. Notwithstanding Paragraph 12 of the Unit Agreement providing that settlement of royalty, and overriding royalty, shall be in accordance with the provisions contained therein the Parties agree that for purposes of this Unit Operating Agreement royalty and overriding royalty obligations shall be paid by the said Parties based on the Unitized Substances taken in kind by each Party or otherwise disposed of for each Party's account. The Parties are further entitled to receive the Production from a well completed as a producer but not included within a participating area shall be obligated to pay all Lease Burdens payable in respect of such Production and each such Party shall be obligated to pay any net profits interest, carried interest and similar interests payable in respect of its share of such production.

20.3 Loss of Committed Working Interest. If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party, provided, however, if the Committed Working Interest is lost on some land within a participating area the provisions of Subdivisions A, B, C and D of Section 10.9 dealing with Failure of Title to Committed Working Interest shall apply.

ARTICLE 21
TAXES

21.1 Payment. Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable.

21.2 Apportionment. Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or Unitized Substances (as the case may be) upon which or in respect of which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 Transfer of Interests. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 Notices and Returns. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, leases or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22
WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 Limitation on Right of Withdrawal. Not less than five (5) days before filing the Unit Agreement for final Departmental approval, Unit Operator shall notify each Party in writing of intention to file, specifying in such notice, to the best of Unit Operator's knowledge, the status of ownership of unitized lands and Lease Burdens on Production therefrom. If the owner of any substantial interest in a tract within the Unit Area has then failed or refused to join in the Unit Agreement, the Party or Parties owning Committed Working Interests in such tract shall have the right to withdraw such tract from the Unit Area in accordance with the Unit Agreement; provided, however, that such right shall not be exercised until after at least ten (10) days prior written notice to all other Parties within the Unit Area and such right shall not be exercised if within said period of ten days the non-withdrawal of such tract receives the Direction of the Parties who at the time of the giving of such notice have executed this agreement.

22.2 The Effect of Non-Withdrawal at Direction of Parties. If the non-withdrawal of a tract receives the Direction of the Parties as above provided and if such tract is included within a participating area, the following provisions shall apply:

A. Any and all payments and liabilities to the owners of uncommitted interests in such tract that are in excess of the payments that would accrue to such owners had they executed the Unit Agreement shall be borne and shared on an Acreage Basis by the Parties within the participating area in which the tract is located.

B. If the payments that would accrue to the owners of uncommitted interests in such tract if they had joined in the Unit Agreement are in excess of the payments actually accruing to them such excess shall be shared by all Parties within the participating area on an Acreage Basis.

22.3 Voluntary Non-Withdrawal. If the Party or Parties owning Committed Working Interests in a tract voluntarily fails to exercise the right to withdraw such tract in accordance with the Unit Agreement, all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23
COMPENSATORY ROYALTIES

23.1 Notice. Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give written notice thereof to each Party affected by the demand, as hereinafter provided.

23.2 Demand for Failure to Drill a Development Well. If the demand for compensatory royalty results from the failure to Drill a Development Well and such well is not drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be charged as Costs incurred in operations within such participating area.

23.3 Demand for Failure to Drill a Well Other than a Development Well. If the demand for compensatory royalty results from the failure to Drill a well other than a Development Well and an election to Drill in order to avoid payment of Compensatory Royalties is not made by any Party owning a Committed Working Interest in the tract upon which such a well may be Drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well in accordance with Section 10.4B.

ARTICLE 24
SEPARATE MEASUREMENT AND SALVAGE

24.1 Separate Measurement. If a well completed as a producer of Unitized Substances is in or included in a participating area but is not owned on a Participation Basis by all the Parties within such participating area and if, within thirty (30) days after request by any interested Party, a method of measuring the Production from such well without necessitating additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well notwithstanding any other provisions of this agreement.

24.2 Salvaged Materials. If any materials and equipment are salvaged from a well completed as a producer after being Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale

thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 25

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

25.1 Consent Required. Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of not less than 2 Parties in the aggregate owning not less than ninety per cent (90 %) of the Committed Working Interests on a Participation basis in the participating area affected by any such program. After the Parties have voted to undertake a program of secondary recovery or pressure maintenance in accordance with this section, the conduct of such a program shall be subject to supervision by the Parties by vote as set forth in Article 14.

