

APPROVAL OF THE APPLICATION TO
EXPAND THE DEWLINE UNIT

FINDINGS AND DECISION OF THE DIRECTOR
DIVISION OF OIL AND GAS
UNDER DELEGATION OF AUTHORITY FROM THE COMMISSIONER
DEPARTMENT OF NATURAL RESOURCES
STATE OF ALASKA

March 15, 2011

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DEWLINE UNIT

Expansion of the Dewline Unit

I. DECISION SUMMARY

On November 15, 2010, UltraStar Exploration, LLC (UltraStar), as Operator and working interest owner (WIO) of the Dewline Unit, submitted an application to expand the Dewline Unit (Application) with the State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division). UltraStar submitted confidential and public information as part of the Application, which meets the requirements for a complete application under 11 AAC 83.306.

The Division gave notice under 11 AAC 83.311 of the proposed Dewline Unit Expansion on December 30, 2010. The period for public comment closed effective January 31, 2011. No comments were received.

The proposed expansion of the Dewline Unit would add lease ADL 390608 to the Unit or approximately 1,280 acres. No wells are currently drilled within the proposed expansion area. The Division approves the expansion of the Dewline Unit on the condition that a well is drilled within ADL 390608 by May 31, 2014.

This Approval constitutes the written findings and decision required under 11 AAC 83.303 and is fully appealable. The Division finds that the approval of the Dewline Unit Expansion promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties.

II. APPLICATION FOR THE EXPANSION OF THE DEWLINE UNIT

UltraStar submitted an Application on November 15, 2010 along with an application filing fee of \$500 in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(E). The Application included an Exhibit A, describing the proposed expanded Unit, its leases, and ownership interests; an Exhibit B, a map of the proposed expanded Unit; and evidence of reasonable effort made to obtain joinder of any proper party to satisfy the evidence requirement of 11 AAC 83.306(3). UltraStar submitted a proposed Second Revised Initial POE, revised as of December 15, 2010, on December 21, 2010. The Division deemed the Application complete and issued public notice of the Application.

Public notice of the Application was published in the *Anchorage Daily News* and in the *Arctic Sounder* on December 30, 2010. The public notice and a copy of the Application were posted to the Division website on December 30, 2010. Copies of the Application and public notice were provided to interested parties under 11 AAC 83.311. The Division provided public notice to the North Slope Borough, Alaska Department of Environmental Conservation, Alaska Department of Fish and Game, Alaska Department of Natural Resources Division of Mining, Land and Water, the Alaska Oil and Gas Conservation

Commission, Arctic Slope Regional Corporation, Arctic Slope Native Association, LTD, the Native Village of Barrow, City of Nuiqsut, Postmaster Nuiqsut Alaska, KBRW, Mayor of the City of Barrow, Mayor of the North Slope Borough, City of Nuiqsut Council Chair, Nuiqsut Trapper School/Community, Kuukpik Corporation, Inupiat Community of the Arctic Slope, Ukpeagvik Inupiat Corporation, President of the Native Village of Nuiqsut, Tuzzy Consortium Library, and UltraStar Exploration, LLC. The public notices invited any person to submit written comments by 4:30 p.m., January 31, 2011. No comments were received from the public.

III. LEASE BACKGROUND

The current Dewline Unit encompasses approximately 3,253.56 acres within three state leases: ADLs 389943, 389944, and 390419. Upon approval of the Application, the expanded Dewline Unit will include approximately 4,533.56 acres. All leases, including the proposed expansion lease ADL 390608, have a royalty interest of 16.66667 percent. ADL 390608, effective July 1, 2005, was issued on form number DOG 200204(REV10/03) for a primary term of seven years.

