

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Kenai Gas Field, Pool 6, Gas Storage Lease

ADL No. 390821

THIS LEASE is entered into **MAY 01 2006**, between the State of Alaska, "the state," and
Marathon Oil Company,

"the lessee," whether one or more, whose sole address for purposes of notification is under Paragraph 29.

In consideration of the payment made by the lessee to the state, and subject to the provisions of this lease, including the mitigation measures and lessee advisories attached to this lease and by this reference incorporated in this lease, the state and the lessee agree as follows:

1. GRANT. (a) Subject to the provisions in this lease, the state grants and leases to the lessee, without warranty, the exclusive right for Storage of Gas and Associated Substances in the Gas Storage Formation under the following described tracts of land:

T. 5 N., R. 11 W., Seward Meridian, Alaska

Section 28: Surveyed, $W\frac{1}{2}SW\frac{1}{4}$, 80.00 acres;
Section 29: Surveyed, $E\frac{1}{2}$, $E\frac{1}{2}W\frac{1}{2}$, $W\frac{1}{2}SW\frac{1}{4}$, $NW\frac{1}{4}NW\frac{1}{4}$, 600.00 acres;
Section 30: Surveyed, Lots 13, 14 and 15, $NE\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}$, 295.43 acres;
Section 30: Unsurveyed, All tide and submerged land within $SE\frac{1}{4}SW\frac{1}{4}$, 19.48 acres;
Section 31: Surveyed, Lots 3, 4, 5, 7, 8 and 10, $W\frac{1}{2}E\frac{1}{2}$, $NE\frac{1}{4}SE\frac{1}{4}$, 284.67 acres;
Section 31: Unsurveyed, All tide and submerged land within $E\frac{1}{2}NW\frac{1}{4}$ and $SW\frac{1}{4}$, 139.04 acres;

T. 4 N., R. 12 W., Seward Meridian, Alaska

Section 1: Surveyed, Lots 1, 2, 4 and 5, $NE\frac{1}{4}NE\frac{1}{4}$, $E\frac{1}{2}SE\frac{1}{4}$, 209.20 acres;
Section 1: Unsurveyed, All tide and submerged land within $W\frac{1}{2}E\frac{1}{2}$ and $E\frac{1}{2}W\frac{1}{2}$, 217.63 acres;
Section 12: Surveyed, Lots 5 thru 18 and 20, $E\frac{1}{2}E\frac{1}{2}$, $E\frac{1}{2}W\frac{1}{2}E\frac{1}{2}$, 269.81 acres;
Section 12: Unsurveyed, All tide and submerged land within $E\frac{1}{2}W\frac{1}{2}$ and $W\frac{1}{2}E\frac{1}{2}$, 207.70 acres;
Section 13: Surveyed, Lots 5 thru 12, and the easterly 330 feet of Lots 15 and 16, $E\frac{1}{2}NE\frac{1}{4}$, $E\frac{1}{2}W\frac{1}{2}NE\frac{1}{4}$, $E\frac{1}{2}W\frac{1}{2}SW\frac{1}{4}NE\frac{1}{4}$, $NE\frac{1}{4}SE\frac{1}{4}$, $E\frac{1}{2}NW\frac{1}{4}SE\frac{1}{4}$, $E\frac{1}{2}W\frac{1}{2}NW\frac{1}{4}SE\frac{1}{4}$, 226.08 acres;
Section 13: Unsurveyed, All tide and submerged land within $W\frac{1}{2}NE\frac{1}{4}$ and $E\frac{1}{2}NW\frac{1}{4}$, 88.92 acres;

containing approximately **2,637.96** acres, more or less (within the storage area as depicted on Exhibit A), and the nonexclusive right to install pipelines and build structures on the leased area for the purpose of Storage and to house and board employees in its operations on this leased area. The rights granted by this lease are to be exercised in a manner that will not unreasonably interfere with the rights of any permittee, lessee or grantee of the state consistent with the principle of reasonable concurrent uses as set out in Article VIII, Section 8 of the Alaska Constitution.

(b) If the leased area is described by protracted legal subdivisions and, after the effective date of this lease, the leased area is surveyed under the public land rectangular system, the boundaries of the leased area are those established by that survey, when approved, subject, however, to the provisions of applicable regulations relating to those surveys.

(c) If the state's ownership interest in the storage area is less than an entire and undivided interest, the grant under this lease is effective only as to the state's interest and the payments provided in this lease must be paid to the state in the proportion that the state's interest bears to the entire undivided fee.