25.2 Above Ground Facilities. This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant or other above ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26

TRANSFERS OF INTEREST

~~26.1 Restrictions on Zone Transfers. No Party shall assign, mortgage or transfer its Committed Working Interest in any tract committed to this agreement as to less than all formations underlying said tract without first receiving the Approval of the Parties within the Unit Area; provided, however, that such restriction shall not apply to a transfer by any Party of any part of its Committed Working Interest in any tract or tracts after the Drilling of the Initial Test Well or Wells and prior to the discovery of Unutilized Substances in paying quantities under a farmout arrangement in consideration of the Drilling of a well within the Unit Area, free of expense to the other Parties, and upon the further condition that if such well results in the Production of Unutilized Substances in paying quantities, such well and the Production therefrom will be shared by the Parties within the participating area established for such well in the same manner as if the well had been drilled for the account of all Parties within such participating area.~~

26.1 Sale by Unit Operator. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.2 Assumption of Obligations. No transfer of any Committed Working Interest shall be effective unless the same is made expressly subject to the Unit Agreement and this agreement and the transferee agrees in writing to assume and perform all obligations under the Unit Agreement and this agreement in relation to the interest assigned. Such a transfer and assumption of obligations shall not relieve the transferor from its obligations and the transferor shall be deemed to guarantee the full and faithful compliance and performance by transferee of all the obligations under the Unit Agreement and this agreement to the same extent as if the transferee had not been made. As assumption of obligations shall not be required on the part of a mortgagee or of a transferee as hereinafter provided under a deed of trust given for security, but all security interests created shall be at all times subject to the terms created by the provisions of Article 15.2 hereof.

26.4 Effective Date. A transfer of Committed Working Interests shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.3. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27

RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 Surrender or Release Within Participating Area. A Committed Working Interest covering land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening or Plugging Back of a well within such participating area may be relieved of further obligations with respect to such participating area as then constituted by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Committed Working Interests owned by such Party in lands within the participating area, together with the entire interest of such Party in any and all wells, materials, equipment and other property within or pertaining to such participating area.

27.2 Procedure on Surrender Outside Participating Area. Whenever a Party desires to surrender its Committed Working Interest in any tract which is not within a participating area, such Party shall give to all other Parties written notice thereof describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party desiring to surrender an assignment of such Committed Working Interest by giving to the Party desiring to surrender written notice of election so to do within thirty (30) days after receipt of the notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their Committed Working Interests among themselves in the Unit Area) shall pay to the assigning Party its share of the Salvage Value of any wells owned by the Parties and then located on the land covered by such Committed Working Interest, which payment shall be made on receipt of the assignment. If no Party elects to take such assignment within such thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same if surrender thereof can be made in accordance with the Unit Agreement.

27.3 Accrued Obligations. A Party making an assignment or surrender in accordance with Section 27.1 or 27.2 shall not be relieved of its liability for any obligation accrued hereunder at the time the assignment or surrender is made, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party hereunder and under the Unit Agreement.

ARTICLE 28

SEVERAL, NOT JOINT LIABILITY

28.1 Liability. The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 No Partnership Created. It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates, except as provided in Article 28.3 below.

28.3 Election. The parties hereby agree not to elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the United States Internal Revenue Code of 1954, and all amendments thereto. For California tax purposes, the parties hereby agree not to elect to be excluded from the application of Chapter 10 of Part 10 of Division 2 of the California Revenue and Taxation Code, and all amendments thereto. For Louisiana tax purposes, the parties hereby agree not to elect to be excluded from the application of all provisions of Sub-Part B, Title 47, Subtitle II, Chapter 2, Louisiana Revised Statutes. The parties recognize that they are a partnership for all tax purposes, California, and Louisiana tax purposes and are therefore subject to the partnership provisions of the Internal Revenue Code of 1954, the California Revenue and Taxation Code, and the Louisiana Revised Statutes, and all amendments thereto. The parties further agree not to elect to be excluded from the application of similar provisions in any other state.

Unit Operator shall prepare and file the partnership tax returns and make partnership elections on such returns on behalf of the parties. In so doing Unit Operator shall use its best efforts, but shall incur no liability to any of them with regard to such returns. Prior to filing such returns, Unit Operator shall submit copies thereof to the other parties not later than August 1, of each year, to permit review and approval. Except as otherwise expressly provided in paragraphs (d), (e), (f), (g), (h), and (i) of Exhibit B hereto, Unit Operator is hereby granted authority to make partnership elections for the first and subsequent years' returns to be filed under this Agreement, subject to prior concurrence and approval of the parties.

The procedure for implementation and the partnership provisions are set forth in Exhibit B attached hereto and by this reference made a part hereof.

NOTICES

29.1 Giving and Receipt. Except as otherwise specified herein, any notice, demand or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing, to the named representative designated pursuant to Article 14.5, in person or by mail, telex, or telephone promptly delivered to the Party to whom given, with return receipt. Any such notice shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by mail shall not be deemed given until (a) three (3) days after having been posted if by registered mail within the State of Alaska or between first class in States other than Alaska, or (b) five (5) days after having been posted if by registered mail within the State of Alaska or a State outside the State of Alaska.

~~properly addressed to the Party to whom given with all postage and charges prepaid shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with the operating telephone company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by him.~~

29.2 Proper Addresses. Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 30

EXECUTED IN COUNTERPARTS AND RATIFICATION

30.1 Counterparts. This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 Ratification. This agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this agreement. Such ratification shall have the same effect as if the Party executing it had executed this agreement or a counterpart hereof.