IV. DISCUSSION OF DECISION CRITERIA

AS 38.05.180(p) gives DNR the authority to approve an oil and gas unit, and unit expansion(s). By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Director of the Division. The Director will approve expansion of a unit to include all or part of an oil or gas reservoir, or all or part of a potential hydrocarbon accumulation if he finds that it will conserve the natural resources of all or part of an oil and gas pool and is necessary or advisable to protect the public interest. The Division's review of the Application is based on the criteria set out in 11 AAC 83.303(a) and (b). A discussion of the subsection (b) criteria, as they apply to the Application, is set out directly below, followed by a discussion of the subsection (a) criteria.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. The Environmental Costs and Benefits of Unitized Exploration

The Dewline Unit includes both onshore and offshore lease acreage and is located south of the Northstar Unit and north of the Prudhoe Bay Unit, North Slope of Alaska. Alaska statutes require that DNR give public notice and issue a written finding before disposal of the State's oil and gas resources, AS 38.05.035(e), AS 38.05.945 and 11 AAC 82.415. In preparing a written decision before an oil and gas lease sale, the Commissioner may impose additional conditions or limitations beyond those imposed by law, AS 38.05.035(e). DNR develops lease stipulations through the lease sale process to mitigate the potential environmental, social and cultural impacts from oil and gas activity.

A decision to approve a proposed unit expansion has no direct environmental impact. The expansion lease to be included within the Dewline Unit contains stipulations designed to protect the environment and to address concerns regarding potential impact to fish and game, to wildlife habitats, and to subsistence. Lease conditions address issues such as the protection of primary waterfowl areas, site restoration, construction of pipelines, seasonal restriction on operations, public access to, or use of, the

leased lands, and avoidance of seismic hazards. Including an additional lease in the Dewline Unit will neither change these protective measures, nor result in addition restrictions or limitation on public access to the lands or to public and navigable water. All lease operations are subject to an Alaska Coastal Management Program consistency review, and must comply with enforceable policies of both the State and the North Slope Borough.

2. The Geological and Engineering Characteristics of the Proposed Expansion Area

Introduction

Under 11 AAC 83.356(a), a unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations. 11 AAC 83.395(5) defines a “potential hydrocarbon accumulation” as “any structural or stratigraphic entrapping mechanism which has been reasonably defined and delineated through geophysical, geological, or other means and which contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas.”

Ultrastar provided sufficient confidential geologic and geophysical data in support of the Application. Data included updated digital grids of the top Sag River Formation and top Ivishak Sandstone with associated fault files, digital base HRZ and base Kuparuk River Formation structure grids with fault files, and prospect spreadsheets with areas, thicknesses, bulk rock volumes, updated geologic chance factors and reserve estimates. Spreadsheets and geologic discussion regarding mapping process, seismic ties to wells and individual prospects were also submitted. The data are confidential and therefore this information is not discussed in detail here. The Division will hold the data confidential under AS 38.05.035(a)(8)(C) and 11 AAC 96.220.

Dewline Unit Geologic Setting

The Dewline Unit and the requested unit expansion acreage lie north of the Prudhoe Bounding Fault, a major northwest to southeast trending, down-to-the-north fault that separates the Prudhoe Bay Field south of the fault, from deeper, more complexly faulted smaller structures which lie north of the fault. Late Jurassic to Early Cretaceous rift margin related normal faults and Brookian (Latest Cretaceous to Tertiary) compressional faults overprint the area resulting in smaller structural closures at the Ivishak level. Early exploration efforts north of the super giant Prudhoe Bay Field have focused primarily on these small, fault assisted, structural closures in the Ivishak Sandstone.

Expanded Dewline Unit Acreage Targets

The primary exploration targets in the expanded Dewline Unit are the Ivishak Sandstone of the Sadlerochit Group, the Sag River Formation and the Kuparuk River Formation. All of these formations have been penetrated in early exploration wells dating back to the late 1960's.

The Ivishak Sandstone has always been and continues to be a primary target for North Slope exploration. The Ivishak Sandstone in this area ranges in thickness from 320 feet (North Prudhoe Bay St 1) to 370 feet

thick (Pt. Storkersen #1). Reservoir properties are excellent in the Ivishak Sandstone but porosity and permeability decrease with depth of burial from porosity in the high 20 percent range to the teens. In general, permeability also decreases with burial depth from hundreds of millidarcies to low hundreds and tens of millidarcies. The Sadlerochit Group is unconformably overlain by a transgressive sequence that consists of muddy sandstone, sandy, marly carbonates, siltstones, and phosphatic limestones of the Shublik Formation and overlying shelfal sandstones of the Sag River Formation.

