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**REGIONAL SUPERVISOR
FIELD OPERATION
MINERALS MANAGEMENT SERVICE**

McCOVEY UNIT AGREEMENT

May 1, 2000
(revised August 1, 2000)

PHILLIPS ALASKA, INC.

QUALIFICATION NUMBER QF-2001

McCOVEY UNIT

BEAUFORT SEA, ALASKA

UNIT APPLICATION

MAY 1, 2000

BACKGROUND AND JUSTIFICATION

LAND

The proposed McCovey Unit Area is comprised of seven oil and gas leases located in the Beaufort Sea.

Four of the leases were issued in State of Alaska Lease Sale 65, held in June 1991, encompassing 20,371.22 acres. These leases were granted on identical lease forms and contain the following significant terms:

Lease Expiration Date:	July 31, 2001
Royalty Rate:	1/6
Net Profit Share:	None
Exploration Incentive Credit:	Expired as of 1996
Discovery Royalty:	None

Three of the leases were issued in the Outer Continental Shelf Sale 124, held in June 1991, encompassing 8,132.78 acres. These leases were granted on identical lease forms and contain the following significant terms:

Lease Expiration Date:	July 31, 2001
Royalty Rate:	1/8
Net Profit Share:	None
Exploration Incentive Credit:	None
Discovery Royalty:	None

Exhibit "A" to the Unit Agreement sets forth the description of each lease and current ownership of the working interest within the Unit Area. Phillips Alaska, Inc. ("Phillips") to the Unit Agreement illustrates the proposed Unit Area.

GEOLOGY AND GEOPHYSICS

The Unit Area is justified by a complete geologic discussion and supporting data found in the confidential portion of this application. The Geological and Geophysical Information binder is clearly marked "confidential" and is included with this application.

ENVIRONMENTAL AND PERMITS

This application is made with the understanding that Phillips must obtain approval of a Plan of Operation prior to undertaking activity within the proposed Unit Area. It is envisioned that all exploratory drilling operations within the proposed Unit Area will be conducted from temporary ice islands or a bottom-founded mobile offshore drilling unit.

DEVELOPMENT OPERATIONS AND FACILITIES

Creation of the proposed McCovey Unit and designation of a single Unit Operator acting under a cooperative plan will speed development, prevent economic and physical waste through the elimination of duplicate operations and facilities, and minimize the overall impact of surface use.

Unitization of a reservoir is the only prudent means of development upon the North Slope of Alaska. Significant advantages will be gained through cooperative reservoir management during both primary and enhanced recovery stages for each individual reservoir.

SUMMARY

The Unit owners believe that the criteria set forth in 11 AAC 83.303 will be met by the approval of this application. Specifically, the proposed Unit will:

1. Promote conservation of all natural resources by reducing human activities within the Unit Area;
2. promote the prevention of economic and physical waste by elimination of duplicate facilities, increasing ultimate field recovery and decreasing development cost; and
3. provide for the protection of all affected parties, including the State of Alaska, by evaluating the potential of the Unit Area under an approved Plan of Exploration, and the joinder of all working interest owners under a common Operating Agreement which will encourage and facilitate joint exploration and development.

Any questions or comments concerning this Unit application should be directed to:

Phillips Alaska, Inc.
Attn: Mr. John A. Bridges
P.O. Box 100360, Rm ATO-1468
Anchorage, AK 99510-0360
Telephone: (907) 265-1579
Telecopy: (907) 263-4966

INITIAL
UNIT PLAN
MCCOVEY UNIT
(revised August 1, 2000)

This two year initial unit plan, which shall meet the requirements of the State unit plan of exploration and Federal unit plan of operation ("Plan") is submitted to the Regional Supervisor of the Minerals Management Service, U.S. Department of the Interior, and to the Commissioner of the Department of Natural Resources ("DNR"), State of Alaska, pursuant to Article 8 of the McCovey Unit Agreement. All terms not defined herein shall have the meaning set forth in Article 1 of the McCovey Unit Agreement.

The Plan for the Unit Area includes the following activities:

Prior to April 30, 2002, the Working Interest Owners shall commence drilling operations for the McCovey No. 1 Well. This well will be drilled as a winter operation from an ice island or a bottom-founded mobile offshore drilling unit. The targeted bottomhole location is $x= 1495195.04$ $y= 25671931.00$ UTM Zone 6 on Federal Oil and Gas Lease Y-1578. This location may change depending on the method used to drill the well and the final surface location of the ice island or bottom-founded unit. The well will be drilled to depths sufficient to penetrate the Basal Brookian Interval or 13,000 feet subsea, whichever is the lesser depth. Failure to drill the McCovey No. 1 Well as described above will result in the termination of the McCovey Unit.

The Working Interest Owners anticipate entering into a formal contract for the drilling operations described above. Necessary permits are being acquired concurrent with the review of this Unit application. If the Working Interest

Owners fail to enter into a formal drilling contract for the proposed McCovey No. 1 Well by April 30, 2001 the McCovey Unit shall terminate.

If the Working Interest Owners enter into a formal drilling contract as described above and have not commenced the actual drilling of the McCovey No. 1 well, the Working Interest Owners must, on or before July 31, 2001, supply DNR with documentation that at least three million dollars (\$3MM) have been committed toward the drilling of the McCovey No. 1 Well. Failure to commence actual drilling operations prior to July 31, 2001 or provide DNR with the documentation set forth above, by said date, will result in the early termination of the McCovey Unit as of July 31, 2001. The committed expenditure may be made on the pre-mobilization, mobilization, and/or construction costs of a drilling unit sufficient to drill the McCovey No. 1 Well to the objective depth.

If the McCovey Unit terminates for failure of Working Interest Owners to timely meet the above described obligations all leasehold acreage in the Unit Area which is past its primary term would be surrendered effective the corresponding date of the termination of the McCovey Unit.

This Plan will expire on the two year anniversary date of its approval.

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RECITALS

The Working Interest Owners that are parties to this Agreement own interests in oil and gas leases that are subject to this Agreement.

The Outer Continental Shelf Lands Act, Public Law 83-212, 67 Stat. 462, August 7, 1953 (43 U.S.C. 1331, et seq.), as amended September 18, 1978 by Public Law 95372, 92 Stat. 629, as further amended April 7, 1986 by Public Law 99-272, Title VIII Section 8003, 100 Stat. 148, and as further amended on December 22, 1987 by Public Law 100-202, Section 101(y)(Title 1), 101 Stat. 1329-225; 30 CFR 250; Alaska Statutes 38.05.180; Alaska Statutes 38.05.037; Alaska Statutes 31.05.110; Alaska Administrative Code 11 AAC 83.300 - 11 AAC 83.395; an agreement dated May 31, 1991, entitled "Agreement Regarding Unitization for the Outer Continental Shelf Oil and Gas Lease Sale 124 and State Oil and Gas Lease Sale 65"; an agreement dated September 16, 1996, entitled "Agreement Regarding Unitization for the Outer Continental Shelf Oil and Gas Lease Sale 144 and State Oil and Gas Lease Sale 86 between the United States of America and the State of Alaska" (hereinafter collectively referred to as the "Agreements Regarding Unitization") authorize the United States of America and the State of Alaska to approve unit agreements for the purpose of exploration, development and production of oil and gas.