ARTICLE 31

SUCCESSORS AND ASSIGNS

31.1 Covenants. This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32

HEADINGS FOR CONVENIENCE

32.1 Headings. The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 33

RIGHT OF APPEAL

33.1 Not Waived. Nothing contained in this agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34

SUBSEQUENT JOINDER

34.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement.

34.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, any Working Interest in land within the Unit Area which is not then committed hereto may be committed to this agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35

CARRIED INTERESTS

35.1 Treatment of. If any working interest shown on Exhibit B of the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying party executes this agreement be deemed to be, for the purpose of this agreement, a Committed Working Interest owned by the carrying party.

ARTICLE 36

EFFECTIVE DATE AND TERM

36.1 Effective Date. This agreement shall become effective on the effective date of the Unit Agreement, ~~except that the provisions of Section 30.1 dealing with limitation on Right of Withdrawal shall be operative prior to such effective date.~~

36.2 Term. The term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith.

36.3 Effect of Termination. Termination of this agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this agreement, the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

36.4 Effect of Signature. When this agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other and each Party thereto and thereafter executing this agreement shall thereupon become and remain bound hereby until the termination of this agreement. ~~However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this agreement, then at the expiration of only twelve (12) months this agreement shall terminate.~~

37.1 "Participation Basis" means either an acreage participation basis or a final participation basis, whichever may be applicable as follows:

- (a) acreage participation basis -- Except as provided for in subparagraph (b), participation by the Parties within the Unit Area or a Participating Area or other area designated pursuant in this Agreement in voting or Cost, shall be in the proportion that the acreage of each Party's Committed Working Interest in such area bears to the total acreage of the Committed Working Interest of all such Parties therein. For the purposes of this definition (1) the acreage of the working interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (2) if there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.
- (b) final participation basis -- Upon the first date that Unitized Substances are delivered from the Unit Area to a transportation system moving Unitized Substances out of the unit area, the acreage participation basis of the Parties within a Participating Area or Areas in voting, Cost, or Production shall be superseded by a final participation basis calculated as follows:
The Parties within a Participating Area or Areas shall determine participation based on the original recoverable reserves underlying each tract of land within the Participating Area (insofar as such participation shall be adjusted to account for the relative cost to develop and produce such reserves under each tract in accordance with Unit operations. Until such time as the tract participation factors under the final participation basis receives Approval of the Parties owning in aggregate 95% of the proposed final participation or until tract participation factors are determined in accordance with Section 37.2, the acreage participation basis shall continue to apply; however, upon such determination, the final participation basis shall be retroactively applied from the first date that Unitized Substances were delivered from the Unit Area to the aforementioned transportation system.

37.2 Arbitration of Final Participation Factors. If the final participation basis has not been approved on the first date that Unitized Substances are delivered from the Unit Area to a transportation system moving Unitized Substances out of the Unit Area, Unit Operator shall submit to the Parties for their approval, the tract participation factors which have the greatest support on an acreage participation basis. If the approval required under Section 37.1 is not achieved, any Party owning an interest in such participating area or areas, equal to 5 percent or more, determined on an acreage participation basis may request arbitration, in which event the final tract participations shall be determined as follows:

The Party or Parties who vote against the tract participation factors which have the greatest support on an acreage participation basis, shall be divided into one group and shall select an arbitrator and all other Parties shall be divided into another group and shall select an arbitrator. Each group shall select an arbitrator in accordance with the voting procedure set forth in Paragraph 14.2; which is proportional to the ratio of its acreage participation basis to the total acreage participation basis of all Parties in such group. If either or both of the two groups of Parties are unable to select an arbitrator as provided for above, then the Parties shall petition the Senior Federal Judge resident in Anchorage, Alaska, to appoint an arbitrator from a list of individuals of appropriate professional acumen and integrity supplied by the Parties. A third arbitrator shall be selected by the two previously selected arbitrators.

The Parties shall supply full and adequate information to the arbitrators acting hereunder and the Parties and arbitrators shall cooperate and act expeditiously, to the end that the decision of the arbitrators shall issue not later than ninety (90) days after they commence their duties under this Article 37.2 unless the arbitrators deem a reasonable extension of said ninety (90) day period essential to their consideration of the matter submitted for arbitration. A decision reached by a majority of the arbitrators shall be final, and a judgment upon such decision may be entered in any court having jurisdiction. All parties hereby submit to the jurisdiction of such court. The arbitrators acting hereunder shall decide or determine only appropriate factors, parameters, or methods to be used from those proposed and on which the Parties are unable to agree.

All costs and expenses charged by the arbitrators or otherwise incurred during the arbitration for the benefit of all Parties shall be borne equally by the two groups of Parties. Each Party within each group shall be charged a portion of such costs and expenses which is proportional to the ratio of its final participation basis to the total final participation basis of all Parties in such group. All other costs and expenses as a result of the arbitration shall be borne by the Party or Parties incurring such costs and expenses.