The Shublik Formation is a known source rock. It contains minor potential for reservoir quality rock; however, oil has been reversed out during a drill stem test in the Shublik at the Gull Island #1 well located approximately 9 miles to the southeast. The Sag River Formation is a glauconitic, very fine grained, quartz rich sandstone that contains moderate quality reservoir rock. It is considered a target in the expanded Dewline Unit area. Thickness of the Sag River Formation in this area ranges from 76 feet at Pt. Storkersen #1 to 64 feet at Gwydyr Bay State 2A. Density porosity ranges from 20 percent to less than 10 percent in the Pt. Storkersen well.

Overlying the Permo-Triassic reservoirs is the Jurassic Kingak Formation, the Lower Cretaceous Miluveach Formation and the Cretaceous Kuparuk River Formation. Due to the complex, rift shoulder margin depositional settings for the Kuparuk River Formation, reservoir sandstones are highly variable in thickness and reservoir quality north of the Prudhoe Bounding Fault. The Kuparuk River Formation ranges in thickness from 438 feet at Gwydyr Bay State #2A to 557 feet at Pt. Storkersen #1. Net to Gross is highly variable and can be as low as 25 percent. Depending on source material available during Kuparuk deposition, porosity can be very good, up to 27 percent in Pt. Storkersen, and in highly cemented sandstones it can be less than 10 percent density porosity. Permeability is also highly variable.

Prior Exploration Activities

Numerous major oil companies have explored in the area north of Prudhoe Bay Field due to its proximity to infrastructure; however, none have placed any of these small, structural closures on production. Early exploration wells drilled in the vicinity of the Dewline Unit expansion acreage include Pt Storkersen #1, Kuparuk Delta 51-1 and 51-2 and the Gwydyr Bay State 2 and 2A wells. UltraStar spud their first Dewline Unit well, Dewline #1 in April, 2009 and thus gained valuable information regarding all the prospective units. A detailed discussion of the exploration targets in these wells was included in the original Dewline Unit approval and is incorporated here by reference.

UltraStar has delineated numerous prospects within the expanded Dewline Unit. The remaining hydrocarbon prospects are untested. Based on the geological, geophysical and engineering data submitted in support of an expansion of the Dewline Unit, the expansion is warranted.

3. Plan of Exploration for the Proposed Dewline Unit Expansion Area

On June 4, 2009, the Division approved the Dewline Revised Initial Plan of Exploration, revised as of May 18, 2009 (Initial POE) through December 31, 2013, with the commitment to drill two wells within the Unit. UltraStar provided with the Application technical data sufficient to delineate a Kuparuk hydrocarbon prospect within lease ADL 390608. The potential hydrocarbon accumulation justified the

submittal of a proposed Second Revised Initial POE, revised as of December 15, 2010, Exhibit G. See Attachment 3.

The proposed Second Revised Initial POE establishes the work obligation that the WIO must meet in order for the Unit to remain in good standing. The term of the Second Revised Initial POE will require UltraStar to fulfill the following work obligations:

1. Drill and log the North Dewline #1 well by May 31, 2013; and
2. Drill and log the North Dewline #2 well within lease ADL 390608 by May 31, 2014.

If the Unit Operator fails to drill the North Dewline #1 exploration well as described above by May 31, 2013, the Dewline Unit will terminate effective May 31, 2013. UltraStar agreed to waive the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the Unit that are beyond their primary term, less any acreage included in either an approved or pending application for a participating area.

If the Unit Operator fails to drill the North Dewline #2 exploration well as described above by May 31, 2014, the Dewline Unit will terminate effective May 31, 2014. UltraStar agreed to waive the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the Unit that are beyond their primary term, less any acreage included in either an approved or pending application for a participating area.

