

Appendix 1.

Lease agreement for Lease #18754 Shell Oil/XTO.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL_____

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of September, 1962, 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 SHELL OIL COMPANY, a Delaware corp., 1008 W. Sixth Street, Los Angeles 54, Calif., ADL-QF #3; STANDARD OIL COMPANY OF CALIFORNIA, a Delaware corp., 225 Bush Street, San Francisco 20, Calif., ADL-QF #2, and RICHFIELD OIL CORPORATION, a Delaware corp., hereinafter called "Lessee", whether one or more. 555 S. Flower Street, Los Angeles 17, Calif., ADL-QF #

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:

S-13-11-5

S-13-12-27

containing 3746.00 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains 6 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 subdivisions, or by officially designated tract numbers, 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" means 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 five years from the 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 action 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 no 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 terms 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 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.

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. Any rental paid for any one lease year shall be credited on any royalty for that year.

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

25. **DAMAGES.** Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to 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 upon said land; provided, that if said owner for any cause whatever, refuses or neglects to settle said damage, Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be

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) Lessee shall maintain the bond furnished 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.

(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 operations 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 by 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 become effective. If for any reason such a selection is not finally approved or such a patent does not become effective, and 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.

40. (a) **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.

41. **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.

42. **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.

43. **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:

SHELL OIL COMPANY
1008 WEST SIXTH STREET
LOS ANGELES 54, CALIFORNIA

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.

44. **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.

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

IN WITNESS WHEREOF the parties have executed this lease.

STATE OF ALASKA

By

NORRIS C. BAKKE, JR.

Title

Minerals Officer

LESSOR

LESSEE

THE UNITED STATES OF AMERICA }

ss.

STATE OF ALASKA

This certifies that on the 23rd day of August, 1962, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared NORRIS C. BAKKE, JR. to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said NORRIS C. BAKKE, JR. executed said lease in my presence and after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska for the Division of Lands, Department of Natural Resources.

WITNESS my hand and official seal

the day and year in this certificate above written

Notary Public in and for Alaska. My Commission expires

9-27-65

NOTARY

IN WITNESS WHEREOF the parties have executed this lease.

STANDARD OIL COMPANY OF CALIFORNIA

By Geo. H. English
Contract Agent

By C. A. Hansen
Assistant Secretary

SHELL OIL COMPANY

By W. E. Mott
Attorney in Fact

RICHFIELD OIL CORPORATION

By B. M. Phillips
Assistant General Manager of Production Dept

By R. M. Nelson
Assistant Secretary

LESSEE

STATE OF CALIFORNIA) ss.
COUNTY OF LOS ANGELES)

On this 2nd day of July, 1962, before me
Mildred M. Crawford, a Notary Public in and for said County
and State, residing therein, duly commissioned and sworn, personally appeared
J. E. MOHR, known to me to be the person whose name is
subscribed to the within instrument as the Attorney In Fact of Shell Oil Company,
and acknowledged to me that he subscribed the name of Shell Oil Company 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, at my office, in said County and State, the day and year in this
certificate first above written.

Mildred M. Crawford

My Commission expires:
December 11, 1963

Mildred M. Crawford

Notary Public in and for said County and State

STATE OF CALIFORNIA) ss.
CITY AND COUNTY OF SAN FRANCISCO)

On this 6th day of July, in the year of our Lord One
Thousand Nine Hundred and Sixty Two before me Edmond Lee Kelly, a Notary
Public in and for said City and County and State, residing therein, duly commis-
sioned and sworn, personally appeared GEO. D. ENGLISH and E. A. TANSEN known to me
to be the CONTRACT AGENT and ASSISTANT SECRETARY, respectively of STANDARD OIL
COMPANY OF CALIFORNIA the corporation described in and that executed the within
instrument, and also known to me to be the persons who executed it on behalf of
the said Corporation therein named, and they acknowledged to me that such Corporation
executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official
Seal, at my office in the City and County and State aforesaid the day and year in
this certificate above written.

Edmond Lee Kelly

Notary Public in and for said City and
County of San Francisco, State of California
EDMOND LEE KELLY

My Commission Expires July 27, 1964
RESIDING AT SAN FRANCISCO, CALIFORNIA

STATE OF CALIFORNIA) ss.
COUNTY OF LOS ANGELES)

On this 2nd day of July, in the year 1962, before me,
SUE M. MASON, a Notary Public in and for said County and State,
personally appeared F. E. McPHILLIPS known to me to be the
Assistant General Manager of Production Dept. and R. G. NELSON,
known to me to be the Assistant Secretary of RICHFIELD OIL CORPORATION, the
corporation that executed the within instrument, known to me to be the persons who
executed the within instrument on behalf of the corporation therein named, and
acknowledged to me that such corporation executed the same.

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 4, 1964

Sue M. Mason
Notary Public in and for said County and State

SUE M. MASON

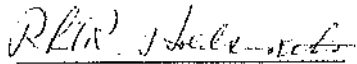
ERRATUM RE COMPETITIVE OIL AND GAS LEASE FORM DL-1

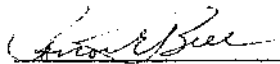
This erratum applies to the corrections of three typographical errors in the State of Alaska Competitive Oil and Gas Lease Form, DL-1, two of which are noted in Provision 5, EXTENSION BY UNIT PRODUCTION, and the one which is noted in Provision 39, CONDITIONAL LEASE. The present provisions are hereby modified by changing the word "action" in line number five (5), word number fourteen (14) in Provision 5 to be "active"; by changing the word "no" in line number nine (9), word number twenty (20) in Provision 5 to be "any"; and by changing the word "and" in line number four (4), word number fourteen (14) in Provision 39 to be "any".

Provision 5 and Provision 39 are hereby amended to incorporate the above, and will therefore read as follows:

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 "active" 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.

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 become 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.

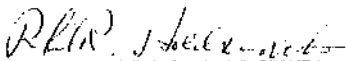

Phil R. Holdsworth, Commissioner
Department of Natural Resources


Roscoe E. Bell, Director
Division of Lands

WILDLIFE STIPULATIONS

The lessee shall:

- (1) Obtain the written approval of the Department of Natural Resources for the location and type of each structure before it is erected on tide or submerged land. Department action on applications for such structures shall be taken within 30 days of receipt of such applications.
- (2) Appoint and maintain at all times during the construction or operations on the tide and submerged lands a local agent upon whom may be served written orders or notices respecting matters contained in these stipulations and to provide the Commissioner of the State of Alaska Department of Natural Resources with the name and address of such agent.
- (3) Assure that all construction or development activities carried on under the lease shall be conducted in a manner satisfactory to the State of Alaska Department of Natural Resources with due regard for fish and game conservation, and shall utilize proper methods in drilling and completing wells.
- (4) Install adequate blowout prevention control equipment and take other safety measures provided for in the oil and gas conservation regulations or ordered by the Commissioner of the State of Alaska Department of Natural Resources.
- (5) Maintain offshore platforms or barges in such a manner that all oil by-products may be drained through scuppers and disposed of in a manner satisfactory to the State of Alaska Department of Natural Resources with due regard to their effects on fish and game.
- (6) Reimburse the State of Alaska for any loss or damage to fish or game resulting from any operations or construction under this lease or resulting from any violation of or failure to comply with any valid law, regulation, or terms of any applicable lease. The lessee's responsibility shall also encompass acts or omissions of its agents, employees, and contractors.


Phil R. Holdsworth, Commissioner
Department of Natural Resources

Appendix 2.

Abandonment funding agreement between the State of Alaska and XTO Energy.

**ABANDONMENT FUNDING
AGREEMENT**

Dated December 31, 1998

Between

CROSS TIMBERS OIL COMPANY

and

**THE STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES**

ABANDONMENT FUNDING AGREEMENT

THIS AGREEMENT is between the Alaska Department of Natural Resources ("DNR") and Cross Timbers Oil Company ("CTOC"). It sets out the terms and conditions under which DNR will approve the assignment of two state oil and gas leases, ADL #18754 and ADL #18756, ("Assigned Leases") from Shell Western E&P Inc., et al. ("Shell") to CTOC under 11 AAC 82.605. These terms and conditions are in addition to the bonding and insurance obligations required by the Assigned Leases and applicable statutes and regulations.

Generally, this Agreement requires CTOC to 1) provide DNR with a suretyship bond, beyond what is required under the Assigned Leases and applicable statutes and regulations and 2) establish and maintain a Fund to pay for the costs and expenses of CTOC's Abandonment obligations. This Agreement is dated for reference purposes as of December 31, 1998. DNR and CTOC are referred to collectively as "Parties" in this Agreement.

Recitals

1. On September 30, 1998, CTOC purchased Shell's interests in the Assigned Leases and associated pipelines, pipeline right-of-way leases, and onshore facilities.
2. On September 15, 1998, Shell filed a request for consent to the assignment of three pipeline right-of-way leases with DNR, Division of Land ("DOL"). DOL approved the right-of-way lease assignments on October 20, 1998. The effective date of these assignments is October 1, 1998.
3. On October 6, 1998, CTOC and Shell filed an application for approval of assignment of the Assigned Leases with DNR under 11 AAC 82.615.
4. DNR will approve assignment of the Assigned Leases provided that a) Shell remains liable as a surety for all obligations under the Assigned Leases and b) CTOC agrees to provide a suretyship bond and establish and maintain a Fund as provided in this Agreement.
5. The Parties enter into this Agreement to ensure that there are sufficient funds for CTOC to complete its Abandonment obligations under the Assigned Leases and applicable statutes and regulations.

NOW, THEREFORE, DNR and CTOC agree to the following terms and conditions of assignment.

Agreement

A. Definitions.

1. "Abandonment" includes the dismantlement and removal of materials, machinery, equipment, tools, appliances, and structures from the Assigned Leases and the return of the leased lands in good order and condition as required under Paragraph 36 of the Assigned Leases. It includes the plugging of wells, carrying out DNR's orders regarding preservation of the lands, and abiding by

the Alaska Oil and Gas Conservation Commission's location clearance regulations as required under Paragraph 20 of the Assigned Leases. DNR has the discretion to determine the nature and scope of CTOC's restoration obligation.

2. "Abandonment Costs" means the cost of Abandonment as calculated in accordance with Paragraph D, below.
3. "Proved Reserves" means the estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty are recoverable in future years from known reservoirs under existing economic and operating conditions using prices and costs as of the date the estimate is made. Prices include changes in existing prices provided by contractual arrangements, but are not adjusted based upon estimates of future conditions.
 - a. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (i) that portion delineated by drilling and defined by gas-oil or oil-water contacts, if any; and (ii) the immediately adjoining portions not yet drilled, but that can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
 - b. Reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.
 - c. Estimates of proved reserves do not include the following:
 - (i) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (ii) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (iii) crude oil, natural gas, and natural gas liquids that may occur in undrilled prospects; and (iv) crude oil, natural gas, and natural gas liquids that may be recovered from oil shales, coal, gilsonite, and other similar sources.
4. "Proved Reserves Report" means an annual report prepared by CTOC's independent petroleum engineers stating: a) the Proved Reserves for the Assigned Leases; b) the Net Present Value of the Assigned Leases' Proved Reserves; and c) the amount owed, if any, by CTOC to the Fund. The Report will use the benchmark price and cost assumption forecast for the "Reference Case, ANS Market Price" contained in the annual spring "Revenue Sources

Book, Forecast and Historical Data” published by the State of Alaska, Department of Revenue, Oil and Gas Audit Division (“DOR Book”). In the event the DOR Book is no longer published, DNR will designate a reasonable substitute. The Report shall set forth in reasonable detail the basis for all estimates or assumptions and shall include all calculations used to determine the Net Present Value of the Proved Reserves. All information relied upon in reaching the conclusions stated in the Report shall be attached to the Report or, if too voluminous, made available to DNR on request.