38.1 Definition - Mobilization/Demobilization Costs

Mobilization Costs: Rig moving and mobilization costs, herein called "Mobilization Costs" for brevity shall mean the costs incurred in assembling, loading, moving, transporting and offloading a fully equipped arctic drilling rig for use at the well site, including a local movement to the well location from within the North Slope area or the mobilization of such a rig to the well site from outside such area.

Demobilization Costs: "Demobilization Costs" shall mean the actual costs incurred in loading and transporting a fully equipped arctic drilling rig from the last well drilled under the applicable drilling contract for such rig to the location, if any, specified in such drilling contract and including the cost of any offloading thereof or a payment made in lieu of such loading and transporting and unloading costs; provided however, such costs shall not exceed the costs that would be charged if the rig was so moved and unloaded at Deadhorse, North Slope, Alaska.

39.1 Allocation of Other Costs. The costs to mobilize the drilling rig and rig camp for the drilling of any unit well (including the Initial Test Well and any additional well or wells drilled under the provisions of that certain Contribution Agreement between Farnec (Operator) and Farnor (Non-Operator) shall be charged to the first well drilled by the rig as well cost. Should any subsequent well or wells be drilled by this same rig in the afore-said unit or in any other operations by one or more of the parties hereto controlling the rig, the mobilization costs in excess of \$250,000 shall be credited to the wells drilled by the rig on a wells-drilled-to-date-basis as each additional well is drilled to a maximum of four wells and shall be charged to the current drilling well whether a unit well or any other well drilled by the party(ies) hereto. The cost to construct any permanent drilling pad, storage pad or access road shall be charged as well cost to the first well drilled from the drilling pad. Should any subsequent well or wells be drilled utilizing these facilities, the construction costs of same shall be allocated as a well cost to each subsequent well when drilled based on the number of wells drilled to that date utilizing said facilities. The cost to demobilize each drilling rig and rig camp shall be charged as well cost to the last well drilled by the rig and the cost paid by parties participating in all wells drilled by the rig to a maximum of the last four wells drilled. All drilling parties participating in the wells drilled by each rig to a maximum of the last four wells agree to pay the cost of demobilization based on their drilling participation in these wells regardless of their drilling participation in the last well. Demobilization costs shall be allocated to the subject wells as well costs for the purpose of calculating any non-consent penalties. Should any of the last four wells be non-unit wells, the cost allocatable to these wells will be paid by the party(ies) to this agreement controlling the rig.

40.1 Substitution. In Article 5 and Article 10, where the word "Director" appears, and in Article 7 where the word "Supervisor" appears, the words "Director of the Division of Lands of the Department of Natural Resources" shall be considered substituted therefor.

41.1 The provisions of Section 6.2 are hereby modified and limited with respect to a well covered thereby if any Party owning a Committed Working Interest in the Drilling Block formed for such well elects not to participate in the Costs thereof as to all or any part of his Committed Working Interest in the Drilling Block. In such case, the relinquished interest of Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.3 with respect to wells located in a participating area, except that the production from such a well sufficient to cause such reversion shall be that which, had the Non-Drilling Party elected to participate in such well, would be allocable on the applicable Participation Basis to the interest of Non-Drilling Party in land in the Drilling Block formed for such well with respect to which he did not elect to participate. Upon reversion of the relinquished interest of a Non-Drilling Party in such a well the provisions of Section 12.4 dealing with Effect of Reversion shall be applicable.

42.1 Article 12 shall be subject to the following: In the event more than one operation in the same well is conducted for the account of less than all the Parties entitled to participate therein, then the provisions of Article 12, with respect to the recovery by Drilling Parties and reversion of relinquished interest, shall be applied in the inverse order to that in which the operations were conducted until the relinquished interest for each such operation has reverted, provided that recovery of Costs of any operation under Article 12 shall be only payable out of the production resulting from such operation. In circumstances where the same Party entitled to participate therein elects to be a Non-Drilling Party in two or more consecutive operations on a well as to which it has an election to participate, the Costs to be recovered before reversion shall include the Costs of all such consecutive operations.

43.1 Well Information. Articles 16.1F and 16.1G and any other provisions of this Agreement notwithstanding, no Party shall be permitted access to any well drilled hereunder nor any information derived from such well (including but not limited to electric logs, mud logs, cores, cuttings, drill stem test data), unless such Party owns a Committed Working Interest in the tract, Drilling Block (as the term Drilling Block is defined in Exhibit 4 hereof) or participating area on which such well is located. Each Party who comes into possession of information derived from any well drilled under this Agreement (including but not limited to electric logs, mud logs, cores, cuttings, drill stem test data), (and other information of similar nature) shall hold such information confidential. Except as otherwise hereinafter provided in Article 43.2, each Party agrees not to disclose any of such information to any third party without the prior written consent of all other Parties owning a Committed Working Interest in the well from which such information was derived.

The obligation of confidence and nondisclosure hereinabove set forth in this Article 43.1 shall expire, as to information derived from each well, on the fifth (5th) anniversary date of the date of completion of the well from which said information was derived.

