

OIL AND GAS LEASE
Paid-Up

This Oil and Gas Lease (“Agreement”) is made as of ____ day of _____, 2018, (“Effective Date”) by and between **Kenai Peninsula Borough**, (“Lessor”), whose address is 144 N. Binkley Street, Soldotna, AK 99669, and Hilcorp Alaska, LLC (“Lessee”), a Delaware limited liability company with offices located at 3800 Centerpoint Drive, Suite 1400, Anchorage, Alaska 99503.

1. GRANT.

For and in consideration of the sum of Ten Dollars (\$10.00), and other valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements herein contained, Lessor does hereby grant, demise, lease, and let unto Lessee the subsurface lands described in Exhibit “A”, with the exclusive rights of conducting geological, geophysical, and other exploratory work for oil, gas, and associated substances, and for exploring, investigating, prospecting, marketing, drilling and operating wells (including directionally drilled wells) for producing and marketing oil, gas, and associated substances, producing, owning, saving, storing, taking care of, venting, treating and transporting oil, gas, and associated substances therein, drilling and using wells for secondary and tertiary recovery methods, storing oil, gas, and associated substances below the surface, and, together with the free and uninterrupted right and right-of-way under the said land at such points and in such manner as may be convenient or necessary for the purpose of conducting all said oil, gas, and associated substances operations on behalf of the lease, pool, or unit. Pursuant to Kenai Peninsula Borough Code of Ordinances Section 17.10.100(J), the Lessee waives the right to use the surface estate unless provided by separate agreement with Lessor. *Subject to the terms of Exhibit “B”*

The premises leased hereby being that tract of land with any reversionary rights therein situated in the KENAI PENINSULA BOROUGH, THIRD JUDICIAL DISTRICT, STATE OF ALASKA. *See attached Exhibit “A”*

2. TERM.

Subject to the other provision herein contained, this lease shall be for a term of FIVE (5) years from the effective date and as long thereafter as oil or gas and associated substances is produced in paying quantities from the Leased Premises hereunder, or lands pooled or unitized herewith, or drilling or reworking operations for oil, gas, and associated substances, are conducted thereon as hereinafter provided (“Extended Term”), or Lessee makes shut-in royalty payments.

3. ROYALTY ON PRODUCTION.

3.1 Royalty Rate. Except for oil, gas, and associated substances used on the Leased Premises for exploration, development and production, or unavoidably lost, the Lessee shall pay to the Lessor as a royalty Twelve and One-Half Percent (12.50%) in amount or value of the oil, gas, and associated substances saved, removed, or sold from the Leased Premises.

3.2 Valuation. For the purpose of computing royalties due under this lease, the value of royalty oil, gas, or associated substances shall be the highest of:

- (A) The field price received by the Lessee for the oil, gas, or associated substances;
- (B) The Lessee's posted price in the field or area for the oil, gas, or associated substances; or
- (C) The arithmetic average of the three highest posted prices in the same field or area for oil of like grade and gravity, gas of like kind and quality, or associated substances of like kind and quality at the time the oil, gas, or associated substances are sold or removed from the Leases Premises or pooled or unit area; if there are less than three prices posted, the arithmetic average will be calculated using the lesser number of prices posted in the field or area.

3.3 Field Price.

- (A) If oil, gas, or associated substances are sold away from the Leased Premises or pooled or unit area, the term "field price" in subparagraph (A) above will be the cash value of all consideration received by the Lessee or other producer from the purchaser of the oil, gas, or associated substances, less the reasonable costs of transportation away from the Leased Premises or pooled or unit area to the point of sale.
- (B) In the event the Lessee does not sell in an arms' length transaction the oil, gas, or associated substances, the term "field price" in subparagraphs (B) and (C) above will mean the value utilized by the Lessee to pay royalty to the State for similar dispositions from State leases in the same field or area, minus reasonable costs of transportation away from the Leased Premises or pooled or unit area to the point of sale or other disposition.

3.4 Deductions. In computing the royalty, Lessee may deduct the costs of heating, sweetening, gathering, transporting, dehydrating, compressing, extracting, processing, or manufacturing.

3.5 Shut-In Royalties. Should Lessee complete a well on the Leased Premises capable of producing in commercial quantities which is shut-in from a lack of market or otherwise, or gas is not being used or sold therefrom, then Lessee within one hundred twenty (120) days after the date on which said well is shut-in, shall pay Lessor the sum of two dollars (\$2.00) per acre and shall thereafter pay as shut-in royalty to Lessor annually the sum of two dollars (\$2.00) per acre until said well is placed on production. It is understood that this payment shall hold the entire Leased Premises.