(d) The state makes no representations or warranties, express or implied, as to title, or access to, or quiet enjoyment of, the leased area. The state is not liable to the lessee for any deficiency in title to the leased area, nor is the lessee or any successor in interest to the lessee entitled to any refund due to deficiency in title for any payments made under this lease.

2. **GAS STORAGE FORMATION.** Lessee proposes to use a gas sand horizon for the Storage of Gas, whether or not produced from state owned lands, which is defined in this lease as the "Gas Storage Formation" and is described as follows:

The gas sands occurring in the Kenai Field Sterling Gas Pool 6 in the stratigraphic equivalent of formations occurring between the measured depth of 4,366 feet and 4,569 feet below the surface of the ground in the KU 31-07x well, the surface wellhead of which is located in Section 6, Township 4 North, Range 11 West, Seward Meridian, Alaska.

3. **RESERVED RIGHTS.** (a) The state, for itself and others, reserves all rights not expressly granted to the lessee by this lease. These reserved rights include:

(1) the right to explore for Oil, Gas, and Associated Substances by geological and geophysical means;

(2) the right to explore for, develop, and remove natural resources including Oil, Gas, and Associated Substances on or from the leased area;

(3) the right to establish or grant easements and rights-of-way for any lawful purpose, including without limitation for shafts and tunnels necessary or appropriate for the working of the leased area or other lands for natural resources including Oil, Gas, and Associated Substances;

(4) the right to dispose of land within the leased area for well sites and well bores of wells drilled from or through the leased area to explore for or produce Oil, Gas, and Associated Substances in and from lands not within the leased area; and

(5) the right otherwise to manage and dispose of the surface of the leased area or interests in that land by grant, lease, permit, or otherwise to third parties.

(b) The rights reserved may be exercised by the state, or by any other person or entity acting under authority of the state, in any manner that does not unreasonably interfere with or endanger the lessee's operations under this lease.

4. **TERM.** This lease is issued for an initial term of 10 years from the effective date of this lease.

5. **RENEWAL.** Provided the lessee has complied fully with the terms of this lease, this lease is renewable for one or more additional, ten-year term periods under terms and conditions mutually agreed upon by both parties, provided that the minimum annual fee as required in paragraph 8(a) below for each renewal period will be not less than the minimum annual fee set for the preceding term increased by the Gross Domestic Product: Implicit Price Deflator, published by the Bureau of Economic Analysis, Economics and Statistics Administration, United States Department of Commerce, during the preceding term of this lease.

6. **REQUIRED OPERATIONS.** Lessee shall use the Gas Storage Formation for storage operations to maintain the lease. Any consecutive 24 month period without storage operations after the effective date will constitute a default of the lease under paragraph 24, unless cessation of storage operations is undertaken pursuant to an approved suspension of operations under paragraph 19. For the purposes of this paragraph, storage operations mean the Injection or Withdrawal of Gas.

7. **NATIVE GAS ROYALTY.** (a) The state and lessee agree for the purposes of this lease that as of August 1, 2005, the estimated ultimate recovery of Native Gas from the Gas Storage Formation shall be 552 billion cubic feet (BCF) and that there are 32.51 BCF of recoverable Native Gas in the Gas Storage Formation under the leased area based on a straight line p/z interpretation of the entire Pool 6 well production history data set and an abandonment pressure of 75 psia. Upon initiation of injection, the allocation of Native Gas withdrawn from the storage area shall be as indicated in Exhibit B.

(b) Lessee shall make additional royalty payments to the state for all Gas withdrawn from the Gas Storage Formation that exceeds the sum of the total Gas injected plus the 32.51 BCF Native Gas.

(c) Royalty on the Native Gas withdrawn from the Gas Storage Formation under the leased area will be paid under the terms of the applicable Oil and Gas leases and unit agreements. If Native Gas is withdrawn from state land with no applicable Oil and Gas lease, the lessee shall pay the state monthly royalty of the full market value of the Gas at the time it is withdrawn.

(d) The lessee may inject only Produced Gas owned by the lessee into the Gas Storage Formation.

8. FEES. Lessee shall pay: (a) A minimum annual fee of \$300,000.00, distributed and paid in accordance with paragraph 1(c) and the lessor's proportionate interest in the storage area. The minimum annual fee paid in advance is a credit on the monthly fee (section 8(b) below) for that lease year.