43.2 Exceptions. The provisions of Article 43.1 shall be subject to the following two (2) exceptions:

- (1) Any Party who receives such information may disclose such information to any other Party who owns a Committed Working Interest in the tract, Drilling Block or participating area wherein the well from which the information was derived is located.
- (2) Any Party who receives such information and who owns a Committed Working Interest in the tract, Drilling Block or participating area in which the well from which the information was derived is located may disclose said information to any of its own Affiliates if such Affiliates are bound by written agreement to keep same confidential.

43.3 Exclusions. The obligations of confidence and non-disclosure imposed by Articles 43.1 and 43.2 shall not apply to:

- (1) Information which, at the time of receipt of recipient Party from another Party hereto, is in the public domain;
- (2) Information which, after receipt by recipient Party from another Party hereto, is published or otherwise becomes part of the public domain through no fault of recipient Party (but only after, and only to the extent that it is published or otherwise becomes part of the public domain);
- (3) Information which the recipient Party can show (a) was in its possession at the time of its receipt of said information from another Party hereto and (b) was not acquired, directly or indirectly from any other Party hereto or an Affiliate of any Party hereto or from a third party under an obligation of confidence;
- (4) Information which, although received by recipient Party after the time of its receipt of said information from another Party hereto, recipient Party can show was received by recipient Party from a third party who did not require recipient Party to hold it in confidence and who did not acquire it, directly or indirectly, from a Party hereto or an Affiliate thereof;
- (5) Information which has been submitted to any governmental authority as required by law, the Unit Agreement or this Agreement and which is no longer held confidential by such authority.

43.4 Confidentiality of Technical Information. For purposes of this Article 43, "Technical Information" shall mean technical information, other than that covered by Article 43.1, that relates to Unit Operations and is disclosed by one Party to another Party in connection with Unit Operations. It is agreed that the only obligation of confidence any Party shall have with respect to Technical Information that it receives from any other Party shall be that set forth in this Article 43.4 as modified by the exception set forth in Article 43.5 hereof and the exclusions set forth in Article 43.6 hereof.

Each Party shall be obligated to keep confidential only that Technical Information which is furnished in writing and designated as confidential information at the time it is

first furnished to the recipient Party. Such designation shall be made as follows: Each document and each sheet thereof shall be clearly marked "Confidential Information", followed by the name of the furnishing Party. The Party receiving such confidential Technical Information shall not, without the prior written consent of the furnishing Party,

- (a) use such confidential Technical Information except in connection with operations conducted under this Agreement, or
- (b) disclose such confidential Technical Information to others.

43.5 Exceptions. The provisions of Article 43.4 shall be subject to the following exception:

- (1) A Party receiving confidential Technical Information may disclose said Technical Information to those of its Affiliates who are bound by written agreement to keep said information confidential.

43.6 Exclusions. The obligations of confidence and non-disclosure and the limitations on use imposed by Article 43.4 shall not apply to:

- (1) information which, at the time of receipt by recipient Party from furnishing Party, is in the public domain;
- (2) information which, after receipt by recipient Party from furnishing Party, is published or otherwise becomes part of the public domain through no fault of recipient Party (but only after, and only to the extent that it is published or otherwise becomes part of the public domain);
- (3) information which the recipient Party can show (a) was in its possession at the time of its receipt of said information from furnishing Party and (b) was not acquired, directly or indirectly, from any other Party hereto or an Affiliate of any Party hereto or from a third party under an obligation of confidence;
- (4) information which, although received by recipient Party after the time of its receipt of said information from furnishing Party, recipient Party can show was received by recipient Party from a third party who did not require recipient Party to hold it in confidence and who did not acquire it, directly or indirectly, from a Party hereto or an Affiliate thereof; or
- (5) information which has been submitted to any governmental authority as required by law, the Unit Agreement or this Agreement and which is no longer held confidential by such authority.

43.7 Patents and Inventions. The following Subsections apply to the rights and obligations of the Parties with respect to patents and inventions involved in or arising from operations conducted under this Agreement:

- (1) With reference to, but only with reference to operations conducted by Unit Operator under this Agreement, each Party agrees to hold each other party and Unit Operator free and harmless from any and all claims for patent infringement which are based on any patent owned or controlled by said Party or any of said Party's Affiliates;
- (2) Patent Litigation. Any claim, suit or action by a third party alleging patent infringement based upon operations conducted or otherwise handled in a manner to be decided upon by the Parties who share the costs of carrying out the operation to which the claim, suit or action is directed and all costs and expenses of defending, settling or otherwise handling said claim, suit or action shall be borne by said Parties in the same proportion as said Parties are obligated to under this Agreement to share the costs of said operation.