The Agreements Regarding Unitization will remain applicable until amended or replaced by mutual agreement of the State and the Minerals Management Service, U. S. Department of Interior, or voided by virtue of the U. S. Supreme Court's Final Decree in United States v. State of Alaska No. 84 Original.

AGREEMENT

In consideration of the mutual promises in this Agreement, the parties commit their respective interests in the Unit Area as defined in Exhibit A, and depicted in Exhibit B to this Agreement, and agree as follows:

ARTICLE 1: DEFINITIONS

1.1 **Act** means the Outer Continental Shelf Lands Act of 1953, as amended (43 U.S.C. 1331, et seq.).

1.2 **Agreements Regarding Unitization** means the Agreement Regarding Unitization for the Outer Continental Shelf Oil and Gas Lease Sale 124 and State Oil and Gas Lease Sale 65, dated May 31, 1991; and the Agreement Regarding Unitization for the Outer Continental Shelf Oil and Gas Lease Sale 144 and State Oil and Gas Lease Sale 86 between the United States of America and the State of Alaska, dated September 16, 1996.

1.3 **Alaska Oil and Gas Conservation Commission (AOGCC)** means the independent quasi-judicial agency of the State of Alaska established by the Alaska Oil and Gas Conservation Act, AS 31.05.

1.4 **Approved Unit Plan** means a plan or plans approved by the Proper Authority under Article 8 of this Agreement.

1.5 **Commissioner** means the Commissioner of the Department of Natural Resources, State of Alaska, or the Commissioner's authorized representative.

1.6 **Effective Date** means the time and date this Agreement becomes effective as provided in Section 14.1.

1.7 **Leasehold Royalty Owner** means a party who owns a royalty interest under the terms of a lease.

1.8 **Federal Land** means Outer Continental Shelf (OCS) land in and under which the United States of America owns the oil, gas and minerals.

1.9 **Federal Lease** means an oil and gas lease covering only Federal Land.

1.10 **Oil and Gas Rights** means the rights to explore, develop, and produce Unitized Substances from lands subject to this Agreement.

1.11 **Outside Substances** means oil, gas, other hydrocarbons or non-hydrocarbon substances purchased or otherwise obtained from outside the Unit Area by the Unit Operator and, with the approval of the Proper Authority, injected into a Reservoir in the Unit Area.

1.12 **Outside PA Substances** means oil, gas, other hydrocarbons or non-hydrocarbon substances purchased or otherwise obtained from one Participating Area in the Unit Area by the Unit Operator and, with the approval of the Proper Authority, injected into a Reservoir in a different Participating Area in the Unit Area.

1.13 **Participating Area** means all Unit Tracts or parts of Unit Tracts designated as a Participating Area under Article 9 to allocate Unitized Substances produced from a Reservoir.

1.14 **Participating Area Expense** means all costs, expenses or indebtedness which are incurred by the Unit Operator under this Agreement and the Unit Operating Agreement for production from or operations in a Participating Area and allocated to the Unit Tracts in that Participating Area.

1.15 **Paying Quantities** means a quantity of Unitized Substances sufficient to yield a return in excess of operating costs.

1.16 **Proper Authority** means, depending upon the context, the Commissioner, or the Regional Supervisor, or both, who has jurisdiction, which, unless otherwise specified, shall

generally be deemed to be (a) the Regional Supervisor, if only federally-managed land is directly implicated; (b) the Commissioner, if only State-managed land is directly implicated; and (c) both the Regional Supervisor and the Commissioner if both federal and State-managed land is implicated.

1.17 **Regional Supervisor** means the Regional Supervisor, Field Operations, of the Minerals Management Service, U.S. Department of the Interior, or his or her designee, authorized and empowered to regulate and approve unit operations.

1.18 **Reservoir** means that part of the Unit Area containing an accumulation of Unitized Substances which has been discovered by drilling and evaluated by testing a well or wells, and which is geologically separate from and not in hydrocarbon communication with any other oil and gas accumulation.

1.19 **State** means the State of Alaska acting in this Agreement through the Commissioner.

1.20 **State Land** means land in which the State owns the oil, gas and minerals in and under the land.

1.21 **State Lease** means an oil and gas lease covering only State Land.

1.22 **Sustained Unit Production** means continuing production of Unitized Substances from a well in the Unit Area into production facilities and transportation from the Unit Area to market, excluding temporary production for testing purposes.

1.23 **Tract Allocation Schedule** means a listing of the Unit Tract Participation for the allocation of Unitized Substances among all Unit Tracts within a Participation Area, whose sum totals 100% as depicted in Exhibit C.

1.24 **Unit Area** means the lands subject to this Agreement, described in Exhibit A and depicted in Exhibit B to this Agreement, submerged or not.

1.25 **Unit Equipment** means all personal property, lease and well equipment, plants, platforms and other facilities and equipment used, taken over or otherwise acquired for use in Unit Operations.

1.26 **Unit Expense** means all costs, expenses or indebtedness incurred by the Unit Operator under this Agreement and the Unit Operating Agreement for Unit Operations, except for Participating Area Expense.

1.27 **Unit Operating Agreement** means the agreement(s) entered into by the Unit Operator and the Working Interest Owners, as described in Article 7.

1.28 **Unit Operations** means all operations conducted under this Agreement in accordance with an Approved Unit Plan or Approved Unit Plans.

1.29 **Unit Operator** means the party designated by the Working Interest Owners and approved by the Commissioner and the Regional Supervisor to conduct Unit Operations within the Unit Area.

1.30 **Unit Tract** means each separate parcel that is described in Exhibit A and given a Unit Tract number.

1.31 **Unit Tract Participation** means the percentage allocation credited to a Unit Tract in a Participating Area to allocate Unitized Substances.

1.32 **Unitized Substances** means all oil, gas (except helium), gaseous substances, condensate, distillate, and all associated constituent liquid or liquefiable substances (other than water) within or produced from the Unit Area.

1.33 **Working Interest** means the right to explore for, drill for, develop or produce Unitized Substances, or cause Unitized Substances to be explored for, drilled for, developed or produced. A Working Interest is created by a lease or operating agreement.

1.34 **Working Interest Owner** means a party who owns a Working Interest.

ARTICLE 2: EXHIBITS

2.1 The following Exhibits are to be attached to and made a part of this Agreement. When this Agreement is approved, only Exhibits A and B are required. The Unit Operator shall supply all Exhibits.

2.2 Exhibit A is a schedule that identifies and describes each Unit Tract, shows the Working Interest ownership of Oil and Gas Rights in each Unit Tract, and shows the royalty and net profit share rates applicable to each Unit Tract. Within thirty days after approval by the Commissioner and the Regional Supervisor of any expansion or contraction of the Unit Area under Article 13 or any change of the Working Interest ownership of Oil and Gas Rights in any Unit Tract, the Unit Operator shall submit a revised Exhibit A to the Commissioner and the Regional Supervisor.