(b) A fee of \$.05 per thousand cubic feet (MCF) computed and paid monthly for all volumes of Produced Gas which are injected into the Gas Storage Formation, distributed and paid in accordance with paragraph 1(c) and the lessor's proportionate interest in the storage area.

(c) The fee in 8(b) will be adjusted annually using the Gross Domestic Product: Implicit Price Deflator (GDPIPD), published by the Bureau of Economic Analysis, Economics and Statistics Administration, United States Department of Commerce, during the term of this lease for all Gas injected. The fees in 8(b) above for each lease year will be computed as follows:

GDPIPD (third quarter of current year)		X	.050000

GDPIPD (Base Year - third quarter 2005)			= per MCF fee for the following lease year

(d) The lessee shall pay the minimum annual fee to the state in advance, on or before the annual anniversary date of this lease. The state may designate another depository with at least 60 days notice to the lessee. The state is not required to give notice that fees are due. If the state's (or depository's) office is not open for business on the annual anniversary date of this lease, the time for payment is extended to include the next day on which that office is open for business.

(e) The lessee will report via a spreadsheet to the state the amount of the monthly gas injection and the monthly fee. Once the accumulated monthly fee for the lease year exceeds the minimum annual fee, the lessee will pay the state the additional fee amount on or before the last federal banking day of the calendar month following the month of injection.

9. STORAGE LIMITATION. Storage operations shall not result in total gas in place within the Gas Storage Formation in excess of 50 BCF at the end of any calendar month. For the purposes of this paragraph, total gas in place is defined as the sum of Native Gas and Non-Native Gas as reported under paragraph 15(c).

10. RECORDS. The lessee shall keep and have in its possession books and records showing the development and Storage operations (including records of development, Injection and Withdrawal expenses) and disposition (including records of sale prices, volumes, and purchasers) of all Gas and Associated Substances injected or withdrawn from the storage area. The lessee shall permit the state or its agents to examine these books and records at all reasonable times. Upon request by the state, the lessee's books and records must be made available to the state at the state office designated by the state. These books and records must employ methods and techniques that will ensure the most accurate figures reasonably available. The lessee shall use generally accepted accounting principles consistently applied.

11. PAYMENTS. All payments to the state under this lease must be made payable in the manner directed by the state, and unless otherwise specified, must be delivered to the state at:

DEPARTMENT OF NATURAL RESOURCES
550 WEST 7TH AVENUE, SUITE 1410
ANCHORAGE, ALASKA 99501-3561
ATTENTION: FINANCIAL SERVICES SECTION

or in person at either of the Department's Public Information Centers located at

550 W. 7th Ave., Suite 1260
Anchorage, Alaska

3700 Airport Way
Fairbanks, Alaska

or to any depository designated by the state with at least 60 days notice to the lessee.

12. STORAGE OPERATIONS PLAN. 11 AAC 83.158 will apply to all operations under this lease. Lessee shall have an approved operations plan prior to commencing Storage operations.

13. STORAGE DEVELOPMENT PLAN. (a) The lessee shall file annually two copies of an application for approval by the state of a development plan that must describe the lessee's plans under this lease. The plan must include the estimated size in surface acreage or shape, estimated volume of recoverable Gas in the Gas Storage Formation, total capacity, and working capacity of the Gas Storage Formation and any other engineering, geological or operational data that may be requested by the Division. The development plan must include maps and statements describing: long-range activities for the leased area; plans for expansion or contraction of this lease; details of proposed operations for at least one year following submission of the plan; and the sequence and schedule of the operations (Injection and Withdrawal volumes) to be conducted on or in the storage area, including the date operations are proposed to begin and their proposed duration. Lessee shall have an approved development plan prior to commencing Storage operations.

(b) The development plan must be revised, updated, and submitted to the state for approval 60 days before the anniversary date of the previously approved plan. If no changes from an approved plan are contemplated for the following year, the lessee shall file a statement to that effect for approval in lieu of the required revision and update. The Lessee shall notify the Division of any anticipated changes in a project resulting in alteration of conditions that were originally approved, including: increase in size of the project; increase in the approved zone pressure; changes in the Injection and Withdrawal intervals; changes in the observation and collection intervals; or monitoring procedures. No changes may be carried out without Commissioner approval.

(c) The lessee may, with the approval of the state, modify an approved development plan.