4. The Economic Costs and Benefits to the State and Other Relevant Factors

The assessment of the hydrocarbon potential on State lands will create jobs and in-state economic activity in the short-term and, if the exploration activity is successful, the State and its residents will enjoy royalty and tax revenues, and increased employment opportunities over the long term. The State will benefit from the Dewline Unit expansion. Expanding the Unit boundary will afford the WIO the opportunity to drill an untested Kuparuk hydrocarbon prospect, thus promoting efficient evaluation of the state's resources.

B. Decision Criteria considered under 11 AAC 83.303(a)

1. Promote the Conservation of All Natural Resources

DNR recognizes that unitization of leases overlying all or part of an oil or gas pool, field, or like area can be a prudent conservation mechanism. UltraStar submitted geological and geophysical data to the Division that supported the interpretation that the expansion area encompasses all of or part of a potential hydrocarbon accumulation. Exploration and the potential of hydrocarbon resource development under a unit plan promotes efficient evaluation and development of the State's resources, yet minimizes impacts to the area's cultural, biological and environmental assets.

2. Promote the Prevention of Economic and Physical Waste

Unitization prevents economic and physical waste by setting forth a development plan that allows maximization of physical and economic recovery as well as efficient use of unitized facilities, thereby eliminating redundant expenditures. The significance of infrastructure and surface facilities and reservoir management considerations are a moot point at this time owing to the fact that there are no competing interests within the current Dewline Unit or the proposed expansion lease.

Although exploration of the expansion lease is not driven by competitive pressures, under unitization, if a commercial discovery is made on the proposed expansion lease ADL 390608, unitization would allow for the locations of individual wells and surface facilities to be chosen for optimization of ultimate oil and gas recovery, while minimizing or completely avoiding adverse impacts to the environment. Reducing development costs and environmental impacts through unitized operation will expedite development of any reserves discovered and will promote greater ultimate recovery of any oil and gas from the unit area. This will increase and extend the State's income stream from royalties. The revenues to the lessee and Unit Operator may be reinvested in new exploration and development in the State. Unitization means reduced costs and increased benefits to all interested parties. It benefits the local and state economy, and provides revenues to the State's general, school, and permanent funds.

3. Provide for the Protection of all Parties

UltraStar provided evidence of reasonable efforts to obtain joinder of any proper party to the Agreement in considering expansion of the Dewline Unit. Furthermore, with 100 percent working interest in both the Dewline Unit leases and the proposed expansion lease, UltraStar has effective control of unit operations.

Approval of the proposed Dewline Unit expansion on the condition that a well is drilled and logged on lease ADL 390608 by May 31, 2014 protects the public interest and the interest of the State as royalty owner.

V. FINDINGS AND DECISION

Considering the facts discussed in this document and the administrative record, I hereby make findings and impose conditions as follows.

1. The expansion of the Dewline Unit, particularly in conjunction with strict adherence to work commitments under the prescribed timeline in the Second Revised Initial POE, adequately and equitably protects the public interest.
2. The available geological and engineering data and exploration plans, justify an expansion of the Dewline Unit to include all or part of a potential hydrocarbon accumulation. Under the regulations governing formation and operation of oil and gas units (11 AAC 83.301-11 AAC 83.395) and the terms and condition under which these lands were leased from the State, the following lands are added to and included in the Dewline Unit on the condition that a well is drilled and logged within ADL 390608 by May 31, 2014.

Dewline Expansion Area

Tract 4, ADL 390608

T13N, R13E, U.M.

Section 35, All

Section 36, All

Containing approximately 1,280 acres.