5. “Net Present Value of the Assigned Leases’ Proved Reserves” means the net value of the Proved Reserves as calculated in accordance with Paragraph C, below.
6. “CTOC’s Portion of Proved Reserves” means the Net Present Value of the Assigned Leases’ Proved Reserves net of the State of Alaska’s royalty interest. For purposes of this Agreement, this shall equal the Net Present Value of the Assigned Leases’ Proved Reserves times seven-eighths (7/8ths).
7. “Fund” means an escrow account established in an Alaska Bank. CTOC shall pay for the costs of establishing and maintaining the escrow account. The Fund will be established at the time that CTOC’s first payment into the Fund is due and shall be governed by escrow instructions substantially similar to the escrow instructions attached as Exhibit A.
8. “Event of Default” means any of the following events, as reasonably determined by DNR:
 - a. CTOC’s default under either of the Assigned Leases;
 - b. CTOC’s default under this Agreement, including the following:
 - (1) failure to submit a Proved Reserves Report on the date that it is due;
 - (2) failure to make any payment into the Fund; or
 - (3) failure to fulfill its suretyship bond obligation;
 - c. CTOC’s default under the Security Agreement; and
 - d. CTOC’s failure to execute in the future any document reasonably required in conjunction with this Agreement.

When DNR determines that an Event of Default has occurred, it shall notify CTOC, and CTOC shall have the longer of 15 days or the period of time provided by the relevant agreement for the specific default to cure the default.

- B. Suretyship Bond. Until CTOC completes its Abandonment obligations under the Assigned Leases and applicable statutes and regulations, CTOC shall provide to DNR an

annually renewed suretyship bond in the amount of THREE MILLION DOLLARS (\$3,000,000.00). CTOC shall provide the bond within 10 days after DNR approves the assignment of the Assigned Leases. The bond must be in the form attached as Exhibit B.

C. Proved Reserves Report.

1. Each year, beginning in 1999, CTOC shall submit to DNR the Proved Reserves Report by May 1, or within 30 days after publication of the DOR Book, whichever is later.
2. The Proved Reserves Report is subject to audit by DNR. If DNR notifies CTOC that it intends to conduct an audit, then CTOC shall supply DNR with a list of five independent petroleum consultants from which DNR will, in its discretion, choose one to perform the audit. The auditor's determination of the Net Present Value of the Assigned Leases' Proved Reserves will be final and binding on CTOC and DNR. CTOC shall pay for the costs of each audit.
3. Prices and costs beyond the period forecasted in the DOR Book will be increased at the average inflation rate used in the forecast period. The Report will use operating expenses equal to the Assigned Leases' previous two years average direct operating expenses. The Net Present Value of the Assigned Leases' Proved Reserves will be calculated using a 15 percent discount rate. All calculations shall be made as of January 1 of the year in which the report is prepared ("Calculation Date.")
4. Except as otherwise provided under this Agreement, CTOC's obligation to submit an annual Proved Reserves Report shall continue throughout the remaining life of the Assigned Leases and until production ceases.

D. Abandonment Costs Calculation.

1. Unless and until modified in accordance with this Paragraph, Abandonment Costs of the Assigned Leases are assumed to be THIRTY-ONE MILLION DOLLARS (\$31,000,000.00) as of January 1, 2009. Abandonment is assumed to occur in the year 2009, unless the economic productive life of the Assigned Leases extends beyond January 1, 2009, as evidenced by any Proved Reserves Report. The net present value of the abandonment costs will be discounted using a five percent annual rate prior to 2009. The net present value of the abandonment costs will be compounded after 2009 at the average inflation rate used in the DOR Book for the period forecasted by DOR.
2. CTOC, at its election, may seek to revise the estimate of Abandonment Costs at any time, but no more than once per year. If CTOC elects to get an estimate, it shall supply DNR with a list of five independent, qualified engineering firms with experience in offshore facilities from which DNR will choose one to perform an abandonment costs study. CTOC shall pay for the costs of the study. If the estimate is less than the Abandonment Costs as assumed or calculated under this Paragraph for the year of the estimate, the estimated costs shall become the Abandonment Costs and shall be subject to inflation adjustment

from that date. If Abandonment Costs are revised under this subparagraph, the new Abandonment Costs shall be effective as of the next applicable Calculation Date.

3. After Abandonment operations have commenced, Abandonment Costs shall be reduced by the amount released to CTOC as reimbursement for reasonable Abandonment expenditures actually incurred, as set forth in Paragraph F, below.
4. CTOC shall remain liable for all costs related to Abandonment of the Assigned Leases in excess of the amount assumed, or otherwise estimated, in subparagraphs D.1 and 2., above. Nothing in this Agreement is intended to relieve Shell of its Abandonment obligations under the Assigned Leases and applicable statutes and regulations.

E. Payments into the Fund.

1. CTOC shall begin making payments into the Fund when CTOC's Portion of Proved Reserves (as calculated in the Proved Reserves Report or as modified by an auditor) is less than 150 percent of the net present value of the Abandonment Costs as calculated under Paragraph D, above. In any year in which the sum of a) the existing balance in the Fund and b) the net present value of CTOC's Portion of Proved Reserves is less than 150 percent of the net present value of the Abandonment Costs (all as calculated as of the Calculation Date), CTOC shall pay the difference into the Fund. For illustrative purposes only, sample calculations of CTOC's Fund payments are attached as Exhibit C.
2. If the Proved Reserves Report submitted by CTOC shows CTOC owing a payment into the Fund, CTOC shall pay this amount into the Fund on the day that it submits the Proved Reserves Report. If an audit determines that CTOC owes an additional amount to the Fund, CTOC shall pay this amount within 30 days of receipt of the auditor's report.
3. Monies deposited into the Fund shall be used to purchase United States Government Obligations maturing no later than January 1, 2009, or no later than the economic productive life of the Assigned Leases if extended beyond January 1, 2009, as evidenced by any Proved Reserves Report. Beginning three months before January 1, 2009, or three months before the end of the Assigned Leases' economic productive life if extended beyond January 1, 2009, available monies in the Fund shall be invested in 90 day Treasury bills.
4. The existing balance of the Fund shall be calculated based on the market value of the securities held by the Fund as of the Calculation Date.
5. If the existing balance of the Fund on the calculation date equals or exceeds the Abandonment Costs, then CTOC shall not be required to make a payment, regardless of the result of the calculation set forth in subparagraph 1 of this Paragraph.

6. Except as otherwise provided under this Agreement, CTOC's obligations regarding payments into the Fund shall continue throughout the remaining life of the Assigned Leases and until Abandonment is complete.

F. Withdrawals from the Fund.

1. After CTOC has submitted its annual Proved Reserves Report, and any audit is complete, CTOC may withdraw from the Fund the difference, as calculated as of the Calculation Date, between the existing balance of the Fund and the Abandonment Costs.
2. Prior to commencing Abandonment operations, CTOC shall submit an Abandonment budget plan, including supporting documentation, to DNR outlining the anticipated costs and expenses. When accepted by DNR, the budget plan will represent the approved costs to be incurred and reimbursed.
3. After CTOC commences Abandonment operations, it shall submit to DNR a request for reimbursement, consistent with the budget plan accepted by DNR, along with proof of the costs and expenses it has actually incurred for these operations, on or before the end of each calendar quarter. CTOC shall also provide the Escrow Agent with a copy of its request. Within 30 days of the receipt of each request, DNR shall: a) notify CTOC and the Escrow Agent of any cost or expense that it challenges for any reason; and b) instruct the Escrow Agent to release to CTOC monies equal to the amount of the unchallenged costs and expenses. If DNR fails to respond to CTOC's request or notify the Escrow Agent of any challenge, within 30 days from the end of the calendar quarter, the Escrow Agent shall release the full amount of monies requested by CTOC to CTOC. If the parties are unable to resolve any challenge to an expenditure within 45 days of DNR's notification of the challenge, the Parties shall submit their dispute to the DNR Commissioner (or his or her delegate).
4. When DNR determines that Abandonment operations are complete, DNR will instruct the Escrow Agent to release any remaining Fund monies to CTOC.
5. After an Event of Default, DNR shall have the right to withdraw all the monies (including securities held by the Fund) and shall have the right, but not the obligation, to apply the withdrawn amounts to the cost of completion of Abandonment operations. Any monies not used by DNR to complete Abandonment operations shall be available first to any party who completes Abandonment operations to the extent of reasonable expenditures on such operations, and second, to CTOC. Once DNR withdraws monies pursuant to this Paragraph, no amount will be paid to any other party until Abandonment operations are fully complete, except as otherwise authorized by DNR in its sole discretion. Withdrawn monies shall not bear interest after they are withdrawn.

- G. DNR's security interest in the Fund. The Fund secures CTOC's obligations to pay for Abandonment of the Assigned Leases. The Fund is collateral for the payment of those obligations and is subject to a Security Agreement and Financing Statement in

substantially the form of the Security Agreement and Financing Statement attached as Exhibit D.

- H. Royalty Modification. The amount of the Abandonment Costs, as defined in subparagraph A.2., above, and amount of the suretyship bond (\$3,000,000.00) required under Paragraph B, above, will not be used in the calculations for any royalty modifications requested by CTOC under AS 38.05.180(j).
- I. Dispute Resolution. If CTOC is adversely affected by a DNR decision regarding the interpretation or implementation of this Agreement, CTOC may appeal the decision under 11 AAC 02.
- J. Governing Law. This Agreement shall be construed in accordance with, and governed by, the laws of the State of Alaska.
- K. Amendment. This Agreement may be amended, modified, or supplemented only by a written instrument executed by the Parties.
- L. Notices. All notices, requests, demands, and other communication shall be in writing and shall be delivered by hand or sent prepaid by Federal Express or comparable overnight delivery service to the addresses designated below. Any notice, request, demand, or other communication delivered or sent in this manner shall be deemed given or made (as the case may be) when actually delivered to the correct address.

For DNR: Mr. Kenneth A. Boyd
Director, Division of Oil and Gas
550 W. 7th Avenue, Suite 800
Anchorage, AK 99501

For CTOC: Mr. Vaughn O. Vennerberg, II
Senior Vice President, Land
810 Houston St., Suite 2000
Fort Worth, Texas 76102-6298

State of Alaska
Department of Natural Resources

26 OCT '99

(Date)

By:


KENNETH A. BOYD (Print Name)


Its:

DIRECTOR

October 11, 1999

(Date)

By:

Cross Timbers Oil Company

VAUGHN O. VANNERBERG, (Print Name)

Its:

Executive Vice President, Administration

ESCROW INSTRUCTIONS

These Escrow Instructions are entered into between the Alaska Department of Natural Resources ("DNR") and Cross Timbers Oil Company ("CTOC"). DNR and CTOC have entered into an Abandonment Funding Agreement dated December 31, 1998. The Abandonment Funding Agreement requires the parties to establish an escrow account at an Alaska bank ("the Bank") at the time that CTOC's first payment into the escrow account is due under the terms of the Abandonment Funding Agreement.

DNR and CTOC instruct the Bank as follows:

1. These instructions shall supplement the Bank's standard instructions as they exist at the time the escrow account is established. In the event of conflict between the Bank's standard instructions and these instructions, these instructions shall control.
2. CTOC shall be responsible for the initial cost of establishing the escrow account and for any annual or occasional fees charged by the Bank for managing the escrow account or following these instructions.
3. All payments due from CTOC to the escrow account shall be made to the address designated by the Bank.
4. Monies deposited into the escrow account shall be used to purchase United States Government Obligations Maturing no later than January 1, 2009, unless contrary instructions signed by both parties establishing a different maximum maturity date have been delivered to the Bank prior to the deposit of monies into the account. The Bank shall invest the monies to achieve a maximum return consistent with the limitation on maturity.
5. Beginning three months before January 1, 2009, or such other date as the parties shall designate in writing, available monies in the Fund shall be invested in 90 day Treasury bills.
6. The Bank shall provide both parties with a statement of all monies and other investments held by the escrow account as of January 1 of each year by no later than January 31 of the same year.
7. CTOC shall provide the Escrow Agent with copies of any request for reimbursement that it submits to DNR, along with proof that it has submitted the identical request for reimbursement to DNR. Within 30 days of receipt of each request, DNR shall: a) notify CTOC and the Escrow Agent of any cost or expense that it challenges for any reason; and b) instruct the Escrow Agent to release to CTOC monies equal to the amount of the unchallenged costs and expenses. If DNR fails to respond to CTOC's request or notify the Escrow Agent of any challenge, within 30 days from the end of the calendar quarter, the Escrow Agent shall release the full amount of monies requested by CTOC to CTOC.

8. If DNR finds that there has been an Event of Default as defined in the Abandonment Funding Agreement and the default has not been cured, then DNR shall notify the Bank that a default has occurred. A copy of this notice of uncured default shall be sent to CTOC. After DNR has declared CTOC in default, DNR shall have the right to withdraw all or any part of the contents of the escrow account.
9. Except as provided in paragraphs 7 and 8 above, no funds shall be released from the escrow account except upon written instructions signed by both DNR and CTOC, or upon order of a court of competent jurisdiction with at least 20 days prior notice to all parties.
10. The parties acknowledge that DNR shall have a security interest in the escrow account.