43.8 Definition of Affiliate. Affiliate of a Party is any company that is owned or controlled by that Party. For the purposes of this definition, ownership or control of any company exists if fifty percent (50%) or more of the stock of such company that has the right to vote for directors is owned or controlled, directly or indirectly, by the particular Party. The stock owned or controlled by a Party shall be deemed to include

all stock owned or controlled, directly or indirectly, by any owner company that is owned or controlled by that Party.

Affiliate of a Party also includes any parent company that owns or controls, directly or indirectly, fifty percent (50%) or more of the stock having the right to vote for directors of such Party, and any company of which said parent company owns or controls, directly or indirectly, fifty percent (50%) or more of the stock having the right to vote for directors of such company.

44.1 Any Party or Parties originally entitled to participate in the drilling of a well, may upon reasonable request to the Operator conduct a velocity survey in said well at such Party or Parties' sole cost, risk and expense, including stand-by rig time. Notwithstanding the provisions of Section 16.1 or any other provision of this Unit Operating Agreement, the Party or Parties conducting said velocity survey shall own and have the exclusive use of any velocity logs and velocity survey information obtained thereby.

45.1 Subsequent Created Interests. Notwithstanding anything herein to the contrary, if any Working Interest Owner shall, subsequent to the execution of this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created interest") such subsequently created interest shall be specifically made subject to all the terms and provisions of this agreement. If the Working Interest Owner from which such subsequently created interest is created, (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses or (b) elects to abandon a well under Part 2 of Exhibit 4 or elects to surrender a lease under Article 27, the subsequently created interest shall be chargeable with a pro-rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and Unit Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 15.5 for the purpose of collecting costs and expenses chargeable to the subsequently created interest.

46.1 If any Party hereto hereafter should create any overriding royalty, production payment, or other burden against its working interest production and if any other Party or Parties should conduct non-consent operations pursuant to any provision of this agreement and, as a result, become entitled to receive the working interest production otherwise belonging to the non-drilling Party, the Party or Parties entitled to receive the working interest production of the non-drilling Party shall receive such production free and clear of burdens against such production which may have been created subsequent to his agreement and the non-drilling Party creating such subsequent burdens shall save the drilling Party or Parties harmless with respect to the receipt of such working interest production.

47.1 Should the owner of royalty interest fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the Lease Burdens of the Party entitled to receive the production allocated to the tract or tracts of land affected are more than the Lease Burdens computed on the basis of production allocated thereto, Unit Operator, upon receipt of evidence thereof from the Party affected, shall reimburse that Party for the full amount of such excess Lease Burdens and shall treat the same as an operating cost; similarly, if the Lease Burdens are less than the Lease Burdens computed on the basis of production allocated thereto, such Party shall remit the difference to Unit Operator for distribution to all Parties.

48.1 In the event a relinquishment of interest by a Non-Drilling Party occurs according to the provisions of this Agreement as to any well and Production is had from such well, the Unit Operator, or other Party conducting the operation which resulted in the relinquishment, shall furnish each Non-Drilling Party upon its request, in addition to all of the information referred to in Section 16.1 F, the following:

- A. An itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and.
- B. Until reversion occurs, a quarterly itemized statement of the Costs incurred in the operation of the said well, the quantity of Production therefrom, the amount of proceeds received from the sale of the same, and the Lease Burdens paid with respect to Production.

49.1 The assignment or assignments of leasehold interests which the Non-Operators (Farmor) will or may make to Exxon (Parnes) pursuant to the terms of that certain Contribution Agreement, shall be deemed to be the full contribution of the Non-Operators (Farmor) to the cost of drilling and completing the Initial Test Well and any additional well or

wells drilled under the provisions of said Contribution Agreement and the Non-Operators (Farmer) shall not be required to bear directly or indirectly any portion of said cost whether through investment adjustment under Article 13 of this agreement, through establishment, revision or combination of a participating area or areas or otherwise.

50.1 Partition. Each Party hereby covenants with each other Party that during the existence of the agreement the Parties will not at any time resort to an action at law or in equity to partition and have set aside to it in severalty its undivided interest herein or the wells or facilities installed under this agreement.

IN WITNESS WHEREOF, this agreement has been executed by the undersigned as of the day and year first above written.

Date of Execution:

March 4, 1977

EXXON CORPORATION

By 
Attorney in Fact

Address:

P. O. Box 2180

Houston, Texas 77001

Attention: Division Manager

Offshore/Alaska Division

As Unit Operator and Working Interest Owner

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Signed June, 1976

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

POINT THOMSON UNIT

STATE OF ALASKA

FOURTH JUDICIAL DISTRICT

THIS AGREEMENT, entered into as of the 1st day of March, 1977,
by and between the parties subscribing, ratifying, or consenting hereto, and
herein referred to as the "parties hereto",

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or
other oil and gas interests in the unit area subject to this agreement; and,

WHEREAS, the Commissioner of the Department of Natural Resources,
State of Alaska, is authorized by Alaska Statute 38.05 and appropriate state
regulations to consent to or approve this agreement on behalf of the State
of Alaska, insofar as it covers and includes lands and mineral interests of
the State of Alaska; and,