2.3 Exhibit B is a map that shows the boundary lines of the Unit Area and of each of the Unit Tracts. Within thirty days after the Commissioner and the Regional Supervisor approve any expansion or contraction of the Unit Area under Article 13, the Unit Operator shall submit a revised Exhibit B to the Commissioner and the Regional Supervisor.

2.4 Exhibit C is a schedule that identifies and describes a Participating Area established under this Agreement, including schedules showing Unit Tract numbers, legal

descriptions, federal and state lease numbers, Working Interest ownership, and Unit Tract Participation. Separate Exhibits shall be prepared for each separate Participating Area established in the Unit Area. An original or revised conforming Exhibit C shall be submitted to the Commissioner and the Regional Supervisor within thirty days of: (1) the effective date of any Participating Area; (2) any expansion or contraction of a Participating Area; or (3) any division of interest or allocation formula establishing or revising the Unit Tract Participation of any Unit Tract or Unit Tracts in a Participating Area.

2.5 Exhibit D is a map showing the boundary lines of a Participating Area and the Unit Tracts in that Participating Area established under this Agreement. A separate Exhibit D shall be prepared for each Participating Area. Within thirty days of the effective date of any Participating Area or any expansion or contraction of a Participating Area, the Unit Operator shall submit an original or revised Exhibit D to the Commissioner and the Regional Supervisor.

2.6 Exhibit E is a schedule that describes the allocation of Participating Area Expense to each Unit Tract in the Participating Area(s) established under this Agreement. A separate Exhibit E shall be prepared for each Participating Area established in the Unit Area. The Unit Operator shall submit an initial or revised Exhibit E to the Commissioner and the Regional Supervisor whenever an initial or revised Exhibit C is required.

2.7 Exhibit F is a schedule that describes the allocation of Unit Expense in the Unit Area. The Unit Operator shall submit an initial or revised Exhibit F to the Proper Authority whenever an initial or revised Exhibit C is required. The Unit Operator may submit a revised Exhibit F anytime, but any revisions to Exhibit F are not effective until approved by the Proper Authority.

2.8 Except where required under Section 9.7, the Regional Supervisor will not exercise authority over Exhibit E or F, and will not be bound or affected by the agreement among the Working Interest Owners or the approvals by the Commissioner concerning the matters set forth in those Exhibits.

ARTICLE 3: CREATION AND EFFECT OF UNIT

3.1. All Oil and Gas Rights in and to the lands described in Exhibit A and shown in Exhibit B are subject to this Agreement so that Unit Operations will be conducted as if the Unit Area were a single lease.

3.2. Unit Operations conducted under an Approved Unit Plan, subject to Section 3.3, cause each lease in the Unit Area to continue in effect as if Unit Operations were conducted under each lease.

3.3. Except as otherwise provided in applicable regulations, where only part of a State Lease is committed to this Agreement, the lease is severed. The uncommitted portion of the lease will be treated as a separate and distinct lease with the same effective date and term as the

original lease and will be maintained in accordance with the original lease and any applicable statutes and regulations. Any uncommitted portion of a State Lease will not be affected by the unitization or pooling of any other portion of the lease, by operations in or production of Unitized Substances, or by suspension approved or ordered for the Unit by the Commissioner. Except as otherwise provided in applicable regulations, where only a portion of a Federal Lease is committed to the Unit Area, the lease will not be severed and the portions of the lease outside the Unit Area will be extended so long as the portion inside the Unit Area is extended, but operations on the portion outside the Unit Area are not subject to this Agreement.

3.4. Production of Unitized Substances from any part of a Participating Area shall be considered production from each Unit Tract in the Participating Area. Such production shall cause the portion of each lease that is either wholly or partially within the Participating Area to continue in effect as if a well were producing from each Unit Tract in the Participating Area.

3.5. The provisions of the various leases and agreements pertaining to those leases or production from those leases are amended only to the extent necessary to make them conform to the written provisions of this Agreement, but otherwise shall remain in full force and effect.

3.6. This Agreement shall not be construed to transfer title to Oil and Gas Rights by any party to any other party or to the Unit Operator.

3.7. The Unit Operator shall have the same rights to use of the surface and the subsurface and any other rights that are granted in the respective leases. To the extent feasible and prudent the Unit Operator shall minimize and consolidate surface facilities to minimize surface impacts.

3.8. All Unit Equipment and any other lease or well equipment, materials, and other facilities placed by the Unit Operator or any other Working Interest Owner in the Unit Area shall be and remain its personal property. The personal property may be removed by the Unit Operator or Working Interest Owner who owns it. The rights, obligations, and interests in Unit Equipment or in a Working Interest Owner's personal property in the Unit Area may be addressed in the Unit Operating Agreement.

3.9. All record owners of any right, title or interest in a State Lease in the Unit Area must be invited to join this Agreement. All Working Interest Owners of a State Lease or Federal Lease must commit to this Agreement in order for that lease to be subject to this Agreement.

3.10. All data and information determined by the Regional Supervisor or the Commissioner to be necessary for the administration of this Agreement or for the performance of statutory responsibilities shall be provided by the Unit Operator, or Working Interest Owners, or both, to the requesting authority upon written request. The data and information shall be submitted to the requesting authority regardless of whether the title to the land for which data and information are sought is owned by the State of Alaska, the United States, or is in dispute between the State of Alaska and the United States. All data and information provided to the Regional Supervisor or the Commissioner shall be protected from disclosure pursuant to governing law and regulations.

ARTICLE 4: DESIGNATION OF UNIT OPERATOR

4.1. PHILLIPS Alaska, Inc. is designated as the Unit Operator and agrees to accept the rights and obligations of the Unit Operator to conduct Unit Operations and to explore for, develop and produce Unitized Substances as provided in this Agreement.

4.2. Except as otherwise provided in this Agreement and subject to the terms and conditions of Approved Unit Plans, the exclusive rights and obligations of the Working Interest Owners to conduct operations to explore for, develop and produce Unitized Substances in the Unit Area are delegated to and shall be exercised by the Unit Operator. This delegation does not relieve a lessee of the obligation to comply with all lease terms. The Unit Operator shall notify the other Working Interest Owners, the Commissioner and the Regional Supervisor of all actions taken by the Unit Operator under this Agreement.

ARTICLE 5: RESIGNATION OR REMOVAL OF UNIT OPERATOR

5.1. The Unit Operator shall have the right to resign at any time. The Unit Operator's resignation shall not become effective until: (1) sixty days have passed since the Unit Operator delivers a written notice of an intention to resign to the Working Interest Owners, the Commissioner and the Regional Supervisor; and (2) all artificial islands, installations and other devices, including wells, used for operations in the Unit Area are in a condition satisfactory to the Commissioner and the Regional Supervisor for suspension or abandonment of operations. However, if a successor Unit Operator is designated and approved under Article 6, the resignation is effective when approved by the Commissioner and the Regional Supervisor.