STATE OF ALASKA
Department of Natural Resources

Bond No. _____

Amount \$3,000,000.00

Bond Type Areawide Development

Area Cook Inlet, Alaska

**STATE OF ALASKA MINERAL LESSEE'S AND OPERATOR'S BOND
AND ACT OF SURETYSHIP**

FROM: _____
(Surety)

TO: Alaska Department of Natural Resources
State of Alaska

FOR: Cross Timbers Oil Company
(Principal)

KNOW ALL MEN BY THESE PRESENTS, that for good and valuable consideration _____
_____ [if a corporation: a Corporation incorporated in the State
of _____], domiciled and doing business in the State of _____
County or Parish of _____, (hereinafter "Surety"), a surety company certified by the U.S.
Treasury as an acceptable surety on Federal bonds and listed in the current U.S. Treasury Circular No. 570,
as a commercial surety undertaking a continuing guaranty, does hereby absolutely bind itself to the State of
Alaska, acting through and by the Alaska Department of Natural Resources ("DNR"), or such other official
designated by the State of Alaska for this purpose, for the performance of all present and future obligations
of:

Cross Timbers Oil Company, a Delaware corporation
(principal/lessee and operator)

810 Houston Street, Suite 2000, Fort Worth, Texas 76102-6298
(mailing address)

(hereinafter "Principal") on the lease or leases described in Schedule A or hereafter acquired within the area
described in Schedule A, at a cost not to exceed \$3,000,000.00. The Surety does so undertake with respect
to all lease obligations, whether arising under the regulations of the DNR, or any lease, operating agreement,
designation of operator or agent, storage agreement, compensatory royalty agreement, transfer of operating
rights, permit, license or easement (individually and collectively referred to hereafter as "instrument"), issued,
maintained or approved by the State of Alaska or the DNR, or the regulations promulgated by either relating
to such matters, whereunder the Principal has the right, privilege or license to conduct operations in the State
of Alaska.

The Principal, as to any lease or part of a lease for which the Principal has been designated as operator or
agent, in consideration for the State of Alaska agreeing to allow it to serve as operator and agent of all parties
to the lease and receive compensation therefor, agrees and binds itself to fulfill on behalf of each lessee, all of
the obligations for the entire leasehold and in the same manner and to the same extent as though the Principal
were the original lessee.

**SCHEDULE A
DESCRIPTION OF LEASES**

Alaska Oil & Gas Lease ADL #18754

Alaska Oil & Gas Lease ADL #18756

Middle Ground Shoal Field, Cook Inlet Alaska

This Bond and the Surety's obligations and liability hereunder shall remain in force and effect until such time as this Agreement may be canceled or otherwise terminated by the DNR by a written cancellation instrument in favor of the Surety, subject to automatic reinstatement as if no release or discharge had been granted, if at any time within six years of such cancellation any payment of the Principal is rescinded or must be restored pursuant to any insolvency, bankruptcy, reorganization or receivership, or should the representation of the Principal that it has paid its financial obligations or performed the other obligations of the lessee in accordance with DNR specifications be materially false, and the DNR relied upon such representations in cancelling the instrument.

The DNR shall agree to terminate the period of liability if the parties to the instruments, their agents, successors and assigns, fully perform the obligations under the leases or other instruments, and leave the premises in a condition acceptable to the DNR at the termination of the leases, or upon acceptance of a replacement bond.

This obligation of surety shall be in full force and effect from the date of acceptance by an authorized officer of the State of Alaska, subject to the following provisions:

The Surety waives any right to notice of, and agrees that this bond shall take effect upon, execution and delivery to the DNR, without any notice of acceptance, and remain in full force and effect, notwithstanding:

1. Any assignment, either in whole or in part, of any or all of the leases or instruments or interests therein.
2. Any modification of an instrument or obligation thereunder, whether made or affected by commitment to unit, cooperative, communitization or storage agreements, suspension of operations or production; suspensions or changes in rental, minimum royalty, or royalties; modifications of regulations or interpretations thereof, compensatory royalty agreements or payments; any mortgage, pledge or other grant of security interests in the instruments, or otherwise.
3. The termination of any instrument covered by this bond, whether the termination is by operation of law or otherwise.
4. Any neglect or forbearance of the DNR in enforcing, as against any party to the instruments, the payment of rentals or royalties or the performance of any other covenant, condition or agreement of the leases, or giving notice of or making demand with respect to nonperformance thereof.
5. Any loss Surety may suffer by reason of any law limiting, qualifying or discharging the Principal's obligation.
6. Further, the Surety agrees to remain bound under this bond as to the interests in any instrument retained by the Principal when the DNR approves the transfer of any or all of the instruments or interests

therein.

7. In the event of any default under the leases, the Surety shall perform the obligations of the Principal upon the demand of the DNR. If the DNR decides to commence suit to enforce its rights, it may commence and prosecute any claim, suit, action or other proceeding against the Principal and Surety, or either of them, without the necessity of joining the lessee or any other party.

8. In the event that there is more than one surety for the Principal's performance as to any lease or other instrument, the Surety's obligations and liability hereunder shall be on a joint and several basis, along with such other guarantors or sureties.

9. Unless otherwise indicated under such a written cancellation instrument, the DNR's agreement to terminate or otherwise cancel this Bond shall affect only, and shall be expressly limited to, the Surety's obligation and liability to guarantee the Principal's obligations incurred, accrued or originated after the date of such a written cancellation instrument with Surety remaining fully obligated and liable under this Bond for any liabilities incurred, accrued, or originated prior to the date of such cancellation instrument.

10. The Surety shall give prompt notice to the DNR and the Principal of any action filed alleging the insolvency or bankruptcy of the Surety or the Principal, or alleging any violations which would result in the suspension or revocation of the Surety's charter or license to do business.

11. The Surety's obligations and liabilities under this Bond shall be binding upon Surety's successors and assigns. Nothing herein shall be construed as permitting the assignment of the Surety's obligations without the written consent of the DNR.

Signed on this _____ day of _____, 1998, in the State of _____, in the presence of:

Signature of Witness

Signature and Title of Officer of Principal

Name and title printed

Name and title printed

Address

Business Address

Signature of Witness

Signature of Person Executing as Surety

Name and title printed

Name and title printed

Address

Business Address

EXHIBIT C
Example of Payment Schedule

(All values used in these sample calculations are illustrative, only. They do not represent actual or forecasted values.)

Assumptions:	Reserve Disc @ 15% DR&R (aband)=	DR&R Disc @ 5% until limit of fund is met then constant until 2009, 5% thereafter.
	\$31 MM in 2009 & compounds @ 5% thereafter	

Initial payment begins when the sum of the NPV of the fund and reserves < 150% of the present value of the abandonment costs.
For illustrative purposes, the principle of the fund is assumed to grow at an annual rate of 5%.
(thousands of dollars)

End of	Assumed NPV of Reserves @ 15%	Estimated Value of Fund before payment	SUM of Fund and NPV Reserves	150% of PV of \$31MM DR&R @ 5% or limit of fund	Difference between 150% PV & SUM	Date Report Prepared and Payment Made	Annual Payment	Annual Withdrawal
1998	\$44,429	\$0	\$44,429	\$27,859	\$16,570	1-May-99	\$0	\$0
1999	\$42,073	\$0	\$42,073	\$28,547	\$13,526	1-May-00	\$0	\$0
2000	\$34,495	\$0	\$34,495	\$29,974	\$4,520	1-May-01	\$0	\$0
2001	\$25,168	\$0	\$25,168	\$31,473	-\$6,305	1-May-02	\$6,305	\$0
2002	\$17,820	\$6,620	\$24,440	\$33,047	-\$8,607	1-May-03	\$8,607	\$0
2003	\$12,039	\$15,988	\$28,027	\$34,699	-\$6,672	1-May-04	\$6,672	\$0
2004	\$7,736	\$23,793	\$31,529	\$36,434	-\$4,905	1-May-05	\$4,905	\$0
2005	\$4,757	\$30,133	\$34,890	\$38,256	-\$3,365	1-May-06	\$867	\$0
2006	\$2,747	\$31,000	\$33,747	\$31,000	\$2,747	1-May-07	\$0	\$1,550
2007	\$1,439	\$31,000	\$32,439	\$31,000	\$1,439	1-May-08	\$0	\$1,550
2008	\$636	\$31,000	\$31,636	\$31,000	\$636	1-May-09	\$0	\$1,550
2009	\$193	\$31,000	\$31,193	\$31,000	\$193	1-May-10	\$0	\$1,550
2010	\$193	\$32,550	\$32,743	\$32,550	\$193	1-May-11	\$0	\$0
2011	\$193	\$34,178	\$34,370	\$34,178	\$193	1-May-12	\$0	\$0
2012	\$193	\$35,545	\$35,737	\$35,886	-\$149	1-May-13	\$149	\$0

NOTES:

- 1) Cross Timbers will make contributions to the fund through 2009 whenever the sum of a) the value of the fund and b) the NPV of the reserves is less than the PV of 150% of DR&R, until the fund reaches \$31MM. After the fund reaches its limit of \$31MM through 2009, or \$31 MM compounded @ 5% thereafter, any excess earnings of the fund are available for withdrawal by Cross Timbers.
- 2) In this example, during the year 2006, and until after 2009, withdrawals are made from the fund for the balance over \$31MM. In 2005, the balance of the sinking fund is only \$867,000 below the ceiling of \$31MM so the payment is limited to that amount.
No withdrawals are made after 2009 when the fund's assumed earnings of 5% equal the stipulated 5% compounding of the abandonment cost.
- 3) If abandonment occurs beyond 2009, the \$31MM abandonment cost grows by 5% annually compounded and likewise the \$31MM ceiling of the sinking fund increases at a compounded rate of 5%.
- 4) The year 2012 demonstrates that if the fund generates only 4% return instead of 5%, then a fund payment is made by Cross Timbers for the difference between the sum of the npv of the reserves and sinking fund, and the compounded cost of the abandonment costs.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement"), dated as of the _____ day of _____, 1999, is between THE STATE OF ALASKA ("Secured Party") and CROSS TIMBERS OIL COMPANY ("Debtor") and is entered into with reference to the following:

RECITALS

A. Debtor has obligations to Secured Party under an Abandonment Funding Agreement dated December 31, 1998, attached and incorporated by reference, in the amount of THIRTY-ONE MILLION DOLLARS (\$31,000,000.00) and as further set forth in the Abandonment Funding Agreement.

B. The Abandonment Funding Agreement is secured among other things by an interest-bearing account.

C. Secured Party is willing to enter into the Abandonment Funding Agreement in reliance in part on the execution of this Security Agreement.

In consideration of the above recitals and of the mutual covenants, representations and warranties contained in this Security Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Debtor and Secured Party agree as follows:

1. **Grant of Security Interest.** Debtor hereby grants to Secured Party a security interest in all funds, including interest, deposited in or held by the escrow account to be established pursuant to the Abandonment Funding Agreement (the "Collateral").

2. **Obligations.** The obligations secured by this Security Agreement shall consist of all debts, obligations and liabilities of Debtor to Secured Party arising out of, connected with, or related to (collectively the "Obligations"):

2.1 the Abandonment Funding Agreement;

2.2 the applicable statutes and regulations governing Abandonment as defined in the Abandonment Funding Agreement; and

2.3 Paragraphs 20 and 36 of State of Alaska oil and gas leases numbered ADL #18754 and ADL #18756.

3. **Representations and Warranties.** Debtor hereby represents and warrants to Secured Party that:

3.1 Debtor is the owner, at the time of deposit, of the monies that are deposited in the escrow account to be established pursuant to the Abandonment Funding Agreement;

3.2 Debtor has full power, right and authority to execute and deliver this Security Agreement and to grant the assignments and security interest in the Collateral and Debtor has taken all necessary legal and other action to authorize the execution and delivery of this Security Agreement;

3.3 in granting the security interest in the Collateral, Debtor is not violating any indenture, agreement, law or regulation to which Debtor is a party or by which it is bound; and

3.4 all information supplied to Secured Party by or on behalf of Debtor is true and correct as of the date given.