WHEREAS, the parties hereto hold sufficient interests in the _____
Point Thomson _____ Unit Area covering the land hereinafter described
to give reasonably effective control of operations therein; and,

WHEREAS, it is the purpose of the parties hereto to conserve natural
resources, prevent waste, and secure other benefits obtainable through
development and operation of the area subject to this agreement under the
terms, conditions and limitations herein set forth; and,

WHEREAS, State lands, as that term is used in this agreement, means
those lands title to which is vested or that become vested in the State of
Alaska and lands which have been tentatively approved after state selection
and are not covered by an existing Federal oil and gas lease at such time as
any right or authority is exercised;

NOW, THEREFORE, in consideration of the premises and the promises
herein contained, the parties hereto commit to this agreement their respective
interests in the below-defined unit area, and agree severally among themselves
as follows:

1. ENABLING ACT AND REGULATIONS. The Alaska Land Act
(AS 38.05.005-370) and all valid and pertinent oil and gas statutes and reg-

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ulations including the oil and gas operating statutes and regulations in effect as of the effective date hereof or hereafter issued thereunder governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of Alaska are hereby accepted and made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 40,768 acres, more or less. Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator.

Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party.

Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Director, Division of Lands of the Department of Natural Resources, hereinafter referred to as the "Director", and four (4) copies thereof shall be filed with the Director.

The above described unit area shall, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be affected in the following manner:

(a) Unit Operator, on its own motion, or on demand of the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Director and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Director, evidence of mailing

of the notice of expansion or contraction, and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Director, become effective as of the date prescribed in the notice hereof.

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within five years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement except as provided in Paragraph 18 (f), unless at the expiration of said five-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than six (6) months time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator, as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after the first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "unavoidable delay" time shall be made by Unit Operator and subject to approval of the Director. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this Subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of ninety percent of the current unitized

working interests and sixty percent of the current unitized basic royalty interests (exclusive of the basic royalty interests of the state) on a total nonparticipating-acreage basis, respectively, with approval of the Commissioner provided such extension application is submitted to the Director not later than 60 days prior to the expiration of said ten-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this Subsection 2 (e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. EXXON CORPORATION, with offices at Houston, Texas is hereby designated as Unit Operator and by signature hereto as Unit Operator and as working interest owner commits to this agreement all interests in unitized substances vested in it and agrees and consents to accept the duties and obligations of Unit Operator for discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Director as to State and privately owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations, as above provided, at any time a participating area established hereunder is in existence but, in all instances of resignation

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or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; provided that, if a majority but less than 75 percent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been filed with and approved by the

Director. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three (3) true copies of any unit operating agreement executed pursuant to this section shall be filed with the Director within ninety (90) days after the effective date of this unit agreement or such later date as may be agreed to by the parties hereto and the Commissioner. In the event copies of the unit operating agreement are not filed as hereinabove provided, this unit shall terminate.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being

understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Director, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the top 100 feet of the Pre-Mississippian formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Director that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 13,500 feet. Until the discovery of a deposit of unitized substances under this unit agreement capable of being produced in paying quantities, the Unit Operator shall commence by January 1 of each drilling season at least one well and continue drilling diligently until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Director or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Director an acceptable plan of development and operation for the unitized land which, when approved by the Director, shall constitute the further drilling

and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Director a plan for an additional specified period for the development and operation of the unitized land. The Unit Operator expressly covenants to develop the unit area as a reasonably prudent operator in a reasonably prudent manner.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Director may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area, and shall:

- (a) specify the number and location of any wells to be drilled and the proposed order and time for such drilling; and,
- (b) to the extent practicable, specify the operating practices regarded as necessary and advisable for the proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Director.

Said plan or plans shall be modified or supplemented when necessary to meet changed conditions, or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Director is authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Director shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. [Upon completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall within the month of such completion, if practicable, or as soon thereafter as required by the Director, submit for approval by the Director a schedule based on subdivisions of the public land survey or aliquot parts thereof of all unitized land then regarded as reasonably proved to be

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productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director are to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later.] The acreages of both state and non-state lands shall be based upon approved protraction diagrams or appropriate computations from the courses and distances shown on the last approved protraction diagram or public land survey as of the effective date of the initial participating area or computed with reference to the last approved protraction survey or grids. Said schedule also shall set forth the percentage of unitized tract in the participating area so established and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests.

except royalties due the State of Alaska, which shall be determined by the Director for state lands and the amount thereof deposited, as directed by the Director, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as state royalty on the basis of such approved participating area.

Upon the request of the operator or working interest owners, the Director shall hold as confidential any engineering, geophysical, geological data including but not limited to drilling logs, daily drilling reports or any other data of like or similar nature which may be requested or required by the Director for any purpose of this agreement.