5.2. The Unit Operator may be removed as provided in the Unit Operating Agreement. This removal shall not be effective until: (1) the Working Interest Owners notify the Commissioner and the Regional Supervisor and the Unit Operator; and (2) the Commissioner and the Regional Supervisor approve a successor Unit Operator.

5.3. The resignation or removal of the Unit Operator shall not release the Unit Operator from liability for any failure to meet obligations which accrued before the effective date of the resignation or removal.

5.4. The resignation or removal of the Unit Operator does not terminate its rights, title or interest or obligations as a Working Interest Owner or other interest in the Unit Area. A termination of the Unit Operator's rights, title or interest may occur independently under the terms of the leases and governing law. When the resignation or removal of the Unit Operator becomes effective, the Unit Operator shall relinquish possession of all Unit Equipment, artificial islands, wells, installations, devices, records, and any other assets used for conducting Unit Operations, whether or not located in the Unit Area, to the successor Unit Operator.

ARTICLE 6: SUCCESSOR UNIT OPERATOR

6.1. Whenever the Unit Operator tenders its resignation as Unit Operator or is removed as provided in Article 5, a successor Unit Operator may be designated as provided in the Unit Operating Agreement. The successor Unit Operator must accept the rights and obligations of a Unit Operator in writing. The successor Unit Operator shall file three executed copies of the designation of successor with both the Regional Supervisor and the Commissioner. The designation of successor Unit Operator will not become effective until approved by the Commissioner and Regional Supervisor.

6.2. If no successor Unit Operator is designated within sixty days after notice to the Commissioner and the Regional Supervisor of the resignation or removal of a Unit Operator, the Commissioner and the Regional Supervisor will, in their discretion, designate another Working Interest Owner as successor Unit Operator, or may declare this Agreement terminated.

ARTICLE 7: UNIT OPERATING AGREEMENT

7.1. The Working Interest Owners and the Unit Operator shall enter into a Unit Operating Agreement. It will apportion all costs and liabilities incurred in maintaining or conducting Unit Operations among the Working Interest Owners. The Unit Operating Agreement will also apportion the benefits which will accrue from Unit Operations among the Working Interest Owners.

7.2. Any allocations of costs or liabilities or allocation of the production of Unitized Substances or other unit benefits set forth in the Unit Operating Agreement will not bind the State or the United States in determining or settling royalty. Allocations of Unit Expense or Participating Area Expense or Unitized Substances for determining, settling and paying royalty will be based on Exhibits C, E and F of this Agreement, and must be approved by the Proper Authority in writing before taking effect.

7.3. The Working Interest Owners and the Unit Operator may establish, through one or more Unit Operating Agreements and amendments, other rights and obligations between the Unit Operator and the Working Interest Owners as they deem necessary and appropriate. The Unit Operating Agreement will not modify any term or obligation of this Agreement. If the terms of this Agreement and the Unit Operating Agreement conflict, this Agreement will prevail. Where conflicts exist solely between Working Interest Owners, the Unit Operating Agreement shall control.

7.4. Any Working Interest Owner is entitled to drill wells on the unitized portion of its lease when the Unit Operator declines to drill such wells provided such activities are conducted in accordance with the lease and subject to the approval of the Proper Authority. If the Proper Authority determines that any such well is capable of producing Unitized Substances in Paying Quantities, the land upon which that well is situated will be included in a Participating Area. The

Participating Area will be formed or enlarged as provided in this Agreement and by regulation. The Unit Operator will thereafter operate the well in accordance with this Agreement and the Unit Operating Agreement.

7.5. The Unit Operator shall file a copy of the Unit Operating Agreement with the Commissioner and the Regional Supervisor when this Agreement is filed for approval. The copy of the Unit Operating Agreement is for informational purposes only. Approval of the Unit Agreement is not approval of the Unit Operating Agreement. Complete copies of all other Unit Operating Agreements and any amendments to them will also be filed with the Commissioner and the Regional Supervisor within 15 days of execution and at least thirty days before their effective dates.

ARTICLE 8: PLANS OF EXPLORATION, DEVELOPMENT AND OPERATIONS

8.1 The Unit Operator shall submit a unit plan for approval to the Regional Supervisor and the Commissioner at the time this Agreement is filed. The unit plan must meet the requirements of State regulations 11 AAC 83.341 and 11 AAC 83.343, including any such updates or amendments as required by regulation or the unit plan itself. Requirements contained in a unit plan approved by the Regional Supervisor and the Commissioner are incorporated into this Agreement by reference as of the date of approval of such plan.

8.2 No exploration, development, or production activities may be commenced or conducted on the Unit Area except in accordance with an approved plan. Plans of exploration, development, and operations, applications for permits to drill, and other applications pertaining to proposed activities located only on and under State Leases must be submitted to and approval obtained from the State agency normally receiving such applications prior to commencement of operations as provided under 11 AAC 83.341 -- 11 AAC 83.346 and 20 AAC 25 or other State regulation. Any application for approval of a plan of operations submitted to the State must be consistent with the mitigation measures and lessee advisories in the most recently issued State Lease in the Unit Area. Exploration plans and development and production plans, applications for permits to drill, and other applications pertaining to proposed activities located only on and under Federal Leases must be submitted to and approval obtained from the Regional Supervisor prior to commencement of operations as provided under 30 CFR 250. Applications pertaining to proposed activities located on and under State Leases and Federal Leases must be submitted to and approval obtained from the Minerals Management Service and the State agency normally receiving that type of application prior to commencement of operations. Copies of applications submitted for approval to the Commissioner or the Regional Supervisor shall be furnished to both the Commissioner and the Regional Supervisor regardless of whether their approval is required.

8.3 State standards and legal requirements will apply to State Leases. Federal standards and legal requirements will apply to Federal Leases. Federal and State standards and legal requirements will apply to those leases where Unit Operations are conducted from a Federal Lease into a State Lease, or vice versa.

8.4 For the purposes of conservation of natural resources, protection of correlative rights, and prevention of waste, all decisions affecting the Reservoir management of any Reservoir within the Unit Area will be made by the Proper Authority.

8.5 When no Unitized Substances are being produced in Paying Quantities from the Unit Area and when all or part of the Unit Area is subject to one or more leases beyond the primary term and where there are one or more wells capable of producing hydrocarbons in Paying Quantities, a continuous drilling or well reworking program shall be maintained, with lapses of no more than one hundred eighty (180) days per lapse between such operations (unless a longer period is approved by the Proper Authority), unless a suspension of production, or other operations has been ordered or approved by the Proper Authority, or for State leases, operations are being conducted in accordance with an approved plan of exploration or development. Plans may call for a cessation of drilling operations for a reasonable period of time between the discovery and delineation of a Reservoir and the initiation of actual production when such a pause in drilling activities is warranted to permit the design, fabrication, and erection of platforms, artificial islands, installations, and other devices needed for development and production operations; provided, however, that the Unit Operator requests and obtains the approval of the Regional Supervisor and the Commissioner, for suspension of operations or production pursuant to applicable State and Federal statutes and regulations.