14. UNITIZATION. AS 38.05.180(p) and 11 AAC 83.300 - .395 will apply to this lease.

15. INFORMATION ACQUIRED FROM OPERATIONS. (a) The lessee shall submit to the state all geological, geophysical and engineering data and analyses obtained from the lease within 30 days following the completion of a well in the Gas Storage Formation. The lessee shall submit to the state data and analyses acquired subsequent to well completion within 30 days following acquisition of that data. The state may waive receipt of operational data from some development, service or injection wells. The state will inform the operator of the waiver prior to well completion. The lessee shall submit the data and analyses to the Division at the location specified in paragraph 29 of this lease. The data and analyses must include the following:

(1) a copy of the completion report (AOGCC form 10-407) with an attached well summary, including daily drilling reports, formation tops encountered, a full synopsis of drillstem and formation testing data, an identification of zones of abnormal pressure, Oil and Gas shows and cored intervals;

(2) latitudinal and longitudinal coordinates for the completed surface and bottom hole locations;

(3) a copy of the permit to drill (AOGCC form 10-401 only) and the survey plat of the well location;

(4) a paper copy (no sepia copies) of all final 2-inch open hole and cased hole logs, including measured depth and true-vertical depth versions, specialty logs (such as Schlumberger's cyberlook, formation microscanners and dipmeter logs), composite mud or lithology log and report, measured-while-drilling (MWD) and logged-while-drilling (LWD) logs, velocity and directional surveys;

(5) a digital version of well logs in LAS, LIS or ASCII format on IBM format floppy disks, a digital version of velocity surveys in SEG Y format, a digital version of directional surveys in ASCII format (other formats may be acceptable upon agreement with the Division); and

(6) a paper copy of all available well analyses, including geochemical analyses, core analyses (porosity, permeability, capillary pressure, photos, and descriptions), paleontologic and palynologic analyses, thermal maturation analyses, pressure build up analyses, and fluid PVT analyses (an ASCII format digital version of the above information shall also be submitted, if available). The state may require the lessee to submit additional information in accordance with the applicable statutes and regulations in effect at the time of the completion date of the well.

(b) Any information submitted to the state by the lessee in connection with this lease will be available at all times for use by the state and its agents. The state will keep information confidential under AS 38.05.035(a)(9) and its applicable regulations. In accordance with AS 38.05.035(a)(9)(C), in order for geological, geophysical and engineering information submitted under paragraphs 13(a) and 15(a) of this lease to be held confidential, the lessee shall request confidentiality at the time the information is submitted. The information must be marked **CONFIDENTIAL**.

(c) In addition to the spreadsheet required in 8(e) above, the operator of the lease will provide the state an electronic operator report as specified in State of Alaska Oil and Gas Royalty Reporting Instructions (11 AAC 04).

16. GAS MEASUREMENT. The lessee shall measure all Gas injected into and withdrawn from the Gas Storage Formation, and keep a record of all Injections and Withdrawals. Lessee shall submit to the Division within 30 days after each calendar month, a statement certified by lessee showing the total amount of Gas injected into

and withdrawn from the Gas Storage Formation during that preceding calendar month, a copy of the Monthly Injection Report (AOGCC Form 10-406) and Facility Report of Produced Gas Disposition (AOGCC Form 10-422), and any other engineering, geological, or operational data that may be requested by the state. The amount of injected and withdrawn Gas reported each month must be computed at a standard pressure of 14.65 pounds per square inch absolute and a standard temperature of 60 degrees Fahrenheit, regardless of the pressure and temperature at which the Gas was actually measured.

17. DILIGENCE AND PREVENTION OF WASTE. (a) The lessee shall exercise reasonable diligence in Drilling wells and conducting Storage operations on the leased area unless consent to suspend operations temporarily is granted by the state.

(b) The lessee shall perform all operations under this lease in a good and workmanlike manner in accordance with the methods and practices set out in the approved operations plan and development plan, with due regard for the prevention of waste of Oil, Gas, and Associated Substances and the entrance of water into the Oil and Gas-bearing sands or strata, and to the preservation and conservation of the property for future productive operations. The lessee shall carry out at the lessee's expense all orders and requirements of the state regarding the prevention of waste and the preservation of the leased area. If the lessee fails to carry out these orders, the state will have the right, together with any other available legal recourse, to enter the leased area to repair damage or prevent waste at the lessee's expense.

(c) The lessee shall securely plug in an approved manner any well before abandoning it.