3. The Division complied with the public notice requirements of 11 AAC 83.311.
4. If the Unit Operator fails to drill and log the North Dewline #1 exploration well by May 31, 2013, the Dewline Unit will terminate effective May 31, 2013. UltraStar agreed to waive the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the Unit that are beyond their primary term, less any acreage included in either an approved or pending application for a participating area.
5. If the Unit Operator fails to drill and log the North Dewline #2 exploration well within expansion area ADL 390608 by May 31, 2014, the Dewline Unit will terminate effective May 31, 2014. UltraStar agreed to waive the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the Unit that are beyond their primary term, less any acreage included in either an approved or pending application for a participating area.
6. If the exploration activities under the Second Revised Initial POE result in the discovery of a commercially producible reservoir, there may be environmental impacts associated with reservoir development. All unit development must proceed according to an approved Plan of Development. Additionally, before undertaking any specific operations, the Unit Operator must submit a Unit Plan of Operations to the Division and other appropriate, local, state and federal agencies for review and approval. The lessee(s) may not commence any drilling or development operations until all agencies have granted the required permits. The Division may condition its approval of a Unit Plan of Operations and other permits on performance of mitigation measures in addition to those in the Agreement, if necessary or appropriate. Compliance with mitigation measures will minimize, reduce or completely avoid adverse environmental impacts.
7. The Second Revised Initial POE is approved for the period March 15, 2011 through June 3, 2014. The Unit Operator shall conduct the proposed exploration activities in accordance with the timelines specified in the plan. The Second Revised Initial POE describes the performance standards and diligence requirements that the State requires.
8. The Unit Operator shall submit an annual status report on the Second Revised Initial POE to the Division. The annual status report must describe the status of projects undertaken and the work completed, as well as any proposed changes to the plan. The annual status report on the Second

Revised Initial POE will be due at least 60 days before the anniversary date of the Initial POE, or by November 1st of each applicable year. 11 AAC 83.341(b) and Article 8.1.1 Dewline Unit Agreement.

For the reasons discussed in this Findings and Decision, I hereby approve the Application to Expand the Dewline Unit effective March 15, 2011, subject to the conditions set out in this decision.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d), and may be mailed or delivered to Daniel S. Sullivan, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to (907) 269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.