8.6 A suspension of Unit Operations pursuant to the authorization of the Regional Supervisor concurred with by the Commissioner shall be deemed to constitute a suspension as to each Federal Lease and each Federally-managed disputed lease in the Unit Area.

8.7 After giving written notice to the Unit Operator and an opportunity to be heard, the Proper Authority may require the Unit Operator to modify the rate of exploration and development and the quantity and rate of production from the Unit Area.

8.8 For the purposes of this Agreement, if a well has been drilled, or drilling has commenced on a well on a lease which is committed to the Unit Agreement, that well will be considered to be a unit well upon the approval of this Agreement.

8.9 Any injection of Outside Substances into a Reservoir in the Unit Area must be approved by the Proper Authority as part of a unit plan.

ARTICLE 9: PARTICIPATING AREAS

9.1. The Unit Operator shall submit a request for approval of the proposed initial Participating Area to the Proper Authority at least six months before Sustained Unit Production from a Reservoir in the Unit Area. A Participating Area shall include only land that is underlain by Unitized Substances and known or reasonably estimated through the use of geological, geophysical and engineering data to be capable of producing or contributing to production of Unitized Substances in Paying Quantities. The Unit Operator shall notify the Proper Authority

when Sustained Unit Production begins from each Participating Area. For each subsequent Participating Area, the application shall be submitted no later than 90 days prior to Sustained Unit Production, and the effective date shall be established by the Proper Authority.

9.1.1 If the Reservoir into which a unit well certified as capable of producing hydrocarbons in Paying Quantities is drilled lies completely under lands managed by the State, the application for a Participating Area or any revision to that Participating Area for that Reservoir shall be made to the Commissioner. If the Reservoir into which a unit well certified as capable of producing hydrocarbons in Paying Quantities is drilled lies completely under lands managed by the Federal government, the application for a Participating Area or any revision to that Participating Area for that Reservoir shall be made to the Regional Supervisor. If the Reservoir into which a unit well certified as capable of producing hydrocarbons in Paying Quantities is drilled lies under both State and Federal lands, or if such a Reservoir underlies any lands to which the ownership is in dispute between the State and Federal governments, the application for a Participating Area or any revision to a Participating Area for that Reservoir shall be made to both the Regional Supervisor and the Commissioner.

9.1.2 Prior to the submission of an application to either the Regional Supervisor, or the Commissioner, but not both, as set out in Article 9.1.1, the Unit Operator must make a showing to the Regional Supervisor and the Commissioner that the Reservoir underlies either State or Federally owned lands, but not both. Both the Regional Supervisor and the Commissioner must agree with and approve such showing before an application for a Participating Area can be made to either the Commissioner, or the Regional Supervisor, but not both.

9.2. Each application for approval of a Participating Area shall include Exhibits C, D, E, and F.

9.3. A separate Participating Area shall be established for each Reservoir in the Unit Area. If one Reservoir underlies another Reservoir in whole or in part, separate Participating Areas may be created for each Reservoir. Any two or more Reservoirs or Participating Areas may be combined into one Participating Area if approved by the Proper Authority.

9.4. At the Unit Operator's election or if so directed by the Commissioner or the Regional Supervisor, the Unit Operator shall apply to expand or contract the Participating Area if expansion or contraction is warranted by geologic data. The application must be submitted to the Proper Authority, as provided above in Section 9.1.1. Before any directed expansion or contraction of the Participating Area, the Proper Authority will give the Unit Operator reasonable notice and an opportunity to be heard.

9.4.1 A Participating Area shall be expanded to include acreage reasonably proven through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of Unitized Substances in Paying Quantities, or contracted to exclude acreage reasonably proven through use of

geological, geophysical, and engineering data to be incapable of producing or contributing to production of Unitized Substances in Paying Quantities, subject to the approval of the Proper Authority.

9.4.2 A revision of a Participating Area becomes effective as of the first day of the month in which is obtained the knowledge or information on which the revision is predicated unless a more appropriate effective date is approved or prescribed by the Proper Authority.

9.5. The Proper Authority will establish the effective date of the initial Participating Area. That effective date shall be no later than the date of the first Sustained Unit Production. The Proper Authority will establish the effective date of each later Participating Area.

9.6. Land in a Participating Area shall remain in that Participating Area even if its Unitized Substances are depleted.

9.7. If the Working Interest Owners cannot agree on the fair, reasonable and equitable allocation of production or costs, such allocation shall be prescribed by the Proper Authority.

9.8. A Unitized Substance produced from one Participating Area ("Originating Participating Area") may be used as an Outside PA Substance ("Injected Substance") for repressuring, recycling, storage or enhanced recovery purposes in another Participating Area ("Receiving Participating Area") only if the owners of all royalty interests in Unitized Substance are paid as if the Unitized Substance was sold by the Working Interest Owners. Payment shall be based upon the time of production from the Originating Participating Area unless the Proper Authority consents to payment of royalty based upon the time of production from the Receiving Participating Area.

9.8.1. The Unit Operator shall provide monthly reports to the Leasehold Royalty Owners in both the Originating and Receiving Participating Areas. These monthly reports shall reflect the volumes of any Unitized Substance transferred and the British thermal units ("Btus") in any natural gas Unitized Substance transferred as an Outside PA Substance during the preceding month.

9.8.2. The first natural gas Unitized Substances produced and sold from the Receiving Participating Area shall be considered to be the Injected Substances until a volume of natural gas containing Btus equal to the Btus contained in the Injected Substances is produced and sold from the Receiving Participating Area. All the Unitized Substances produced and sold from a Receiving Participating Area that are considered to be the Injected Substance shall be allocated to the Originating Participating Area.

9.9. All liquid hydrocarbons removed in any equipment or facility in Alaska from produced Injected Substances and not used for fuel shall be allocated to the Receiving Participating Area. If liquid hydrocarbons are removed from the natural gas, the Btu content of the natural gas shall be measured after liquid hydrocarbons are removed.

9.10. The Proper Authority must approve the deemed recovery rate and commencement date for recovery before any Outside Substance is injected within the Unit Area.

9.11. After giving written notice to the Unit Operator and an opportunity to be heard, the Proper Authority may require the Unit Operator to modify the rate of exploration and development and the quantity and rate of production from a Participating Area.

ARTICLE 10: ALLOCATION OF PRODUCTION

10.1. The Unit Operator shall submit a proposed Tract Allocation Schedule, with supporting data, to the Proper Authority for approval. The Unit Operator will provide copies of the proposed schedule to all other Leasehold Royalty Owners. The Proper Authority may revise the proposed schedule if it does not equitably allocate production and costs from the Reservoir, provided the Proper Authority gives the Working Interest Owners and other Leasehold Royalty Owners reasonable notice and an opportunity to be heard before revising the Unit Operator's proposal. The allocation plan must be revised whenever a Participating Area is expanded or contracted.

10.2. The Tract Allocation Schedule or any proposed revision to a Tract Allocation Schedule for a Participating Area, as set forth in Exhibit C, shall not take effect until approved by the Proper Authority in writing. An initial or revised Tract Allocation Schedule shall be effective retroactive to the start of initial production from the Participation Area, provided, however, that a more appropriate effective date may be used if so prescribed by the Proper Authority.