4. SUCCESSORS AND ASSIGNS AND CHANGE OF OWNERSHIP.

The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any mineral or horizon. All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns and successive assigns. No change or division in ownership of said land, royalties, or other monies, or any part thereof, howsoever affected, shall increase the obligations or diminish the rights of the Lessee. Notwithstanding any other actual or constructive knowledge or notice thereof of or to Lessee, its successors or assigns, no change or division in ownership of the Leased Premises or of the royalties, or other monies, or the right to receive the same, howsoever affected, shall be binding upon the Lessee of this lease until forty-five (45) days after there has been furnished to such Lessee at his or its principal place of business by Lessor or Lessor's heirs, successors, or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such Lessee to establish the validity of such change of division.

5. LESSER OR GREATER INTEREST PROVISION.

If Lessor owns a lesser interest in the oil, gas, and associated substances underlying the Leased Premises than the entire undivided fee simple estate, then the rentals and royalties hereunder shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee; however, if title to any interest in the Leased Premises should become owned by or revert to Lessor, or his heirs, devisees, executors, administrators or his or their successors in interest, this lease shall cover such interest or reversion. If the true acreage of the Leased Premises shall be found to be less than the number of acres above recited, the rental and royalty hereunder shall be reduced proportionately, and Lessor hereby releases Lessee from payment of rental or royalty upon any acreage in excess of the true acreage of the Leased Premises.

6. FORCE MAJEURE.

6.1 Extension of Term. If any operation permitted or required hereunder, or the performance by Lessee of any covenant, agreement or requirements hereof is delayed or interrupted directly or indirectly by any past or future acts, orders, regulations or requirements of the Government of the United States or any state or

other governmental body, or any agency, officer, representative or authority of any of them, or by the elements, fire, storm, flood, volcano eruptions and flows resulting therefrom or because of delay or inability to secure materials in the open market, acts of war or conditions attributable to war or on account of any other similar or dissimilar causes beyond the control of Lessee, the period of such delay or interruption shall not be counted against the Lessee, and the Primary Term and Extended Term of this lease shall automatically be extended so long as the cause or causes for such delays or interruptions continue and such extended term shall constitute and shall be considered for the purposes of this lease as a part of the primary term hereof.

- 6.2 Damages.** The Lessee shall not be liable to Lessor in damages for failure to perform any operation permitted, or required hereunder or to comply with any covenant, agreement or requirement hereunder during the time Lessee is prevented by acts beyond its control from complying with such covenants, agreements or requirements, except for the payments provided herein and in Section 3 hereof.

7. DEFAULT AND TERMINATION RIGHTS.

- 7.1 Failure to Perform.** This lease shall be subject to all valid federal, state and local laws, orders, rules and regulations and shall never be forfeited or terminated for failure of Lessee to perform in whole or in part any of its expressed or implied covenants, conditions or obligations until it shall have been first finally judicially determined that such failure exists, and Lessee shall have been given a reasonable time after such final determination within which to comply with any such covenants, conditions or obligations and shall have failed to comply.

- 7.2 Retention.** In the event Lessee's rights hereunder shall terminate or be forfeited for any cause, Lessee shall be entitled to designate and retain the following acreage around each well producing, being worked on, or drilling:

- (A) if drilling or producing units have not been established for the field in which such acreage is located by order of any State or Governmental Authority, Lessee shall have the right to designate and retain six hundred and forty (640) acres around each well producing oil, gas, and associated substances, each well being worked on, and each well drilling for oil, gas, and associated substances, each such tract to be in as nearly the form of a square as possible with the well in as near the center thereof as practicable.
- (B) If drilling or producing units have been established by order of any State or Governmental Authority, Lessee shall be entitled to retain around each well so much of the Leased Premises as is included under such order in the unit on which such well is located.

- 7.3 Cessation and Recommencement of Operations.** In the event Lessee shall cease to conduct continuous operations on the Leased Premises, the rights of Lessee

hereunder shall terminate and be forfeited upon 180 days' written notice by Lessor, unless Lessee shall have resumed diligent operations within such 180 days.

8. LESSEE USE OF PREMISES.

8.1 Roads. Should Lessee utilize any roads owned by Lessor on the Leased Premises, Lessee shall utilize such roads in a prudent manner and so as not to interfere with Lessor's use thereof and Lessee shall, pay all costs of any improvements thereto for its usage, said improvements requiring Lessor's written consent, and Lessee shall maintain said roads in good condition during such usage.