Whenever it is determined, subject to the approval of the Director, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Director, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, "except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular

part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party or parties hereto owning or controlling the working interests in any unitized land having thereon a regular well location may, with the approval of the Director, and subject to the nonconflicting provisions of the unit operating agreement, at such party's or parties' sole risk, costs, and expense, drill a well at such location on such land to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The State of Alaska and all royalty owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such

working interest owner shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases. ~~No deduction for dehydration and cleaning charges shall be charged to the State's royalty except where royalty is taken in kind unless the State subsequently agrees to such deduction as reasonable and proper.~~ *2/11*

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Director, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by Director as conforming to good petroleum engineering practice; and provided further that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due on account of the State of Alaska shall be computed and paid as to all unitized substances on the basis of the amounts allocated to such lands, and in accordance with appropriate statutes and regulations.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases.

Rentals or minimum royalty on State of Alaska lands subject to this agreement shall be paid at the rates specified in the respective leases and in accordance with appropriate statutes and regulations.

With respect to any lease on non-state land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provisions of this agreement, be

deemed to accrue and become payable during the term thereof as extended by this agreement and thereafter until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state law or regulation.

17. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with prior consent of the Director, pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by and approved by the Director for state land leases.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Director as to state leases shall and, by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of state leases committed hereto and the regulations in respect thereto and conform said requirements to the provisions of this agreement and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this agreement, regardless of whether there is any development of any particular part or tract of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands, committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any lease embracing land of the State of Alaska having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of Alaska having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is discovered and is capable of being produced in paying quantities from some part of the land embraced in such lease at the time of approval of the unit agreement by the State of Alaska or if at the time of approval of the unit agreement by the state the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas in paying quantities, said lease shall continue in full force and effect as to all of the lands embraced therein so long thereafter as oil or gas in paying quantities is being produced from any portion of said leases, provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities.

Any state lease having production in paying quantities, as defined in this agreement, on said lease prior to commitment to this agreement shall not be segregated. The nonunitized portion shall not participate in the unit area but shall be extended by virtue of the production on the unitized portion and so long as it produces in paying quantities. Nothing herein shall operate to excuse further development on the portion lying outside the unit area

where the circumstances would require a reasonably prudent lessee to further development.

(f) Where some portion of a lease is included within the final participating area as provided in Paragraph 2 (e) of this agreement, the following shall apply as to the area of the lease lands not so included in the final participating area shall be eliminated as in Paragraph 2 (e) of this agreement and shall terminate after the expiration of 90 days. The entire lease shall continue in force and effect so long thereafter as production is allocated to a portion of said lease and so long as annual rentals are paid on the portion not within the participating area. The first rental payment is due and payable on the first day after the expiration of the above mentioned 90-day period with allowance for proration of rentals. Thereafter, annual rentals are due and payable on the anniversary date of the lease.

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer or any working interest, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Commissioner or his duly authorized representative as of the date of approval by the Commissioner and shall terminate five (5) years from said effective date unless:

(a) such date of expiration is extended by the Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for

the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

(d) It is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

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

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of the Department of Natural Resources of the State of Alaska and to appeal from orders issued under the regulations of said department, or to apply for relief from any said regulations or in any proceedings relative to operations before the Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid

registered mail or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or the ratification or consent hereof or to such other address as any such party may have furnished in writing to the party sending the notice, demand or statement.

24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the state or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party or any right beyond his or its authority to waive.

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or Municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) thru (7) inclusive, of Executive Order 11246 (30 F.R. 12318), which are hereby incorporated by reference into this agreement.

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that, as to state land or leases, no payments of funds due the State of Alaska should be withheld, but such funds of the State of Alaska shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director and the Unit Operator prior to the approval of this agreement by the Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Director of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Director.

29. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless

of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

30. Alaska Resident Hire: All State of Alaska leases committed to said agreement are hereby altered to require that the lessee and unit operator shall comply with all valid and applicable laws and regulations with regard to hire of Alaska residents. Qualified Alaska residents shall be hired as required in AS 38.40; lessee shall not discriminate against Alaska residents, as prohibited by AS 38.40 and other applicable laws and regulations of the State of Alaska.

UNIT OPERATOR AND
WORKING INTEREST OWNER

EXXON CORPORATION

Dated:

March 4, 1977

By *Crandall D. Jones*
Its Attorney in Fact

Address: P. O. Box 2180
Houston, Texas 77001
Attention: Division Manager
Offshore/Alaska Division

STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

This is to certify that on this 4th day of March, 1977, before me, the undersigned, a Notary Public in and for the State of Texas, personally appeared CRANDALL D. JONES to be known and known to be the person(s) whose name(s) is subscribed to the within instrument as Attorney in Fact of EXXON CORPORATION, and acknowledged to me that he subscribed the name of EXXON CORPORATION thereto as principal and his own name(s) as Attorney in Fact.

IN WITNESS WHEREOF, I have hereto set my hand and affixed my official seal the day and year in this certificate first above written.

Mary M. Gulley
Notary Public in and for Harris County, Texas
Mary M. Gulley

My commission expires:
May 17, 1978