10.3 Whenever the Proper Authority approves a revised Tract Allocation Schedule for a Participating Area, the Working Interest Owners shall make retroactive adjustments for Unitized Substances produced prior to the approval date of the revised Tract Allocation Schedule. The Working Interest Owners shall apply the retroactive adjustments in one of the following methods, unless otherwise directed by the Proper Authority in accordance with existing laws and regulations: (1) The Working Interest Owners may underlift or overlift volumes of Unitized Substances produced from the participating area after the approval date of the revised Tract Allocation Schedule; or (2) the Working Interest Owners may submit revised royalty reports for the period prior to approval of the revised Tract Allocation Schedule.

10.4 The Working Interest Owners shall pay the royalties in each Unit Tract in proportion to each Working Interest Owner's ownership in that Unit Tract. The Unitized Substances which are saved, removed or sold from a Participating Area shall be allocated as described in Exhibit C regardless of where any well is drilled in the Participating Area. The amount of Unitized Substances allocated to each Unit Tract shall be deemed to have been produced from that Unit Tract.

10.5 Before injecting any Outside Substances into any Reservoir, the Working Interest Owners and the Proper Authority shall agree to a deemed recovery rate and commencement date

for each recovered Outside Substance. Recovered Outside Substances will not bear royalty unless only dry natural gas is injected as an Outside Substance. In that case, products recovered from the dry natural gas will bear royalty, but the dry natural gas will not on condition that royalty had been paid before injection into the reservoir.

10.6 The Working Interest Owners may allocate Unitized Substances, Participating Area Expense, and Unit Expense differently than described in Exhibits C, E and F. However, that allocation shall not be effective for determining royalty payment. The Unit Operator shall submit any allocation which is different than the allocations required in Exhibit C, E or F to the Proper Authority within ten days of its effective date with a statement explaining the reason for the different allocation.

10.7 No royalty payment shall be payable on that portion of Unitized Substances used in the Unit Area for development or production or unavoidably lost. Flared gas is not unavoidably lost, unless directed by the AOGCC and/or Regional Supervisor for safety purposes. The Working Interest Owners shall pay for royalty on flared gas as if it had been produced. This exemption does not apply to Unitized Substances that are sold, traded or assigned, including sales, transactions, or assignments among the Working Interest Owners.

10.8 If a State Lease committed to this Agreement provides for a discovery royalty rate reduction for the first discovery of oil or gas, that lease provision shall not apply to a well spudded after the Effective Date.

ARTICLE 11: FEDERAL LEASES, RENTALS AND ROYALTY INTEREST PAYMENTS

11.1 Rentals are payable in advance on or before the anniversary date of each Federal Lease included in the Unit Area. Rentals shall be paid by the lessees of record.

11.2 For each lease year commencing on or after the Effective Date of this Agreement and after the Regional Supervisor has determined that a well on a Federal lease in the Unit Area is capable of being produced in Paying Quantities, a minimum royalty of \$8.00 an hectare/year shall be paid for each hectare or fraction thereof under Federal lease in the Unit Area. However, if there is production from the Unit Area during the lease year, the amount of royalty paid for production allocated to the lease during the lease year shall be credited against the minimum royalty obligation. Minimum royalties are payable within thirty (30) days after the last day of each lease year and shall be paid by the Unit Operator.

ARTICLE 12: STATE LEASES, RENTALS AND ROYALTY INTEREST PAYMENTS

12.1 The Working Interest Owners of State Leases shall pay rentals and royalty payments due under those leases to the lessor. Those payments must be made to any depository

designated by the payee with at least sixty days notice to the Unit Operator and the Working Interest Owners.

12.2 Each month, the Unit Operator shall furnish a schedule to the State. That schedule shall specify, for the previous month: (1) the total amount of Unitized Substances produced; (2) the amount of Unitized Substances used for development and production or unavoidably lost; (3) the total amount of Unitized Substances allocated to each Unit Tract; (4) the amount of Unitized Substances allocated to each Unit Tract and delivered in kind as royalty to each Leasehold Royalty Owner; and (5) the amount of Unitized Substances allocated to each Unit Tract attributable to royalty of the State and other Leasehold Royalty Owners for which royalty is to be or has been paid.

12.3 Each Working Interest Owner under a State Lease shall pay its share of the royalty on Unitized Substances as provided under the terms of each respective lease, except that any reference in a State Lease to the "leased area" shall mean Unit Area, and "oil, gas, or associated substances" shall mean Unitized Substances.

12.4 Notwithstanding any contrary lease term, royalty and the share of Unitized Substances attributable to royalty and any payment due must be paid free and clear of all lease expenses, Unit Expenses and Participating Area Expenses. These excluded expenses include, but are not limited to, separating, cleaning, dehydration, saltwater removal, processing, and manufacturing costs. These excluded expenses also include the costs of preparing the Unitized Substances for transportation off the Unit Area and gathering and transportation costs incurred before the Unitized Substances are delivered to a common carrier pipeline. No lien for any of the excluded expenses shall attach to the royalty interest Unitized Substances. Tariff charges paid to a common carrier pipeline will be deducted from payments for royalty shares. The royalty share shall bear a proportionate part of any gas shrinkage that occurs during gas processing.

12.5 If any Working Interest Owner fails to pay its royalty due to the State after thirty days written notice, the State shall have all rights and remedies available to it under law, the lease and this Agreement.

12.6 Six months before the commencement of Sustained Unit Production from a Participating Area, the Unit Operator shall give the Commissioner notice of the anticipated date for commencement of production. Within ninety days of receipt of that notice, the Commissioner will give the Working Interest Owners written notice of its elections to take in kind all, none, a specified percentage, or a specified quantity of its royalty interest in any Unitized Substances produced from the Participating Area. The Commissioner will, in his or her discretion, increase or decrease (including ceasing to take royalty interest Unitized Substances in kind) the amount of royalty interest Unitized Substances the State takes in kind. The Commissioner shall give written notice to the Working Interest Owners ninety days before the first day of the month in which an increase or decrease is to be effective.

12.6.1 The Commissioner will, in his or her discretion, elect to specify the Unit Tracts from which royalty interest Unitized Substances taken in kind are to be allocated.

12.6.2 The Unit Operator shall deliver the State's royalty interest Unitized Substances at the custody transfer meter at a common carrier pipeline capable of carrying those substances, or at any other place mutually agreeable place. The State will, in its discretion, designate any individual, firm or corporation to accept delivery.