4. **Additional Covenants.** Debtor covenants and agrees as follows:

4.1 Debtor will do all acts necessary to maintain, preserve and protect the Collateral;

4.2 Debtor will keep the Collateral free of all levies and security interests or other liens or charges;

4.3 Debtor will appear in and defend any action or proceeding which may affect its title or Secured Party's interest in the Collateral;

4.4 Debtor will pay promptly when due all taxes, assessments, charges, encumbrances and liens now or later legitimately imposed upon or affecting the Collateral;

4.5 Debtor will take such action to procure, execute and deliver from time to time such documents and instruments as Secured Party may request in order to (i) perfect the security interest given by this Security Agreement, (ii) administer or enforce this Security Agreement or the Collateral or any part thereof, and (iii) assess and confirm Secured Party's rights, powers and remedies under this Security Agreement; and

4.6 Debtor will comply in all material respects with all laws, regulations and ordinances relating to the Collateral.

5. **Authorized Action by Secured Party.** Debtor irrevocably appoints Secured Party its attorney-in-fact to do at any time after an Event of Default, any act which Debtor is obligated by this agreement to do.

6. **Event of Default.** At the option of Secured Party, the following shall constitute an "Event of Default" under this Security Agreement:

6.1 An Event of Default as defined in subparagraph A.8. of the Abandonment Funding Agreement;

6.2 Breach of any material provision of this Security Agreement, after notice is given to Debtor and there is a failure to cure within 15 days; or

6.3 Discovery that any material representation or warranty given was false or inaccurate in any material aspect at the time given.

7. **Remedies Upon Default.** Upon the occurrence of any Event of Default, Secured Party shall have the rights specified in the Alaska Uniform Commercial Code and any other rights provided by law by virtue of this Security Agreement or by virtue of a judgment.

7.1 In addition, Secured Party may:

7.1.1 foreclose or otherwise enforce Secured Party's security interest in any manner permitted by law, or provided for in this Security Agreement; and

7.1.2 apply to any court of competent jurisdiction for an order appointing a receiver to take possession of any Collateral or requiring the delivery of Collateral to Secured Party, all without notice to Debtor and without prior hearing.

7.2 Debtor shall remain obligated for any deficiency remaining after foreclosure upon the Collateral.

8. **Waivers and Authorizations.**

8.1 Debtor waives any right to require Secured Party to:

8.1.1 proceed against any guarantor or any other person:

8.1.2 proceed against or exhaust any Collateral; or

8.1.3 pursue any other remedy in Secured Party's power.

8.2 Debtor waives any defense arising from any disability, discharge or other defense of any other person, from any cause whatsoever except satisfaction of the Obligations.

9. **Binding Agreement; Assignment.** This Security Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that Debtor shall not be permitted to assign this Security Agreement or any interest in it or any obligation under it.

9.1 Until all Obligations shall have been satisfied, all rights, powers and remedies granted to Secured Party shall continue to exist and may be exercised by Secured Party

at any time and from time to time even in the event that the indebtedness may have become barred by any statute of limitations or that the personal liability of Debtor may have ceased.

10. **Cumulative Rights.** The rights, powers and remedies given to Secured Party by virtue of this Security Agreement shall be in addition to all rights, powers and remedies given to Secured Party by virtue of any statute or rule of law and all such rights may be exercised successively or concurrently. Any single or partial exercise of any right, power or remedy shall not preclude its further exercise, and every right, power and remedy of Secured Party shall continue in full force and effect.

11. **No Waiver.** Secured Party shall not by any act or omission be deemed to have waived any rights, powers or remedies unless the waiver is in writing and signed by Secured Party and then only to the extent specifically set forth; a waiver of one event shall not be construed as a bar to or waiver of the right or remedy on a subsequent event. In accordance with the terms of this paragraph, the acceptance by Secured Party of delinquent payments and deposits under the Abandonment Funding Agreement shall not waive any rights of Secured Party.

12. **Expenses and Fees.** Debtor agrees to pay all reasonable costs and expenses incurred by Secured Party in the enforcement and exercise of the rights and powers granted to Secured Party under this Security Agreement. Expenses shall include reasonable attorneys' fees and expenses whether or not legal action is instituted by Secured Party and shall include reasonable attorneys' fees and expenses incurred in connection with proceedings under the United States Bankruptcy Code to enforce Secured Party's rights, to protect Secured Party's secured position or to obtain the permission of the bankruptcy court to enforce Secured Party's rights.

13. **Notice.** All notices, demands or requests from one party to another shall be sent as provided in Paragraph L of the Abandonment Funding Agreement.

14. **Severability.** In the event that any provision of this Security Agreement is held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions shall not be affected.

15. **Governing Law.** This Security Agreement shall be construed in accordance with, and governed by, the laws of the State of Alaska.

16. **Interpretation.** Each party has had the benefit of assistance of counsel in drafting the Security Agreement and Financing Statement. Any ambiguities will not be construed against either party for the reason of their having supplied the language at issue.

17. **Authority to Execute.** Each of the parties warrants that it has full right and authority to execute this Security Agreement and acknowledges that it has executed this Security Agreement voluntarily.

18. **Amendment.** This Security Agreement may be altered, amended or repealed only by written consent of the parties.

By: _____
_____ (Print Name)

Its: _____

STATE OF _____)
_____) ss:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1999, by _____, _____ of Cross Timbers Oil Company (Debtor), a _____ corporation, on behalf of the corporation.

NOTARY PUBLIC in and for _____
My commission expires: _____

FINANCING STATEMENT

This Financing Statement is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code.

1. Name and address of the debtor ("Debtor"):

CROSS TIMBERS OIL COMPANY
810 Houston Street, Suite 2000
Fort Worth, Texas 76102-6298

2. Name and address of secured party ("Secured Party"):

THE STATE OF ALASKA
Department of Natural Resources
Division of Oil and Gas
550 W. 7th Ave., Suite 800
Anchorage, Alaska 99501

3. This Financing Statement covers the following collateral to the extent of the present or any future ownership interest of Debtor: All funds, including interest, on deposit in Account No. _____ at the [address] office of the [name of bank].

This Financing Statement is filed pursuant to the Security Agreement dated _____, 1999.

DEBTOR:

CROSS TIMBERS OIL COMPANY

Date: _____ By: _____

STATE OF _____)
) ss:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1999 by _____.

NOTARY PUBLIC in and for _____
My commission expires: _____

EXHIBIT D

SECURED PARTY:

THE STATE OF ALASKA

Date: _____ By: _____

STATE OF ALASKA)
) ss:
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of
_____, 1999 by _____.

NOTARY PUBLIC in and for Alaska
My commission expires: _____

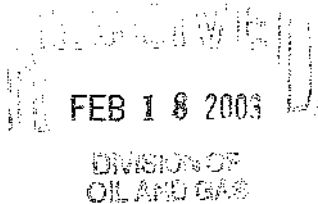
Appendix 3.

Unocal's 2003 and 2004 Plans of Operations for South Middle Ground Shoals Unit.

Unocal Alaska
Union Oil Company of California
909 West 9th Avenue, P.O. Box 196247
Anchorage, Alaska 99519-6247
Telephone: (907) 263-7662/276-7600
Facsimile: (907) 263-7828



February 18, 2003



Mr. Mark Myers, Director
Alaska Dept. of Natural Resources
Division of Oil and Gas
3601 C Street, Suite 1380
Anchorage, AK 99503-5948

**SOUTH MIDDLE GROUND SHOAL UNIT
STATE OF ALASKA –
2002 PLAN OF DEVELOPMENT & OPERATIONS
Operational Plans for Suspension of Operations and
Production, ADL-18744 and ADL-18746**

Dear Mr. Myers:

Unocal Oil Company of California (Unocal), as Operator of the subject Unit, respectfully submits the following Plan of Development and Operations for 2003 (POD). This POD incorporates responses to the DNR's letter of 12/17/02 requesting further information concerning the necessity/justification for suspension of operations and production. Additionally, this POD and Unocal's application letter of October 10, 2002, read together, constitute compliance of the provisions of 11 AAC 88.105.

PERIOD

This Plan shall cover the period from January 1, 2003 to December 31, 2003.

BACKGROUND

The South Middle Ground Shoal Unit did not have any development drilling activity in 2002.

DEVELOPMENT

Unocal does not intend to perform any development activities at the Dillon Platform in 2003. Although the platform structure is adequate to support further drilling if it becomes economically attractive to do so, the facilities are being de-commissioned and prepared for light housing.

NECESSITY/JUSTIFICATION FOR SUSPENSION OF OPERATIONS AND PRODUCTION

Suspension Objectives/Timetable Summary

The South Middle Ground Shoals Unit has reached its economic limit and is depleted. Oil production from the Dillon Platform was shut in on December 8, 2002. It is Unocal's intention to clean the surface equipment from January through April 2003, leave all wells shut-in as is, and lighthouse the facility by July 2003.

Field History Summary

The South Middle Ground Shoal Unit encompasses the southern nose of the Middle Ground Shoal structure. This portion of the field was proved in October of 1965, when the Chakachatna group tested 2,130 BOPD from a lower Tyonek conglomerate in an expendable well. Platform Dillon was installed in 1967. Waterflood operations were initiated in 1969 and were suspended in 1986. The platform was shut down in 1992 and 1993 due to low oil prices. All wells are completed in the "G" unit of the lower Tyonek. Gross platform production in October 2002 averaged 449 BOPD, 4045 BWPD, and 236 MCF/d (see production curve attached). Prior to shut down of production on December 8, there were eight active producing wells, four shut-in producers, and five shut-in injectors.

Reservoir Depletion Summary

The OOIP within the G sands in the developed portion of the South Middle Ground Shoal Field is 120 MMSTB. Cumulative production as of October 2002 is 28.1 MMSTB which represents a recovery of 23.2 % of the OOIP and 43.8 % of the MOIP (moveable oil in place) in the developed area. The MOIP is calculated assuming an initial oil saturation of 60 % and a residual oil saturation of 28.2 %. Producing water cuts have been approximately 90 % since 1983 except for four years from 1994-1998 when the impact of a few development wells was seen. Current reservoir pressure within the "G" sands is 2224 psig @ adjusted to a 8500 ss ft datum as compared to the original pressure of 4220 psig @ same datum (Middle Ground Shoal Field). The current pressure is estimated from shut-in fluid level shots from 12/12/02 thru 12/18/02 on Di-14, Di-17, Di-2rd, Di-12, and Di-16 adjusted to the 8500 ss ft datum. Although the field was being produced by volumetric expansion, the last producing GOR was only 429 SCF/STB as the reservoir pressure had yet to drop below the bubble point pressure of 1500 PSIG.

Cleaning and Disposal Operation Summary

One of our primary concerns is the disposal of the clean up fluids in an appropriate and economic fashion. During January 2003 we requested and received AOGCC approval of our plans to inject into the current EOR zones. Up to 50,000 barrels of Class II non-hazardous fluid will be disposed of during the clean up operations. Daytime clean up activities should continue over the next six month period and are expected to generate 80 to 300 barrels of disposal fluids/solids daily

Economic Justification for Suspension

The South Middle Ground Shoals Unit (Platform Dillon) operation had reached its economic limit from existing producing horizons and was shut in on December 8, 2002. A review of historical and point forward cash flows reveal the following:

- From 1990-2002, cash flow from operations has been negative in eight of the thirteen years (only 1995 thru 1997, and 1999-2000 have been positive). Three out of the last 5 years

including 2001 and 2002 have had negative cash flows. These cash flows are not fully loaded as they ignore the Business Unit management and indirect expenses associated with the operation (roughly \$500,000/yr in recent years). See the attached summary of cash flows for 1990-2002.

- Since 1990 Unocal has invested 26 MM\$ in capital, produced 1.9 MMBO and lost 25 MM\$ in pre-tax cash flow. On a BOE produced basis this equates to a negative pre-tax cash flow of \$13.02/BOE. The average revenue generated was \$18.50/BOE produced on expenses of \$18.00/BOE produced, and a capital expenditure of 13.52/BOE produced. This does not include Unocal's purchase cost of the property.
- During 2001 and 2002 specifically' pre tax cash flow was a negative 0.057 MM\$ and 1.5 MM\$ respectively. The average revenue generated during this period was approximately \$24/BOE, expenses were \$28/BOE (excluding Business Unit Management and indirect expense) and capital investments were approximately \$1.40/BOE. This resulted in a negative pre tax cash flow of approximately \$5.40/BOE.
- Point forward cash flow projections of the existing operation using flat oil price/BO scenarios of \$13, \$17, and a break even oil price were made at the request of the DNR. See attached cash flow tables. All cases assumed the final removal of the platform and abandonment of wells in the year 2010 which coincides with Unocal's longer term but preliminary C.I. platform removal plans. All projections substantiated the bleak outcome associated with continuing existing operations. The \$13 and \$17/BO projections were uneconomic in the first year of operation as expected. The break even oil price was a robust \$52.00/BO which resulted in an economic limit in 2010 and corresponds to a 13 % IRR. To assume the oil price could rapidly escalate then maintain \$52/BO for the next 7 years would be unreasonable.