8.2 Damages and Repairs. Lessee assumes for itself, its agents and invitees, the liability for prompt payment to Lessor for any and all damages to Lessor's property, equipment, timber, water-wells and other improvements located on the Leased Premises which may be caused by the operations of Lessee, its agents and invitees on said lands. Lessee will repair all damage to the surface of the Leased Premises caused by the operations of itself, its agents, and its invitees, and Lessee shall restore the Leased Premises to a condition as near as reasonably practicable to its former condition. Lessee shall make a good faith effort to comply with Lessor's written request to bury a pipeline to a specified depth if it determines same to be reasonable.

8.3 Water Use Reserved to Lessor. Lessor reserves all rights to water and to the free use of water. Lessee agrees to not conduct operations which result in the drawdown or contamination of water that support surface uses of Lessor without agreement or just compensation.

9. THIRD PARTY CLAIMS

In the event oil, gas, and associated substances under the Leased Premises, or any part thereof, or any interest in such oil, gas and associated substances or in the royalties payable hereunder with respect thereto, is claimed by others, Lessee shall have the right to withhold without liability for interest thereon, payment of such royalties to the extent of such claim, or to deposit in escrow such royalties in a court of competent jurisdiction until final determination of such claim; provided, however, that Lessor shall have the right, in case of any such adverse claim and the withholding of such royalties, to payment of same to it upon furnishing a bond or other security satisfactory to Lessee as indemnity against such claim until finally determined.

10. TERMINATION PROVISIONS.

At such time as this lease or any portion thereof expires or is terminated, for any reason whatsoever, Lessee agrees to furnish Lessor, within sixty (60) days of request, a Quitclaim Deed or Release covering this lease or any portion of the Leased Premises so affected in appropriate form and duly executed, in order that the Quitclaim Deed or Release may be placed on public record. Lessee shall have a reasonable period of time from the date of

said Quitclaim Deed or Release to remove therefrom any property or fixtures placed by Lessee on abandoned land. Any property or fixtures of Lessee left on the abandoned land after the appropriate removal date has lapsed shall, at the option of Lessor, become Lessor's property and fixtures or be removed from said land at the direction of Lessor but at the sole expense of Lessee.

11. NOTICES.

All notices necessary to be given under the terms of this agreement shall be directed as follows:

Lessor: Kenai Peninsula Borough
Attn: Land Management Officer
144 N. Binkley Street
Soldotna, AK 99669
Email: mmueller@kpb.us; lmweb@kpb.us
Telephone: (907) 714-2204; (907) 714-2200

Lessee: Hilcorp Alaska, LLC
3800 Centerpoint Dr., Suite 1400
Anchorage, AK 99503
ATTN: Land Manager
Telephone: (907) 777-8300 // Fax: (907) 777-8301

or to such other address as each party hereto may designate by written notice to the other party. Notice shall be deemed given when actually received by the party entitled to notice or five (5) business days after being sent by certified mail, "return receipt requested," to the last known address of the party entitled to notice.

12. POOLING.

Lessee at its option may pool or combine separate oil, gas, and associated substances in any part or parts of the Leased Premises with other leased lands to form a drilling unit, provided that there be no more than six hundred and forty (640) acres for such combined area, plus a tolerance of 10% thereof, and on each of such unit or units a well (or wells) has been or may be drilled. Notwithstanding anything to the contrary contained in this lease, the commencement of operations for the drilling of a well on any such drilling unit shall have the same force and effect in all respects as the commencement of operations for the drilling of a well on the Leased Premises hereby leased; and drilling or reworking operations conducted on any drilling unit or production of oil, gas, and associated substances anywhere from such drilling unit shall have the same force and effect as drilling or reworking operations conducted on or production obtained from the Leased Premises as to the extension of the term of this lease; provided, however, that in lieu of the royalties elsewhere herein specified, Lessor shall receive from production so pooled such portion of the royalties stipulated herein as the number of acres of the Leased Premises included in

such unit bears to the total number of acres in such unit; provided, however, no reduction of shut-in royalties shall be made under this provision.

13. UNITIZATION.

13.1 Unitization. The Lessee may unite with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the exploration, development, or operation of the pool, field, or like area or part of the pool, field, or like area that includes or underlies the Leased Premises or any part of the Leased Premises.

13.2 Alteration of Lease Terms. With the consent of the Lessee, and if the Leased Premises is committed to an approved unit agreement, the Lessor herein agrees that the state may establish, alter, change, or revoke drilling, producing, and royalty requirements of this lease as the state determines necessary or proper. This lease will be extended automatically if all or part of the Leased Premises is committed to an approved unit agreement and will remain in effect for so long as all or part of the Leased Premises remains committed to that unit agreement.