Kevin R. Banks, Director
Division of Oil and Gas

3/14/2011
Date

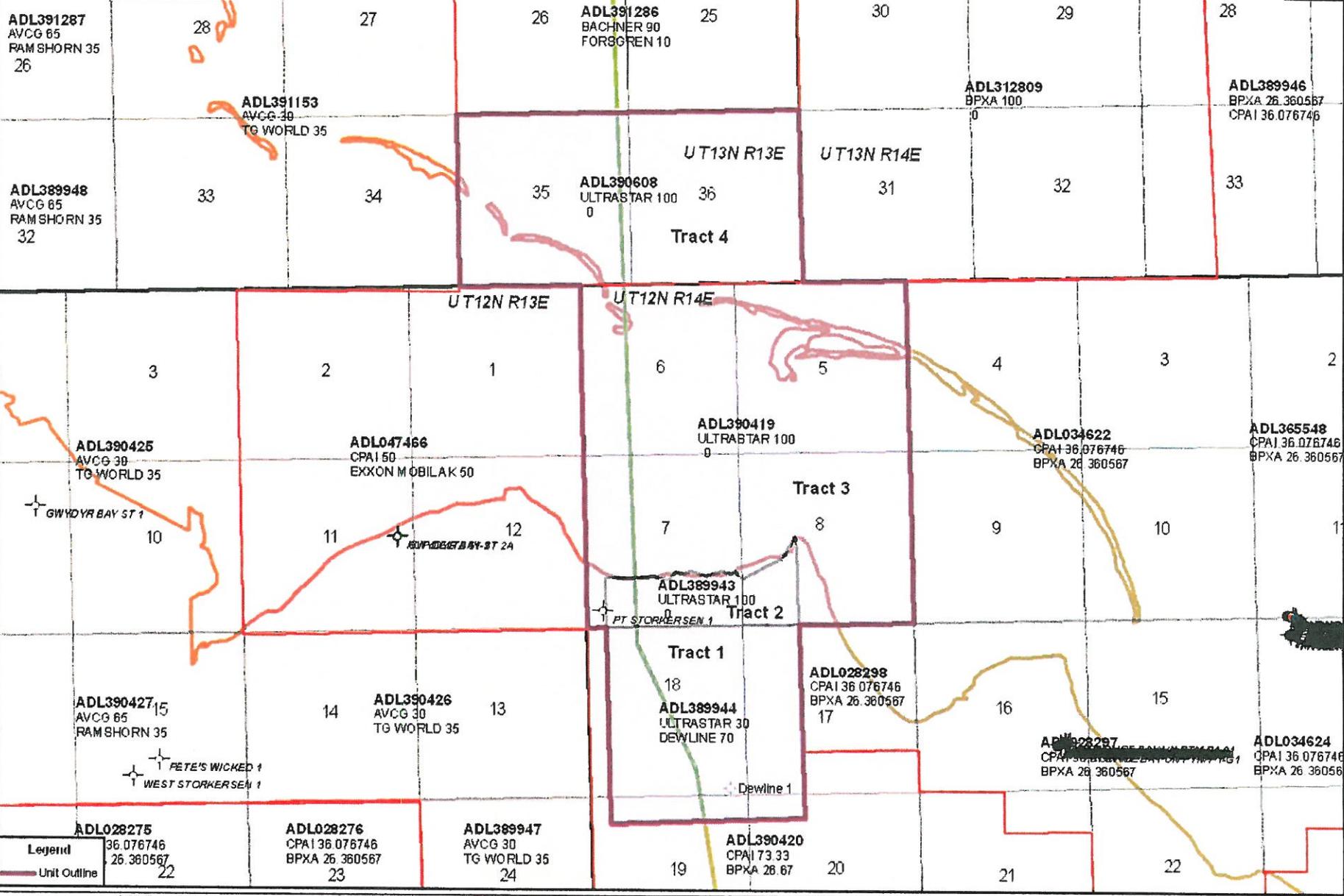
VI. ATTACHMENTS

- 1) Exhibit A Dewline Unit (unit tracts, royalty, working interest ownership)
- 2) Exhibit B Dewline Unit (map of the unit and tract boundaries)
- 3) Exhibit G, Dewline Unit Second Revised Initial Unit Plan of Exploration, revised as of December 15, 2010.

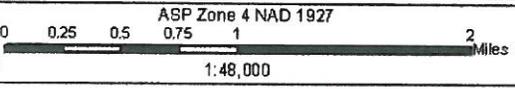
EXHIBIT A
DEWLINE UNIT
 REVISED OCTOBER 31, 2010

Tract #	Legal Description	Lease #	Acreage	Royalty Owner & Percentage	Working Interest Owners	WIO Percentage	Overriding Royalty Interests	ORRI Percentage
1	T. 12 N., R. 14 E., U.M. Sec. 17: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section; Sec. 18: Surveyed, That portion of U.S. Survey 4044, Lots 1 & 2, lying within the section; Sec. 19: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section; Sec. 20: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section;	ADL - 389944	816.56	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
2	T. 12 N., R. 14 E., U.M. Sec. 7: Surveyed, That portion of U.S. Survey 4044, Lots 1 & 2, lying within the section; Sec. 8: Surveyed, That portion of U.S. Survey 4044, Lot 2, lying within the section;	ADL - 389943	201.91	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
3	T. 12 N., R. 14 E., U.M. Sec. 5: Unsurveyed, All tide and submerged lands; Sec. 6: Unsurveyed, All tide and submerged lands; Sec. 7: Unsurveyed, All tide and submerged lands; Sec. 8: Unsurveyed, All tide and submerged lands; T. 12 N., R. 14 E., Tract B, U.M. Sec. 7: Unsurveyed, All uplands excluding U.S. Survey 4044, Lots 1 & 2; Sec. 8: Unsurveyed, All uplands excluding U.S. Survey 4044, Lot 2; Special Surveys U.S. Survey 9137, That portion located in Sections 5 & 6.	ADL - 390419	2235.09	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
4	T.13 N., R. 13 E., UM Sec. 35: Unsurveyed, All Tide and Submerged Lands Sec. 36: Protracted. All Sec. 35: Tract A, Unsurveyed All Uplands	ADL 390608	1280	State of Alaska 16.666670%	ULTRASTAR EXPLORATION LLC	100.00%	N/A	
TOTALS		4,533.56	acres	ULTRASTAR EXPLORATION LLC		100.00%		