Both historical, current, and point forward economic analysis do not justify continuing operations from the existing production horizons at SMGSU (Dillon).

Operation and Production Shut-in Plans

Fluid Removal Plans

Platform Cleaning and Fluid Disposal Plan

One of our primary concerns is the disposal of the clean up fluids in an appropriate and economic fashion. During January 2003 we requested and received AOGCC approval of our plans to inject into the current EOR zone. Four wells were identified and tested for disposal injection from December 2002 through January 2003; Di-14, Di-17, Di-15, and Di-12 and of these D-12 and Di-14 (as a back-up) were approved. Having a backup disposal well is considered important insurance for success. The well work performed (pressure mechanical integrity tests, wire line work, injectivity tests, and temperature surveys) on these wells demonstrated that the fluid was entering the intended injection zones and that casing integrity exists. The AOGCC's involvement and support during the testing and selection process was critical to the successful outcome.

Up to 50,000 barrels of Class II non-hazardous fluid, heated to approximately 100 degrees Fahrenheit, will be disposed during the clean up operations. This fluid will be comprised of unfiltered inlet water, produced water, produced oil, sludge, triethyleneglycol, paraffin and asphaltenes.

Daytime clean up activities should continue over the next six month period and are expected to generate 80 to 300 barrels of fluids/solids daily. The daily disposal amount is dependent on the size of the vessel being cleaned. At average estimated injection rates

of 1000 BWPD (roughly 0.7 BPM) at 3500 psig, actual disposal will occur on an intermittent basis (2 to 12 hours/day).

Actual disposal injection pressures and rates will likely be less than waterflood injection rates fifteen years ago. At that time the Dillon injection wells ranged from 500 to 2100 BWPD/well at pressures ranging from 3100 to 4000 psig. Parting pressures (frac pressures) determined at that time in injection wells Di-12 and Di-11 were 4100 and 4800+ psig respectively. It is not expected but if fracing is necessary during disposal, pump pressures approaching 5000 psig would be needed.

Pipeline Fluid Removal Plan

Assuming the Baker Platform is shut in during 2003; the XTO-Dillon-beach oil pipeline will be pigged, displaced with nitrogen and left in that state. Prior to this work the currently idle Dillon to beach section of this pipeline will be repaired. This section is currently idle and displaced full with sea water. The gas pipeline connecting Dillon to the beach as well as to XTO will remain in service.

Equipment Dismantling Plans

Although equipment will not be dismantled (except for a few Kobe pumps) the production system will be inoperable.

Personnel Requirement Plans during Cleaning

Twelve people are involved in the cleaning/decommissioning of the facility.

Monitoring and Use Plans during Shut-in

Platform

The platform will be left light housed and unmanned although monthly inspections will occur. Dillon alarms (fire, gas, engine, etc) will be monitored from the Dolly Varden platform. Normal cathodic protection efforts will continue.

Pipelines

There will be no monitoring of the oil line after it is pigged and displaced with nitrogen. The gas pipeline will be visually inspected monthly and monitored via alarms at the Dolly Varden platform.

Wells

Well monitoring requirements were discussed with the AOGCC on 2/11/03 and it is planned to leave the wells shut in as is and provide monthly tubing/casing pressure readings (acquired during monthly inspections) and the annual shut in report to the AOGCC. The AOGCC will provide witnessed well inspections semi annually at a minimum. Disposal well capacity will be retained. All wells but disposal wells will be isolated at the surface with blind flanges to isolate them from surface flow lines.

Suspended Status Benefits to State

Platform Retention Benefits

As part of our suspension operations analysis, long term planning and benefits for retention of the Platform in place yield the following significant benefits:

- Dillon Platform has been, and will continue to be, used as a navigational aid for marine transportation in the Cook Inlet.
- Dillon Platform, as well as the other Platforms in Cook Inlet, acts as ice breakers for pan ice in the Inlet. Tanker and cargo marine traffic is facilitated and aided by this ice breaking effect.
- Dillon Platform and its associated facility infrastructure is a valuable part of the overall Cook Inlet oil and gas infrastructure in the Inlet. Just having this significant capital investment available is an enhancement to future state commercial opportunities.
- Dillon Platform is an integral part of the XTO Platforms A and C operations. XTO's use of Dillon's gas pipeline for fuel gas access and transportation in conjunction with platform utilization connecting Dillon to XTO's A Platform is critical to their ongoing operations. Economic waste will occur if XTO is forced to lay new pipelines or convert some of its existing oil pipelines to accommodate gas transmission.
- Leaving Dillon Platform in place until such time as multiple platform removal is warranted, provides opportunity for access to future operators or owners to utilize the Platform and associated facilities for future Exploration and Development opportunities. With technological advancements and areas of geologic focus changing from time to time, access and utilization of this significant capital investment may be the difference between future evaluators of the state's oil and gas natural resources having an economic project or not.
- Unocal continues to research possible Dillon Platform utilization opportunities. One possible idea discussed with the United States Coast Guard was to convert the Platform into a Coast Guard research facility and avail themselves of the helipad as a base for rescue operations.
- Dillon platform could be used by the U.S. Military as a SDI (Strategic Defense Initiative) radar tracking station similar to the semi-submersible that is being converted for same use in the Prince William Sound near Valdez. In addition, the facility could be used in military training.

Although we have discussed only a few possible future uses for the Dillon Platform in this POD, continuation, retention and future utilization are clearly evidence of a finding establishing the state's best interest in retaining the Dillon Platform in a suspended status.

Environmental Benefits

As part of our suspension operations analysis, long term planning and benefits for retention of the Platform in place yield the following significant environmental benefits:

- Once production has ceased on the Dillon Platform, the equipment and systems will be flushed and drained in preparation for cleaning.
- Equipment will be cleaned and left in a condition that eliminates the risk of any spills to Cook Inlet occurring while retaining the value and ability to resume production if desired.
- Beginning at the drilling deck level and working down through each deck and subdeck, surface facilities will be cleaned. Class II liquids will be disposed through subsurface injection. Solids that cannot be flushed free will be left in place for future disposal with the facility.
- Living quarters and associated utilities will be maintained until project activities are completed.
- Navigation lights, fog horns and corrosion protection will be continued as permanent systems. A small, gas fired generator will power these systems.
- Remote controls and monitoring systems will control equipment.

- In coordination with XTO production operations, all oil pipelines associated with the Dillon will be cleaned. The Dillon oil line will be purged with gas to prevent freeze-up or paraffin plugging during winter.
- The Dillon well suspension work will be accomplished in Spring, 2003 (prior to Living Quarters shutdown).
- Wells will be shut-in using a gas cap or a brine cap to prevent freeze-up. This work will be accomplished just prior to cleanup work to minimize facility freeze up.
- The crane and survival craft will be maintained.

"Current" Suspension Period Actions Being Pursued

Wells/Platform/Pipeline

During current cleaning and shut-in activities we are maintaining all operating permits.

Marketing Efforts

During the Plan period, Unocal will continue to seek a buyer for the Dillon Platform and associated facilities. For the last year, Unocal has had relatively few inquiries regarding the potential sale of the South Middle Ground Shoals Unit and Dillon Platform. Most inquiries never progressed beyond a discussion of Unocal's willingness to divest of this asset. Unocal contacted potential purchasers whom we thought might have a possible interest in acquiring the Platform. No real interest was expressed. Subsequently, we listed the assets on the American Association of Professional Landmen website and received no expressions of interest. Most of our efforts to market the property have concentrated on XTO. XTO is the logical company of interest given their proximity to the assets. Additionally, XTO relies on portions of the pipeline infrastructure and gas sales from the northerly Baker Platform for fuel to power XTO's A and C Platforms. XTO negotiations continue to be our prime focus for asset disposal.

Alternatively, in the event Unocal is unable to market the Dillon Platform and associated facilities, another option we are investigating may be to have XTO contract operate the Dillon Platform and facilities in conjunction with their ongoing operation of the A and C Platforms.

Oil Spill Plan

Although C-plans are required for the operation of an oil terminal facility or pipeline, an exploration or production facility, or the operation of a tank vessel or oil barge, Unocal will continue to carry Dillon on the plan as deactivated and appropriately "de-oiled. Unocal's C-Plan covers all of our CI facilities. The ADEC's role is dictated by the C-Plan regulations which do not require us to obtain approval to deactivate the facility. They do require a notification and plan amendment and description of work upon completion. When we submit the amendment, it will reflect the changed status of Dillon. In addition there are no C-Plan regulations that are influenced by the status of the non-producing wells whether they be shut in, suspended, or abandoned.

Future Development Options

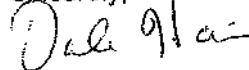
Results from past development within the existing field limits do not warrant additional development at this time. Exploration potential within the Jurassic exists but is presently lower on our opportunity preference list.

Plan of Suspension Summary

This POD contemplates suspension of operations and production for an indeterminate period of time. As noted above, the future utility and strategic importance of maintaining the Dillon Platform and associated facilities necessitate an ongoing suspended status. At such time as abandonment and permanent removal of the Dillon Platform is warranted, the then current plan of development will address such abandonment and removal operations.

Please direct any questions regarding this plan to Kevin Tabler, Landman at 263-7600; David Whitacre, Unocal Dillon Suspension Project manger at 263-7616; and/or Phil Ayer, Unocal Optimization Engineer, at 263-7620.

Sincerely,



Dale Haines

Oil and Gas Operations Manager

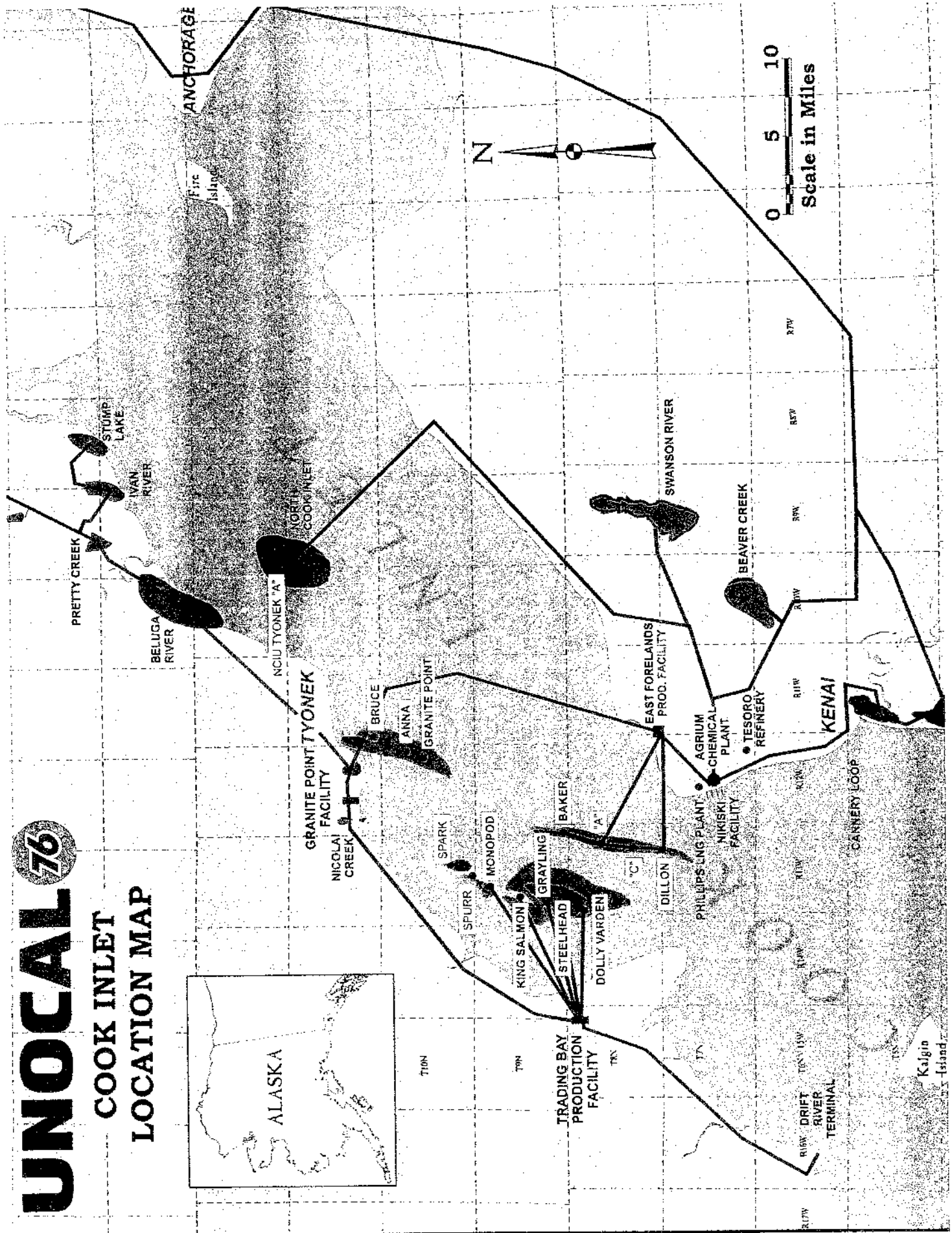
Attachments

1. Cook Inlet Map
2. SMGS Unit production plot Dillon
3. Cross Section Dillon
4. Structure Map Dillon Top Hemlock
5. Well Room layout Dillon
6. SMGS Unit Cash Flows 1990-2003
7. SMGS Unit Pt. Forward Cash Flow Projections 2003-2010 (three oil price scenarios)