14. OFFSET WELLS.

The Lessee shall drill such wells as a reasonable and prudent operator would drill to protect the Leased Premises from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas is produced in a well on land other than the Leased Premises, and that 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 that well produces oil or gas for a period of 30 consecutive days in quantities that would appear to a reasonable and prudent operator to be sufficient to recover ordinary costs of drilling, completing, and producing an additional well in the same geological structure at an offset location with a reasonable profit to the operator, and that production from that well is draining this Leased Premises, then the Lessee shall within 60 days begin in good faith and diligently prosecute drilling operations for an offset well on the Leased Premises.

15. DEFENSE AND INDEMNIFICATION, HOLD HARMLESS.

The Lessee shall indemnify, defend, save and hold the Lessor, its elected and appointed officers, agents and employees, harmless from any and all claims, demands, suits, or liability of any nature, kind or character including costs, expenses, and attorney's fees resulting from Lessee's performance or failure to perform in accord with the terms of this lease in any way whatsoever. The Lessee shall be responsible under this clause for any and all claims of any character resulting from Lessee or Lessee's officers, agents, employees, partners, attorneys, suppliers, and subcontractor's performance or failure to perform this agreement in any way whatsoever. This defense and indemnification responsibility includes claims alleging acts or omissions by the Lessor or its agents, which are said to

have contributed to the losses, failure, violations, or damage. However, Lessee shall not be responsible for any damages or claims arising from the sole negligence or willful misconduct of the Lessor, its agents, or employees.

16. DEFINITIONS.

The following words have the following meanings unless the context unavoidably requires otherwise:

“Associated Substances” means all substances produced as an incident of production of oil or gas by ordinary production methods and not defined in this lease as oil or gas;

“Drilling” means the act of boring a hole to reach a proposed bottom hole location through which oil or gas may be produced if encountered in paying quantities, and include redrilling, sidetracking, deepening, or other means necessary to reach the proposed bottom hole location, testing, logging, plugging, and other operations necessary and incidental to the actual boring of the hole;

“Gas” means all natural gas (except helium gas) and all other hydrocarbons produced that are not defined in this lease as oil, including gas produced from coal formations or seams;

“Oil” means crude petroleum oil and other hydrocarbons, regardless of gravity, that are produced in liquid form by ordinary production methods, including liquid hydrocarbons known as distillate or condensate recovered by separation from gas other than at a gas processing plant;

“Paying Quantities” means quantities sufficient to yield a return in excess of out-of-pocket operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of out-of-pocket operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities.

“Reworking Operations” means all operations designed to secure, restore, or improve production through some use of a hole previously drilled, including, but not limited to, mechanical or chemical treatment of any horizon, plugging back to test higher strata, etc.

17. BINDING AGREEMENT.

This lease states the entire agreement between the parties, and no representation, promise, verbal or written, on behalf of either party shall be binding unless contained herein. This agreement shall be binding upon each of the parties who shall execute the same, regardless of whether or not all of the parties named as Lessor shall execute it. This agreement may be executed in counterpart form and all counterparts together shall be considered as one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Oil and Gas Lease to be executed the day and year first hereinabove written.

LESSOR

LESSEE

Signature:

Signature:

Name: Charlie Pierce

Title: Mayor

Date: _____

Name: David S. Wilkins

Title: Senior Vice President

Date: _____

Acknowledgments on Following Pages

ACKNOWLEDGEMENT OF LESSOR

STATE OF ALASKA)
) ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 2018, by Charlie Pierce, Mayor of the Kenai Peninsula Borough, an Alaska municipal corporation, for and on behalf of the corporation.

Notary Public in and for Alaska
My commission expires: _____

ACKNOWLEDGEMENT OF LESSEE

STATE OF ALASKA)
) ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 2018, by David S. Wilkins, Senior Vice President of Hilcorp Alaska, LLC, a Delaware limited liability company, on behalf of the limited liability company.

Notary Public in and for Alaska
My Commission Expires: _____

EXHIBIT "A"

OIL AND GAS LEASE

THIS OIL AND GAS LEASE made as of ____ day of _____, 2018, by and between **Kenai Peninsula Borough**, hereinafter called "Lessor", and Hilcorp Alaska, LLC, hereinafter called "Lessee".