12.6.3 Royalty interest Unitized Substances delivered in kind shall be delivered in good and merchantable condition and be of pipeline quality. Those substances shall be free and clear of all lease expenses, Unit Expenses and Participating Area Expenses and free of any lien for these excluded Expenses. These excluded expenses include, but are not limited to, expenses for separating, cleaning, dehydration, salt water removal, processing, and manufacturing. These excluded expenses also include the costs of preparing the Unitized Substances for transportation off the Unit Area and gathering and transportation costs incurred before Unitized Substances are delivered in to a common carrier pipeline. If a Working Interest Owner processes the Unitized Substances to separate, extract or remove liquids from a Working Interest Owner's share of natural gas Unitized Substances, the State will, in its discretion, require that a Working Interest Owner also process the State's share of natural gas being taken in kind in the same manner without cost to the State. Under these circumstances, the State, or its buyer, shall only pay any tariffed transportation costs and shrinkage of the volume of gas resulting from processing.

12.6.4 Each Working Interest Owner shall furnish storage in or near the Unit Area for the State's share of Unitized Substances to the same extent that the Working Interest Owner provides storage for its own share of Unitized Substances. The Working Interest Owners shall not be liable for the loss or destruction of stored royalty Unitized Substances as a result of force majeure.

12.7 If a purchaser of the State's royalty interest Unitized Substances does not take delivery of Unitized Substances, the State will, in its discretion elect, without penalty, to underlift for up to six months. The State shall give the Unit Operator reasonable notice. The State will, in its discretion, underlift all or a portion of those substances. The State's right to underlift is limited to the portion of those substances that the purchaser did not take delivery of or what is necessary to meet an emergency condition. The State shall give the Unit Operator written notice thirty days before the first day of the month in which the underlifted royalty interest Unitized Substances are recovered. The State will, in its discretion, recover at a daily rate not exceeding 25 percent (25%) of its royalty share of daily production, unless otherwise agreed.

12.8 The Unit Operator shall maintain records, including expense records, of all development and production of Unitized Substances. Each Working Interest Owner shall maintain records of the disposition of its portion of the Unitized Substances that include records of sales prices, volumes and purchasers. The Unit Operator and the Working Interest Owners shall permit the Commissioner to examine those books and records at all reasonable times.

Those books and records must be made available to the Commissioner in Anchorage, Alaska, upon request. They may be provided in an electronic format. The Unit Operator and Working Interest Owners shall use generally accepted accounting procedures.

12.9 If a State Lease committed to this Agreement specifies the amount of rent due, that lease is amended to require that rentals due be calculated under A.S. 38.05.180(n), as amended. If a State Lease committed to this Agreement requires payment of minimum royalty, that lease is amended to delete that minimum royalty obligation. The rental due under state law, as amended, must be paid in lieu of minimum royalty.

12.10 All rights and obligations relating to the State's net profit share will be determined in accordance with 11 AAC 83.201 - 11 AAC 83.295, as amended, notwithstanding any contrary lease term. The State will, in its discretion, audit the net profit share reports or payments due for any lease within ten years of the date of production. The period of limitations for the State to file a lawsuit relating to an audit of a net profit share report or payment shall be three years longer than the audit period. The Working Interest Owners holding interests in net profit share leases shall maintain the records relevant to determination of net profit share until the audit period has expired.

ARTICLE 13: UNIT EXPANSION AND CONTRACTION

13.1 The Unit Operator, at its own election may, or at the direction of the Commissioner and the Regional Supervisor shall, apply to expand the Unit Area to include any additional lands determined to overlie a Reservoir that is at least partially within the Unit Area, or to include any additional lands regarded as reasonably necessary for the purposes of this Agreement. The Unit Operator shall notify the Working Interest Owners of the proposed expansion. Any unit expansion shall not be effective until approved by the Commissioner and the Regional Supervisor.

13.2 Any State Lease or Federal Lease which is not included in a Participating Area on the tenth anniversary of the effective date of the initial Participating Area automatically contracts out of the Unit Area.

13.3 Ten years after Sustained Unit Production begins, the Unit Area must be contracted to include only those lands then included in an approved Participating Area and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. The Commissioner will, in the Commissioner's discretion, after considering the provisions of 11 AAC 83.303, delay contraction of the Unit Area if the circumstances of a particular unit warrant. If any portion of a lease is included in the Participating Area, the portion of the lease outside the Participating Area will neither be severed nor will it continue to be subject to the terms and conditions of the unit. The portion of the lease outside the Participating Area will continue in full force and effect so long as production is allocated to the unitized portion of the lease and the lessee satisfies the remaining terms and conditions of the lease.

13.4 Not sooner than 10 years after the effective date of this Agreement, the Commissioner will, in the Commissioner's discretion, contract the Unit Area to include only that land covered by an approved unit plan of exploration or development, or that area underlain by one or more oil or gas reservoirs or one or more potential hydrocarbon accumulations and lands that facilitate production as set out in Section 13.3. Before any contraction of the Unit Area under this Section, the Commissioner will give the Unit Operator, the Working Interest Owners, and the royalty owners of the leases or portions of leases being excluded reasonable notice and an opportunity to be heard.

13.5 The Commissioner and the Regional Supervisor will give the Unit Operator and the Working Interest Owners of the affected leases reasonable notice and an opportunity to be heard before any directed contraction or expansion of the Unit Area.

13.6 The Unit Area may be voluntarily contracted at any time with the approval of the Regional Supervisor, the Commissioner, and an affirmative vote of the Working Interest Owners.

ARTICLE 14: UNIT EFFECTIVE DATE, TERM AND TERMINATION

14.1 This Agreement is binding upon each party as of 12:01 a.m. as of the day each party signs the instrument and shall become effective as of 12:01 a.m. on the day after the Commissioner and the Regional Supervisor approve it. At least one copy of this Agreement shall be filed with the Department of Natural Resources, Anchorage, Alaska, one copy shall be filed with the AOGCC, and one copy shall be filed with the Minerals Management Service, Anchorage Alaska. This Agreement is binding upon each party who signs any counterpart.

14.2 This Agreement terminates two years from the Effective Date unless:

14.2.1 A unit well in the Unit Area has been certified as capable of producing Unitized Substances in Paying Quantities and Unit Operations are being conducted in accordance with a unit plan approved under Section 8.1 of this Agreement; or

14.2.2 The Unit term is extended with the approval of the Regional Supervisor and the Commissioner. An extension shall not exceed five years.

14.2.3 If the Commissioner and the Regional Supervisor order or approve a suspension of production or other Unit Operations, this Agreement shall continue in force during the authorized suspension.

14.3 Nothing in this Article holds in abeyance the obligations to pay rentals, royalties, or other production or profit-based payments to any Leasehold Royalty Owner from operations or production in any part of the Unit Area. Any seasonal restriction on operations or production

or other condition required in the lease is not a suspension of operations or production required by law or force majeure.

14.4 This Agreement may be terminated by an affirmative vote of the Working Interest Owners and the approval of the Commissioner and the Regional Supervisor.

14.5 Nothing in this Article serves to continue a Federal lease in effect beyond the term provided by the lease in the absence of production from the Unit, drilling or well reworking conducted in accordance with 30 CFR 250.13, or a suspension obtained in accordance with 30 CFR 250.10.

ARTICLE 15: EFFECT OF CONTRACTION AND TERMINATION

15.1 Any State Lease, Federal Lease, or portion of a State Lease eliminated from the Unit Area pursuant to this Agreement may be maintained only in accordance with applicable State or Federal statutes, regulations, and the State or Federal Lease;

15.2 Each State lease committed to this Agreement which is past its primary term on the day this Agreement terminates, shall be maintained in accordance with State law and the State leases.