Exhibit B.
Dewline Unit
 Revised October 31, 2010



Legend
 Unit Outline



9/28/10
 Reference:
 Mapmakers Alaska 8/2010

**EXHIBIT G
DEWLINE UNIT**

Second Revised Initial Unit Plan of Exploration

RECEIVED

DEC 21 2010

**DIVISION OF
OIL AND GAS**

Revised as of December 15, 2010

The Dewline Unit is composed of four State of Alaska oil & gas leases: ADLs 389943, 389944, 390419 and 390608. ULTRASTAR EXPLORATION LLC, as Unit Operator, commits to the following Second Revised Initial Unit Plan of Exploration.

The Unit Operator will drill, or cause to be drilled, three exploration wells during this five-year plan. The first well, the Dewline #1, was drilled to penetrate the Ivishak formation within the Dewline Deep Prospect, with the Sag River and Kuparuk formations identified as secondary targets in the prospect area. The second well, the North Dewline #1, will be drilled to penetrate the Ivishak formation within the North Dewline Prospect, with the Sag River and Kuparuk formations identified as potential secondary targets in the prospect area. The third well, the North Dewline #2 well, will be drilled such that the bottom hole location of the well is located under lease ADL 390608. The Kuparuk formation is the primary target of this third well.

The unit operator drilled the Dewline #1 well in the first half of 2009. An ice road was built to the well location and an ice pad was built to serve as a drilling location. The rig was moved onto location and rigged up. The well was spudded on March 9, 2009 and was drilled and logged during that winter drilling season.

The unit operator is planning to drill the North Dewline #1 well in early 2012. This well will be drilled from an ice pad and drilling operations will be supported using an ice road. Should the well take longer than anticipated to finance, permit, drill and log, it will be drilled and logged by no later than the Spring of 2013.

Stage 1

1. By May 31, 2009 the unit operator plans to have drilled and logged the Dewline #1 well.

NOTE: This drilling commitment has been satisfied.

Stage 2

1. By May 31, 2013 the unit operator will have drilled and logged the North Dewline #1 well.

Stage 3

1. By May 31, 2014 the unit operator will have drilled and logged the North Dewline #2 well. The bottom hole location of the #2 well will be located under lease ADL 390608.

If the Stage 1 commitments are not met, the Dewline Unit will terminate effective the deadline date of the later unmet Stage 1 commitment (May 31, 2010), with ULTRASTAR

**EXHIBIT G
DEWLINE UNIT**

Second Revised Initial Unit Plan of Exploration

EXPLORATION LLC waiving the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the unit that are beyond their primary term.

If the Stage 2 commitment is not met, the Dewline Unit will terminate effective May 31, 2013, with ULTRASTAR EXPLORATION LLC waiving the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the unit that are beyond their primary term, unless an application for a participating area has been submitted on or before May 31, 2013.

In the event an application for a participating area has been submitted on or before May 31, 2013 and the Stage 2 commitment is not met, then the unit area will contract to include only the leases covered by the participating area application.

If the Stage 3 commitment is not met, the Dewline Unit will terminate effective May 31, 2014, with ULTRASTAR EXPLORATION LLC waiving the extension provisions of 11 AAC 83.140, Article 15.2 of the Unit Agreement, and the notice, hearing, and judicial proceedings provisions of 11 AAC 83.374 as to the termination of the Dewline Unit and the leases contained within the unit that are beyond their primary term, unless an application for a participating area has been submitted on or before May 31, 2014.

In the event an application for a participating area has been submitted on or before May 31, 2014 and the Stage 3 commitment is not met, then the unit area will contract to include only the leases covered by the participating area application.

If all the commitments in Stages 1, 2 and 3 are met, a Second Plan of Exploration or a First Plan of Development is due on October 1, 2014.

RECEIVED

DEC 21 2010

DIVISION OF
OIL AND GAS