LEGAL DESCRIPTION

Parcel No. 1

T04S, R15W, SM, AK

Section 34: Amended Spruce Acres Subdivision, Lot 23, Plat No. 60-45, being the same parcel of land as KPB Parcel No. 16517025, containing 1.17 acres, more or less.

Parcel No. 2

T05S, R15W, S.M, AK

Section 3: ½ mineral interest in August Knight Subdivision - Amended, Lot 1, Plat No. 83-17, being the same parcel of land as KPB Parcel No. 16931001, containing 0.32 acres, more or less.

Parcel No. 3

T05S, R15W, S.M, AK

Section 4: A tract of land situated in the SW ¼ NE ¼ , more particularly described as: Beginning at the NE 1/16 corner of said Section 4; Thence N 89 degrees, 56 minutes W 322.5 ft to the True Point of Beginning; Thence N 89 degrees, 56 minutes W 1000.0 ft to the center north 1/6 corner of said Section 4; Thence S 0 degrees, 2 minutes E along said centerline 601.34 ft; Thence S 89 degrees, 56 minutes E 1272.19 feet to the westerly Right-of-Way line of the Old Sterling Highway; Thence N 40 degrees, 47 minutes E 76 ft, more or less, along said westernly Right-of-Way line to the intersection thereof with the East 1/6 line of said Section 4; Thence N 89 degrees 56 minutes W 136.71 ft; Thence N 0 degrees, 1 minute W 478.73 ft; Thence N 89 degrees, 56 minutes W 185.30 ft; Thence N 0 degrees, 1 minute W 65 ft to the True Point of Beginning, being the same parcel of land as KPB Parcel No. 16905067 & 16905071, containing 15.92 acres, more or less.

Parcel No. 4

T05S, R15W, S.M, AK

Section 5: That portion of land located in Government Lot 5, more particularly described as: From the meander corner of Section 5 and Section 8, T05S, R15W,

S.M., Thence North 10 degrees 6 minutes West 1,474.28 feet, Thence North 21 degrees 9 minutes West 573.67 feet, Thence North 7 degrees 0 minutes West 180 feet, being the true Point of Beginning; Thence North 83 degrees 0 Minutes East 182 feet, Thence North 7 degrees 0 minutes West 150 feet, Thence South 83 degrees 0 minutes West 284 feet more or less to the mean High Tide Line, Thence approximately South 6 degrees 37 minutes East 150 feet more or less along the mean High Tide Line, Thence North 83 degrees 0 minutes East 103 feet to the true Point of Beginning, being the same parcel of land as KPB Parcel No. 16901049, containing 1.0 acres, more or less.

Parcel No. 5

T05S, R15W, SM, AK

Section 4: That certain real property situated in the NW $\frac{1}{4}$ NE $\frac{1}{4}$, described as follows: Beginning at the East $\frac{1}{16}$ corner of Section 4, located on the Township line between T4S and 5S, R15W, Seward Meridian; thence South 45 degrees 00' West 42.42 feet to Corner No. 1, the true Point of Beginning; thence South 0 degrees 01' East 150.00 feet to Corner No. 2; thence West 200.0 feet to Corner No. 3; thence North 0 degrees 01' West 150.0 feet to Corner No. 4; thence East 200.0 feet to the Point of Beginning, being the same parcel of land as KPB Parcel No. 16905018, containing 0.69 acres, more or less.

Containing approximately 19.1 acres, more or less.

EXHIBIT "B"
OIL AND GAS LEASE
SURFACE LIMITATION RIDER

ATTACHED TO AND BY REFERENCE MADE A PART OF THAT CERTAIN OIL AND GAS LEASE made as of _____ day of _____, 2018, by and between **Kenai Peninsula Borough**, hereinafter called "Lessor", and Hilcorp Alaska, LLC, hereinafter called "Lessee".

LEGAL DESCRIPTION

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Containing approximately 19.1 acres, more or less.

SURFACE LIMITATIONS. Lessee agrees that it will conduct no operations on the surface of said land. It is further agreed and understood that Lessee shall have the right to drill and operate directional wells through and under said land, irrespective of the bottom hole locations of said wells. To this end, Lessor hereby grants to Lessee a subsurface easement for all purposes associated with such directional wells. Lessee agrees that said subsurface easement shall commence at and continue below the depth of 500 feet. To the extent that terms in this Exhibit "B" conflict with those in the Lease, the terms in this Exhibit "B" shall govern.

Lessor:

Signature: _____
Charlie Pierce, Mayor Lessor/Date

HILCORP ALASKA, LLC

Signature: _____
David S. Wilkins, Senior Vice President Lessee/Date