500 dpi

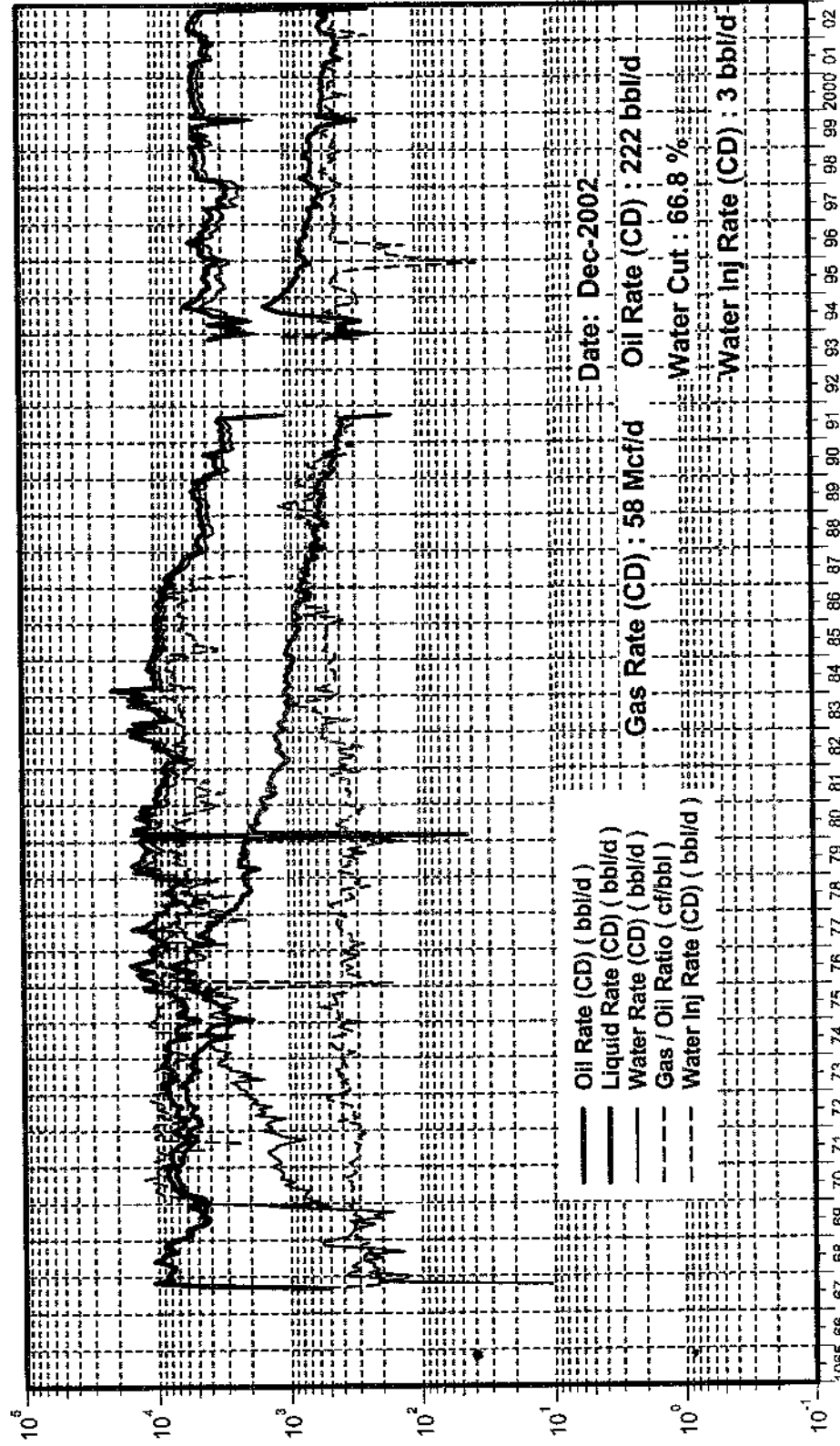
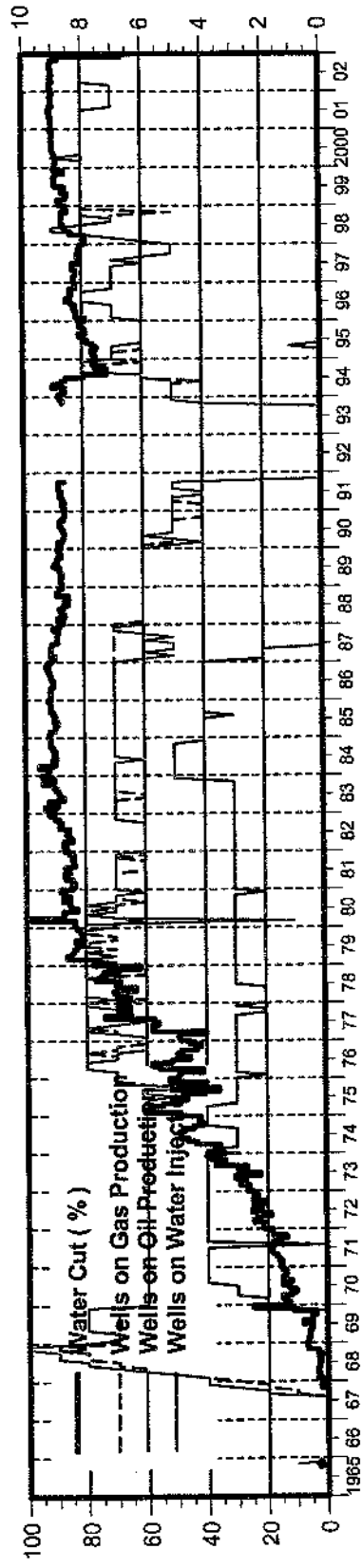
UNOCAL⁷⁶