15.3 Upon termination of this Agreement, a Federal Lease which was subject hereto may be continued in force and effect in accordance with the terms and conditions contained in the applicable Federal statutes and regulations and the leases.

15.4 The lessees shall restore and rehabilitate the surface of the leases to the satisfaction of the Proper Authority. The Working Interest Owners shall remove all materials, equipment and improvements from the Unit Area within one year after this Agreement terminates. However, the Proper Authority will, in his or her discretion, extend the removal period. If the Working Interest Owners have not removed all materials, equipment and improvements from the Unit Area before the removal period expires, then the Working Interest Owners shall submit an audit report as defined in AS 9.25.490(a)(1) to the Commissioner. The Commissioner will then, in his or her discretion, either: (a) elect to keep any materials, equipment and improvements; or (b) elect to remove any or all of the materials, equipment and improvements at the Unit Operator's and the Working Interest Owners' expense. The Working Interest Owners shall assign full title to those materials, equipment and improvements to the State if the Commissioner elects to keep them. The Working Interest Owners shall ultimately be solely responsible, even after title has been transferred, for: (1) removal and salvage of those materials, equipment and improvements and restoration, and (2) rehabilitation of the surface after removal or salvage. The Working Interest Owners shall be responsible for all conditions identified in the audit report, and all conditions that should have been identified in the audit report.

ARTICLE 16: COUNTERPARTS

An owner of Oil and Gas Rights may become a party to this Agreement by signing the original of this Agreement, or a counterpart, or other instrument agreeing to become a party to this Agreement. The signing of these instruments shall have the same effect as if all parties had signed this Agreement.

ARTICLE 17: LAWS AND REGULATIONS

17.1 This Agreement is subject to and incorporates all applicable State and Federal laws, rules, regulations and orders in effect on the Effective Date and to all applicable State and Federal laws, rules, and regulations later adopted or enacted.

17.2 State Leases are subject to all valid applicable local laws and regulations in effect on the Effective Date of this Agreement, provided that those laws and regulations:

17.2.1 do not conflict with Federal or State statutes, regulations, or other law;

17.2.2 do not conflict with the provisions of this Agreement; and

17.2.3 do not conflict with the terms of any State Lease subject to this Agreement.

17.3 This Agreement's table of contents and the title headings are inserted for convenience only. They are not a part of this Agreement.

ARTICLE 18: APPEARANCES AND NOTICES

If the State or the Federal Government gives the Unit Operator a notice or order relating to this Agreement it shall be deemed given to all Working Interest Owners. All notices required by this Agreement shall be given in writing and delivered personally, or by United States mail or by facsimile machine to the Unit Operator at the address or facsimile number listed below. All notices actually received will also be deemed properly given. The Unit Operator will change its notice address by giving thirty days written notice to the Leasehold Royalty Owners and the other Working Interest Owners. The Leasehold Royalty Owners may change their notice addresses by giving thirty days written notice to the Unit Operator.

Address of the Unit Operator:

PHILLIPS Alaska, Inc.
Attention: Land Manager
700 G. Street (99501)
P.O. 100360
Anchorage, AK 99510-0360
Fax: (907) 263-4966

Address of the State:

Commissioner, Department of Natural Resources
550 W. 7th Avenue, Suite 1400
Anchorage, Alaska 99501
Fax: (907) 269-8918

with a copy to:

Director, Division of Oil and Gas
550 W. 7th Avenue, Suite 800
Anchorage, Alaska 99501
Fax: (907) 269-8938

Address of the Federal Government:

Department of the Interior
Minerals Management Service
Attention: Regional Supervisor – Field Operations
949 East 36th, Suite 308
Anchorage, Alaska 99508
Fax: (907) 271-6504

Addresses of Working Interest Owners other than Unit Operator:

Chevron U.S.A. Inc.
Attn: Alaska Land Manager
11111 S. Wilcrest
P. O. Box 36366
Houston, TX 77236
Fax: (281) 561-3880

ARTICLE 19: JOINDER

The Commissioner and the Regional Supervisor may order or, upon request, approve a subsequent joinder to this Agreement pursuant to the expansion provisions of Article 13. A request for a subsequent joinder shall be accompanied by a signed counterpart of this Agreement and shall be submitted by the Unit Operator when it submits a notice of proposed expansion pursuant to Article 13. A subsequent joinder shall be subject to the requirements which may be contained in the Unit Operating Agreement; provided, however, that the Regional Supervisor and the Commissioner may, upon giving notice to the Unit Operator and an opportunity to be heard, require modification of any provision in a Unit Operating Agreement which the Commissioner and Regional Supervisor find would discriminate against parties who may request joinder.

ARTICLE 20: DEFAULT

20.1 The Commissioner and the Regional Supervisor will, in their discretion, determine that failure of the Unit Operator or the Working Interest Owners to comply with any of the terms of this Agreement, including any Approved Unit Plan, is a default under this Agreement. The failure to comply because of force majeure is not a default.

20.2 The Commissioner and the Regional Supervisor will give notice of the default to the Unit Operator and the Working Interest Owners. The notice will describe the default, and include a demand to cure the default by a certain date. The cure period shall be at least thirty days for a failure to pay rentals or royalties and ninety days for any other default.

20.3 If there is no well certified as capable of producing Unitized Substances in Paying Quantities and a default is not cured by the date indicated in the demand, the Commissioner and the Regional Supervisor will, in their discretion, terminate this Agreement. The Commissioner and the Regional Supervisor will give notice, by mail, of the termination which is effective upon mailing the notice, or such other date as is provided by the Commissioner and Regional Supervisor.

20.4 If there is a well capable of producing Unitized Substances in Paying Quantities and the operations to cure the default are not completed by the date indicated in the demand, the Commissioner and the Regional Supervisor will terminate this Agreement by judicial proceedings.

20.5 This Article's remedies are in addition to any other administrative or judicial remedy which is provided for by lease, this Agreement, or federal or State law.

ARTICLE 21: REVENUE DISTRIBUTION

The United States of America will distribute to the State of Alaska that portion of bonuses, rents, royalties and other revenues received from federal Unit Tracts as required under applicable law. The United States of America agrees that the State of Alaska's entitlement to 27 percent of royalties from federal Unit Tracts under section 8(g) of the Outer Continental Shelf Lands Act, as amended, (43 U.S.C. 1337(g)), shall be based upon production allocated in Exhibit C to this Agreement, rather than upon production actually recovered at the surface of any particular Unit Tract.

IN WITNESS OF THE FOREGOING, the parties have executed this Unit Agreement on the dates opposite their respective signatures.

PHILLIPS Alaska, Inc.

By: ^{RAA}
_{Rob}
Its: Attorney-in-Fact

Date: 8/15/00

Chevron U.S.A. Inc.

By:
C. Woolington
Its: Assistant Secretary

Date: 8/2/2000