COOK INLET LOCATION MAP



Cumulative Water Prod : 56619 Mbbl

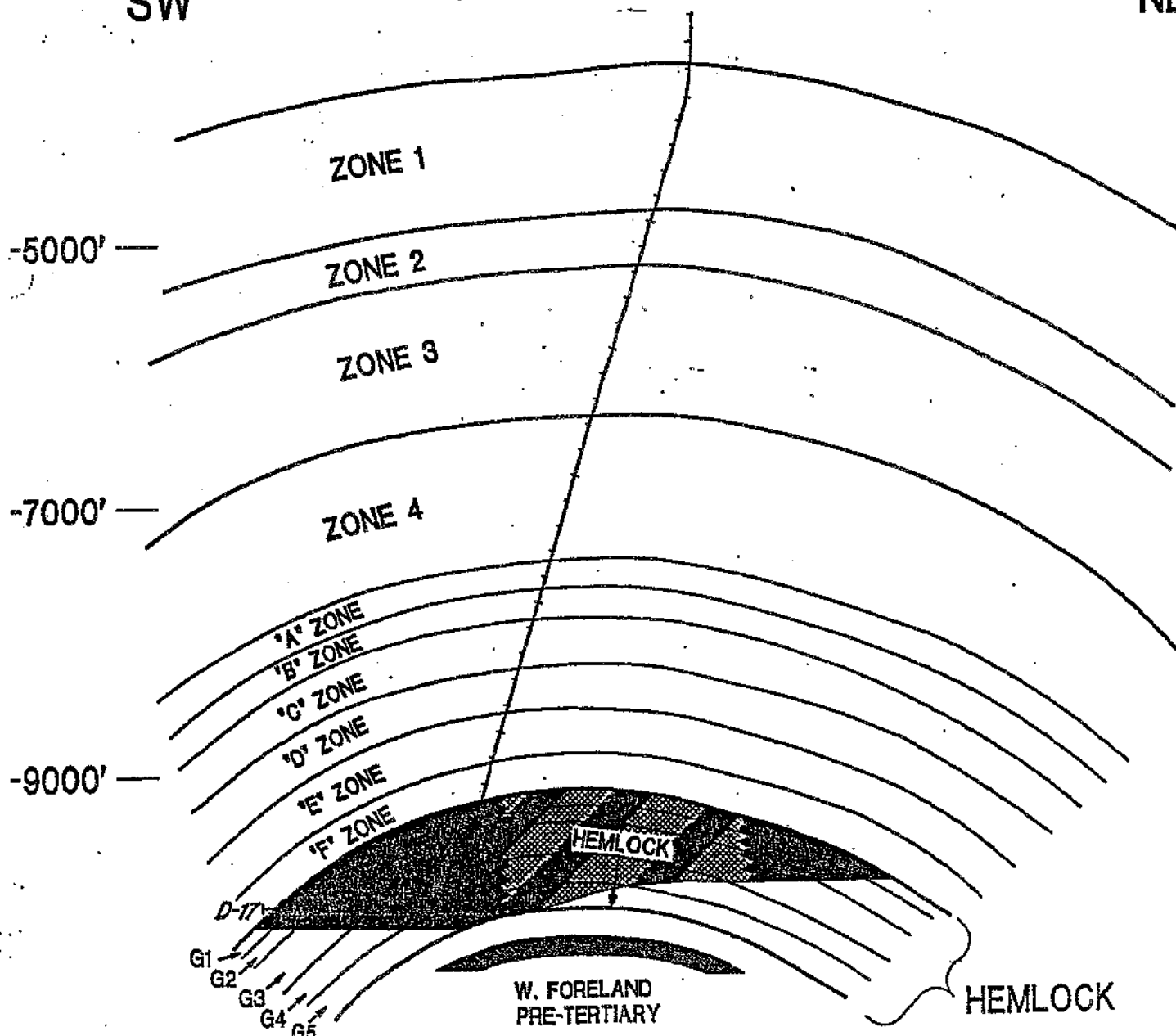
Cumulative Water Inj : 44334 Mbbl

PLATFORM: DILLON

MIDDLE GROUND SHOAL DILLON PLATFORM

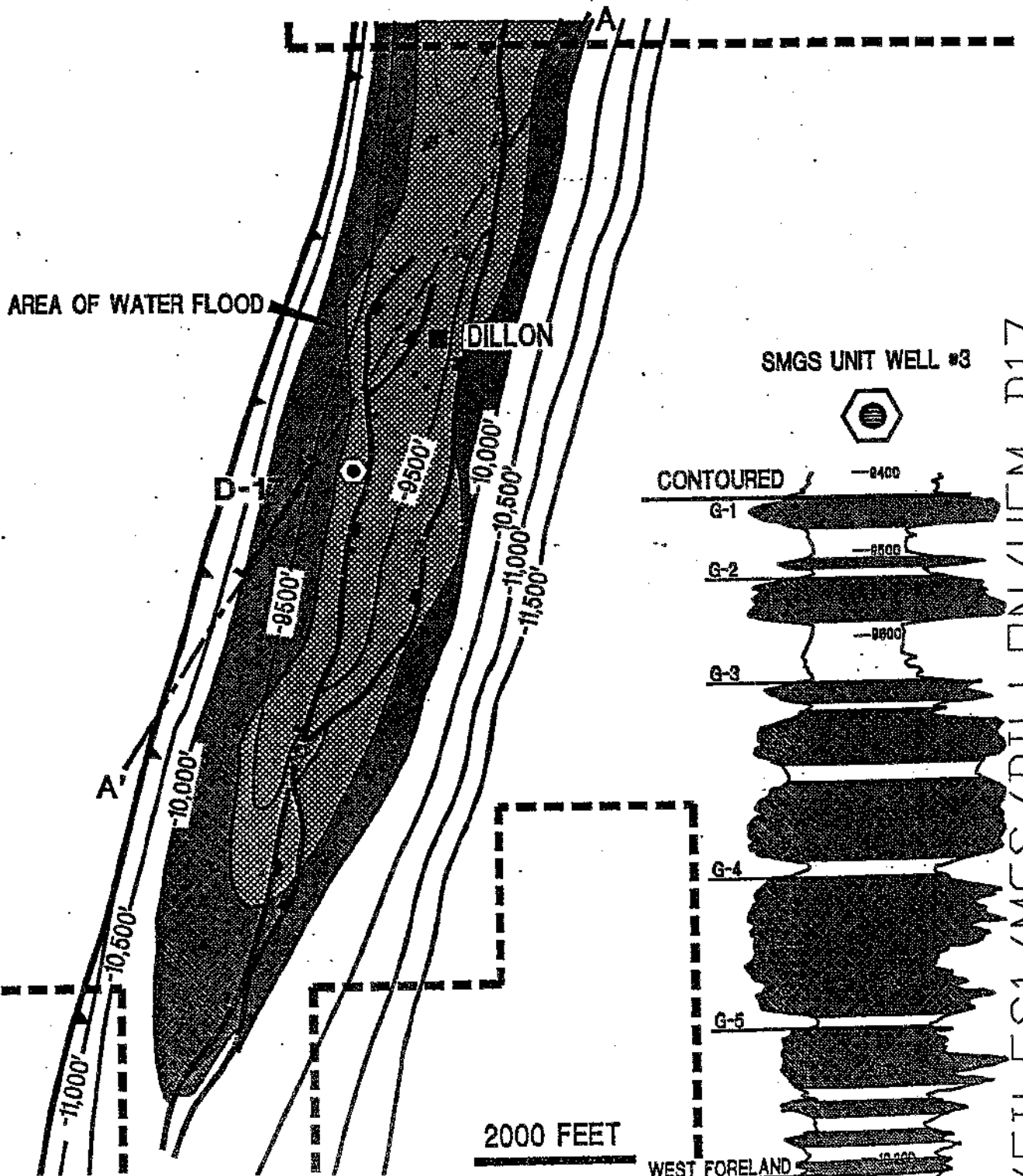
A
SW

A'
NE



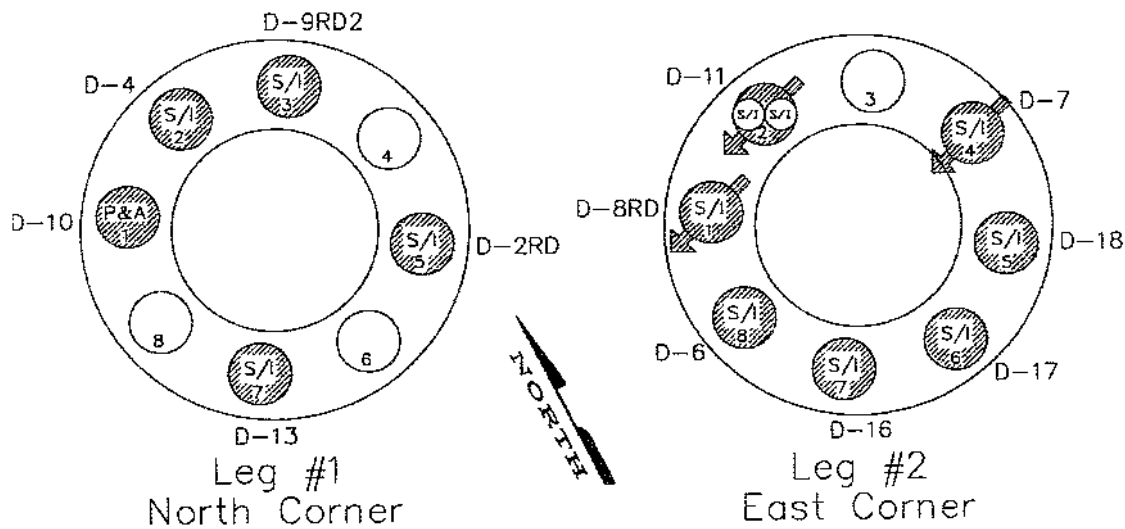
MIDDLE GROUND SHOAL TOP HEMLOCK STRUCTURE

DILLON PLATFORM
IN SUPPORT OF AFE-741501



ETI ES1/MGS/DTI 1 DN/HFM D17

DILLON PLATFORM WELLSLOT DIAGRAM 01/01/03



Producer



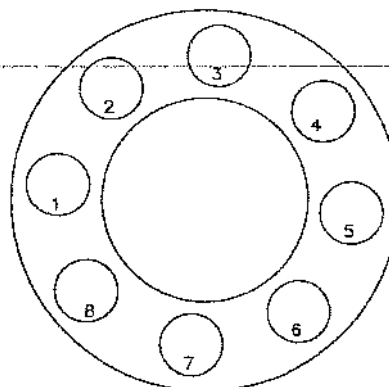
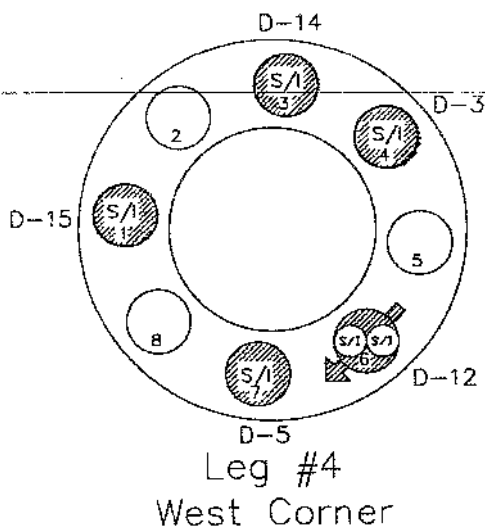
Dual
Completion



Gas Well



Injector



SMGS Unit (Dillon Platform/Onshore Facility) Operation **Pre-Tax Annual Cash Flows 1990-2003** (excluding Business Unit Overhead Expenses)

(figures in parenthesis are inflows)

P.M. Year 3/14/03

Location	Classification	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Grand Total
Capital Expenditure															
Dillon	CapEx Total	310,084	3,981,076	14,359	5,921,828	14,052,825	545,065	117,456	(4,349,637)	3,848,590	(71,109)	166,286	185,713	150,046	24,852,581
MCS Onshore*	CapEx Total	0	449,401	0	27,429	3,877	4,251	2,000	97,376	30,287	(23,461)	1,729	61,021	467	664,378
Total Cap Expenditure \$		310,084	4,430,476	14,359	5,949,258	14,056,702	549,317	119,456	(4,272,261)	3,878,876	(94,570)	168,014	246,733	150,513	25,516,959
Revenue															
Dillon	Revenue - Crude Total	(729,864)	(995,154)	(23,755)	(278,793)	(3,567,820)	(4,418,036)	(4,472,671)	(3,502,122)	(2,502,750)	(2,934,575)	(4,500,006)	(3,357,392)	(3,476,541)	(34,779,485)
Dillon	Revenue - Gas Total	0	0	0	0	(41,732)	(12,028)	(9)	0	0	0	0	0	0	(53,768)
Dillon	Revenue - Misc Total	(333)	(3,872)	93	(2,495)	(34,598)	(21,136)	(11,395)	(9,989)	(10,508)	(8,948)	(8,308)	(1,300)	0	(103,320)
Dillon	Tax/IT Total	0	0	0	0	0	0	0	0	0	0	0	8,685	0	8,685
Total Revenue \$		(730,197)	(999,075)	(23,662)	(281,288)	(3,654,150)	(4,451,200)	(4,484,575)	(3,512,112)	(2,513,258)	(2,943,575)	(4,508,314)	(3,350,012)	(3,476,541)	(34,977,807)
Cash Expense (excludes Business Unit Management and Indirect Expenses, see footnote)															
Dillon	Prod Ops Total (&SWR&SPM)	454,378	2,014,429	360,714	989,267	2,378,194	2,472,612	2,850,742	2,723,937	2,911,385	2,337,232	3,020,232	2,770,054	4,478,034	29,761,220
MCS Onshore*	Prod Ops Total	104,182	177,689	32,790	93,992	259,960	353,373	375,144	289,853	296,067	269,376	116,318	342,133	377,013	3,087,990
Dillon	Uninsured Loss Total	0	0	0	0	0	133,844	(53,094)	2,743	0	184,681	155,167	12,913	(38,058)	397,796
MCS Onshore*	Uninsured Loss Total	0	0	0	0	0	0	1,796	0	0	0	0	0	0	1,796
Dillon	Tax Property Total	0	13,481	4,598	5,822	5,600	17,731	18,367	50,288	16,554	51,212	13,424	13,332	3,334	213,743
MCS Onshore*	Tax Property Total	0	23,355	16,003	19,914	55,084	139,728	78,705	32,171	36,608	10,239	12,468	17,460	5,039	446,774
Dillon	Tax Severance Total	1,457	3,456	74	1,272	12,891	10,716	7,750	6,379	6,871	5,851	5,432	4,253	4,358	70,458
Total Cash Expense \$		560,016	2,231,409	414,200	1,110,266	2,711,439	3,126,004	3,279,012	3,105,471	3,267,484	2,850,581	3,323,042	3,160,145	4,829,720	33,979,779
Pre-Tax Cash Flow**															
Cash Out / (In) Flow \$		139,904	5,663,860	404,897	6,778,236	13,123,932	(773,880)	(1,006,107)	(4,678,502)	4,633,102	(179,512)	(1,017,258)	56,836	1,503,692	24,568,850
Cash Cash Out/ (In) Flow \$		139,904	5,803,763	6,204,660	12,986,896	26,110,878	25,336,999	24,250,892	19,571,990	24,205,092	24,025,590	33,008,722	23,065,158	24,568,850	
Production															
Dillon	Total Net Oil Production, BO	26,974	59,701	1,374	23,552	283,097	267,720	263,897	187,604	202,045	172,079	159,763	138,372	145,282	1,881,500
Dillon	Total Net Gas Production, MCF					28,780	8,295								37,075
Total Net Production, BOE		26,974	59,701	1,374	23,552	237,894	269,103	263,897	187,604	202,045	172,079	159,763	138,372	145,282	1,887,679
Yearly Production Decrease %			121%	-98%	1614%	910%	13%	-2%	-20%	8%	-15%	-7%	-13%	5%	
Cash Flow Summary/HOP, \$/BOE		5.19	94.87	294.68	287.80	55.17	(2.88)	(4.12)	(24.94)	22.93	(1.04)	(6.37)	0.41	10.35	13.02
Revenue/Net BOE		(27.07)	(16.73)	(17.22)	(11.94)	(15.36)	(16.54)	(16.99)	(18.72)	(12.44)	(17.11)	(28.23)	(24.21)	(23.93)	(18.50)
Expense/Net BOE		20.76	37.39	30.46	47.14	11.40	11.62	12.43	16.55	16.17	16.61	20.80	22.84	33.24	18.00
Pre Tax CF Operations/Net BOE		(6.31)	20.66	284.23	35.20	(3.96)	(4.92)	(3.57)	(3.17)	3.73	(0.49)	(7.42)	(1.37)	9.31	(0.50)
Total Capital/Net BOE		11.50	74.21	110.45	252.60	59.13	2.04	0.45	(22.77)	19.19	(0.55)	1.05	1.78	1.04	13.52
Pre Tax CF/Net BOE		5.19	94.87	294.68	287.80	55.17	(2.88)	(4.12)	(24.94)	22.93	(1.04)	(6.37)	0.41	10.35	13.02

Earnings Footnote
MGS (Dillon, Baker, MCS Onshore Facility) Asset Impairments (Write Downs):
\$22,573,417 in 12/1996 (Dillon Operations Portion not determined at time of this report)
\$4,196,177 in 7/2002 (Dillon Operations Portion not calculated at time of this report)

Other Footnotes
** ignores Abandonment Cash Payments (less than \$260,000 total for years 97-00, 01-02 for both Baker, Dillon, MCS Onshore)
* Represents 50% of MGS Onshore Production Facility expenses (assumes split with Baker production facility)
Expenses exclude Business Unit Management and Indirect Expense. 2002 BUI and Indirect Expense estimate by PMA is \$532,000.
Source of Data - Don Page MGS History THRU 7.2002 data.xls and MIS year end 2002 data
SWR and SPM - Special Well Repair and Special Facility Maintenance

MGS - Dillon		TOTALS	units		2003	2004	2005	2006	2007	2008	2009	2010
		03' forw										
Inflation factors:		%			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Decline Factor		%			10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Product Pricing:												
	USED	\$/bo			\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00
Dillon		%										
		%										
Adjustments to Base Oil Price (\$/bbl)		\$			\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08
Effective Oil Price (\$/bbl)		\$			\$ 10.92	\$ 10.92	\$ 10.92	\$ 10.92	\$ 10.92	\$ 10.92	\$ 10.92	\$ 10.92
Effective Gas Price (\$/mcf)		\$			\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20

Gross Production												
GROSS BOE	Mboe				12.77	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NET BOE	Mboe				11.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Net Revenue \$M												
GROSS OPEX \$M												
direct	USED	\$M			0	0	0	0	0	0	0	0
		\$M			449	210	210	210	210	210	210	0
indirect	USED	\$M			0	0	0	0	0	0	0	0
		\$M			36	0	0	0	0	0	0	0
SWR	USED	\$M			0	0	0	0	0	0	0	0
		\$M			18	0	0	0	0	0	0	0
Prop & Sev Tax	USED	\$M			0	0	0	0	0	0	0	0
		\$M			32	0	0	0	0	0	0	0
BUM	USED	\$M			0	0	0	0	0	0	0	0
		\$M			11	0	0	0	0	0	0	0
Expt Exp	USED	\$M			0	0	0	0	0	0	0	0
		\$M			0	0	0	0	0	0	0	0
Fuel Cost	USED	\$M			0	0	0	0	0	0	0	0
		\$M			0	0	0	0	0	0	0	0
TOTAL GROSS		\$M			546	210	210	210	210	210	210	0
NET OPEX		\$M			549	210	210	210	210	210	210	0

NET OPERATING MARG		\$M			(424)	(210)	(210)	(210)	(210)	(210)	(210)	0
% variable factor					(314.19)	(189.00)	(189.00)	(189.00)	(189.00)	(189.00)	(189.00)	0.00
CAPITAL INVEST (WI)		\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUSPENSION (WI)		\$M			2,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ABANDONMENT (WI)		\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
ENVIRONMENTAL (WI)		\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BT EARNINGS		\$M			(424)	(210)	(210)	(210)	(210)	(210)	(210)	0
/Boe		\$/boe			(29.03)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
AT Earnings		\$M			(267)	(132)	(132)	(132)	(132)	(132)	(132)	0
/Boe		\$/boe			(18.29)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
BT CASH		\$M			(2,424)	(210)	(210)	(210)	(210)	(210)	(210)	(9,000)
/Boe		\$/boe			(189.00)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
AT CASH		\$M			(1,449)	(132)	(132)	(132)	(132)	(132)	(132)	(9,000)
/Boe		\$/boe			(129.57)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

2003 NPV 10 (\$4,557)
ANNUAL NPV 15 (\$3,617)
IRR #DIV/0!

MGS - Dillon		TOTALS	units	2003	2004	2005	2006	2007	2008	2009	2010
		03' forw									
Inflation factors:		%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Decline Factor		%		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Product Pricing:											
USED	\$/bo			\$ 17.00	\$ 17.00	\$ 17.00	\$ 17.00	\$ 17.00	\$ 17.00	\$ 17.00	\$ 17.00
Dillon	%										
Adjustments to Base Oil Price (\$/bbl)				\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08
Effective Oil Price (\$/bbl)				\$ 14.92	\$ 14.92	\$ 14.92	\$ 14.92	\$ 14.92	\$ 14.92	\$ 14.92	\$ 14.92
Effective Gas Price (\$/mcf)				\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20

Gross Production											
GROSS BOE	Mboe			12.77	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NET BOE	Mboe			11.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Net Revenue \$M	\$M			197							
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GROSS OPEX \$M											
direct	\$M			0	0	0	0	0	0	0	0
USED	\$M			448	210	210	210	210	210	210	0
indirect	\$M			0	0	0	0	0	0	0	0
USED	\$M			38	0	0	0	0	0	0	0
SWR	\$M			0	0	0	0	0	0	0	0
USED	\$M			18	0	0	0	0	0	0	0
Prop & Sev Tax	\$M			0	0	0	0	0	0	0	0
USED	\$M			32	0	0	0	0	0	0	0
BUM	\$M			0	0	0	0	0	0	0	0
USED	\$M			11	0	0	0	0	0	0	0
Expl Exp	\$M			0	0	0	0	0	0	0	0
USED	\$M			0	0	0	0	0	0	0	0
Fuel Cost	\$M			0	0	0	0	0	0	0	0
USED	\$M			0	0	0	0	0	0	0	0
TOTAL GROSS	\$M			546	210	210	210	210	210	210	0
NET OPEX	\$M			548	210	210	210	210	210	210	0

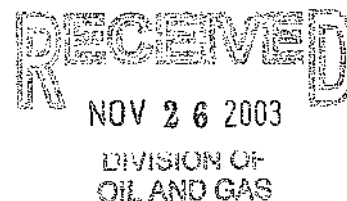
NET OPERATING MARG				(210)	(210)	(210)	(210)	(210)	(210)	(210)	0
% variable factor				(259.51)	(189.00)	(189.00)	(189.00)	(189.00)	(189.00)	(189.00)	0.00
CAPITAL INVEST (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUSPENSION (WI)	\$M			2,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ABANDONMENT (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
ENVIRONMENTAL (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BT EARNINGS	\$M			(379)	(210)	(210)	(210)	(210)	(210)	(210)	0
/Boe	\$/boe			(25.96)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
AT Earnings	\$M			(239)	(132)	(132)	(132)	(132)	(132)	(132)	0
/Boe	\$/boe			(16.36)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
BT CA	\$M			(379)	(210)	(210)	(210)	(210)	(210)	(210)	0
/Boe	\$/boe			(25.96)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

CASH ON HAND	\$M			0	0	0	0	0	0	0	0
DEBT	\$M			0	0	0	0	0	0	0	0

2003 NPV 10 (\$4,531)
ANNUAL NPV 15 (\$3,592)
IRR #DIV/0!

MGS - Dillon		totals	units	2003	2004	2005	2006	2007	2008	2009	2010
		03' forw									
Inflation factors:	%			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Decline Factor	%			10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Product Pricing:											
USED				\$ 52.00	\$ 52.00	\$ 52.00	\$ 52.00	\$ 52.00	\$ 52.00	\$ 52.00	\$ 52.00
Dillon	%										
	%										
Adjustments to Base Oil Price (\$/bbl)											
	\$	\$		2.08	2.08	2.08	2.08	2.08	2.08	2.08	2.08
Effective Oil Price (\$/bbl)	\$	\$		49.92	49.92	49.92	49.92	49.92	49.92	49.92	49.92
Effective Gas Price (\$/mcf)	\$	\$		1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Gross Production											
GROSS BOE	Mboe			148.08	131.45	118.31	106.48	95.83	86.25	20.18	0.00
NET BOE	Mboe			127.80	115.02	103.52	93.17	83.85	75.47	17.66	0.00
GROSS OPEX \$M											
direct	\$M			0	0	0	0	0	0	0	0
USED	\$M			3,075	3,075	3,075	3,075	3,075	3,075	1,165	0
Indirect	\$M			0	0	0	0	0	0	0	0
USED	\$M			408	367	330	297	267	241	58	0
SWR	\$M			0	0	0	0	0	0	0	0
USED	\$M			205	185	167	150	135	122	28	0
Prop & Sev Tax	\$M			0	0	0	0	0	0	0	0
USED	\$M			388	356	298	240	182	124	28	0
BUM	\$M			0	0	0	0	0	0	0	0
USED	\$M			124	112	101	91	81	73	17	0
Expl Exp	\$M			0	0	0	0	0	0	0	0
USED	\$M			0	0	0	0	0	0	0	0
Fuel Cost	\$M			0	0	0	0	0	0	0	0
USED	\$M			0	0	0	0	402	402	132	0
TOTAL GROSS	\$M			4,200	4,095	3,971	3,863	4,142	4,036	1,427	0
NET OPEX	\$M			4,200	4,095	3,971	3,863	4,142	4,036	1,427	0
NET OPERATING MARG											
% variable factor				3,225	2,818	2,102	1,644	835	475	(327)	0
CAPITAL INVEST (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUSPENSION (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	2,000.00	0.00
ABANDONMENT (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	9,000.00
ENVIRONMENTAL (WI)	\$M			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BT EARNINGS	\$M			2,180	1,647	1,197	798	44	(268)	(546)	0
/Boe	\$/boe			13.06	10.96	8.85	6.56	0.40	(2.72)	(23.66)	#DIV/0!
AT Earnings	\$M			1,373	1,037	754	503	28	(169)	(344)	0
/Boe	\$/boe			8.23	6.91	5.58	4.13	0.25	(1.71)	(14.91)	#DIV/0!
BT OPEX	\$M			180	157	167	108	49	(268)	(2,646)	(9,000)
/Boe	\$/boe			11.00	10.96	10.85	8.56	0.50	(2.72)	(149.39)	(450.00)
AT OPEX	\$M			180	157	167	108	49	(268)	(2,646)	(9,000)
/Boe	\$/boe			11.00	10.96	10.85	8.56	0.50	(2.72)	(149.39)	(450.00)
NPV 10 (\$530)											
ANNUAL NPV 15 (\$246)											
IRR 13%											

Unocal Alaska
Union Oil Company of California
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Anchorage, Alaska 99519-6247
Telephone: (907) 263-7662/276-7600
Facsimile: (907) 263-7828



John P. Zager
Cook Inlet Asset Manager

November 25, 2003

Mark Meyers, Director
Alaska Dept. of Natural Resources
Division of Oil and Gas
550 W 7th Avenue, Suite 800
Anchorage, Alaska 99501

**SOUTH MIDDLE GROUND SHOAL UNIT
STATE OF ALASKA – 2004
PLAN OF DEVELOPMENT & OPERATIONS**

Dear Mr. Meyers:

Unocal Oil Company of California (Unocal), as Operator of the subject Unit, respectfully submits the following Plan of Development and Operations for 2004.

PERIOD

This Plan shall cover the period from January 1, 2004 to December 31, 2004.

BACKGROUND

The South Middle Ground Shoal Unit did not have any development drilling activity in 2003.

The Division approved the 2003 POD and Suspension of Operations and Production from the SMGS Unit through December 31, 2003, conditioned upon relinquishment of the non-unitized acreage within ADL's 18744 and 18746. Unocal complied with said relinquishment requirement.

Platform facilities were decommissioned and are presently in lighthouse mode.

DEVELOPMENT

Unocal does not intend to perform any development activities during the plan period.

OPERATIONS

Monitoring and Use Plans during plan period:

Platform

The platform will be left lighthoused and unmanned although monthly inspections will occur. Dillon alarms (fire, gas, engine, etc.) will be monitored from the Dolly Varden platform. Normal cathodic protection efforts will continue.

Pipelines

Pipeline patrois will be performed and documented weekly. Normal cathodic protection efforts will continue.

Wells

Well monitoring requirements were discussed with the AOGCC on 2/11/03 and it is planned to leave the wells shut in as is and provide monthly tubing/casing pressure readings (acquired during monthly inspections) and the annual shut in report to the AOGCC. The AOGCC will provide witnessed well inspections semi annually at a minimum. Disposal well capacity will be retained. All wells except disposal wells will be isolated at the surface with blind flanges to isolate them from surface flow lines.

Please direct any questions regarding this plan to Dave Cole, Unocal Oil Team Supervisor, at 263-7805.

Sincerely,



John P. Zager

JPZ:KAT/DAC:dma

cc: Dave Cole
Kevin Tabler