18. INSPECTION. The lessee shall keep open at all reasonable times, for inspection by any duly authorized representative of the state, the leased area, all wells, improvements, machinery, and fixtures on the leased area, and all reports and records relative to operations and surveys or investigations on or with regard to the leased area or under this lease. Upon request, the lessee shall furnish the state with copies of and extracts from the reports and records.

19. SUSPENSION. The state may from time to time direct or approve in writing suspension of Storage operations under this lease in accordance with 11 AAC 82.670. Nothing in this paragraph suspends the obligation to pay fees, royalties or other production or profit-based payments to the state from operations on the leased area that are not affected by any suspension.

20. FORCE MAJEURE. If the state determines that the lessee has been prevented by Force Majeure, after efforts made in good faith, from performing operations under this lease, this lease will not expire during the period of Force Majeure. Nothing in this paragraph suspends the obligation to pay fees, royalties or other production or profit-based payments to the state from operations on the leased area that are not affected by any Force Majeure.

21. ASSIGNMENT. This lease, or an interest in this lease, may, with the approval of the state, be assigned, subleased, or otherwise transferred to any person or persons qualified to hold a lease in accordance with 11 AAC 82.605-11 AAC 82.630.

22. SURRENDER. The lessee at any time may file with the state a written surrender of rights under this lease in accordance with 11 AAC 82.635.

23. EXPANSION. If the Commissioner determines that Gas is migrating from the Gas Storage Formation to other formations or that Gas within the Gas Storage Formation is expanding beyond the limits of the storage area, this lease may be amended, effective as of the date prescribed by the Commissioner, to include additional formations or lands subject to the same terms and conditions applicable to the lands and formations previously committed to this lease.

24. DEFAULT AND TERMINATION; EXPIRATION; CANCELLATION. (a) The failure of the lessee to perform timely its obligations under this lease, or the failure of the lessee otherwise to abide by all express and implied provisions of this lease, is a default of the lessee's obligations under this lease. Whenever the lessee fails to comply with any of the provisions of this lease, and fails within 60 days after written notice of that default to begin and diligently prosecute operations to remedy that default, the state may terminate this lease.

(b) The state may cancel this lease at any time if the state determines, after the lessee has been given notice and a reasonable opportunity to be heard, that:

(1) continued operations under this lease will cause serious harm or damage to biological resources, to property, to mineral resources, or to the environment (including the human environment);

(2) the threat of harm or damage will not disappear or decrease to an acceptable extent within a reasonable period of time; and

(3) the advantages of cancellation outweigh the advantages of continuing this lease in effect. Any cancellation under this subparagraph will not occur unless and until operations under this lease have been under suspension or temporary prohibition by the state, with due extension of the term of this lease, continuously for a period of five years or for a lesser period upon request of the lessee.

(c) Any cancellation under subparagraph (b) will entitle the lessee to receive compensation that the lessee demonstrates to the state is equal to the lesser of:

(1) the value of the cancelled rights as of the date of cancellation, with due consideration being given to both anticipated revenues from this lease and anticipated costs, including costs of compliance with all applicable regulations and stipulations, liability for clean-up costs or damages, or both, in the case of an Oil spill, and all other costs reasonably anticipated under this lease; or

(2) the excess, if any, over the lessee's revenues from this lease (plus interest on the excess from the date of receipt to date of reimbursement) of all consideration paid for this lease and all direct expenditures made by the lessee after the effective date of this lease and in connection with exploration or development, or both, under this lease, plus interest on that consideration and those expenditures from the date of payment to the date of reimbursement.

(d) Upon expiration of this lease or termination or cancellation under Paragraph 25, if there is Non-Native Gas within the Gas Storage Formation under the storage area, the lessee shall be given a reasonable period not less than five and not greater than ten years in which to withdraw the Non-Native Gas from the Gas Storage Formation. The lessee and lessor shall meet to determine a mutually agreeable schedule of withdrawals to allow the lessee to produce and recover all quantities of the lessee's remaining Non-Native Gas. Such schedule shall be developed in recognition of prudent engineering practice, the then-applicable production capacity (as a function of in service compression, wells, and gathering lines), and conservation of resources. The minimum annual fee in effect at the time of termination, expiration or cancellation will continue during the agreed-to withdrawal period or until the Non-Native Gas is removed, whichever is earlier.

25. RIGHTS UPON TERMINATION. Upon the expiration or earlier termination or cancellation of this lease as to all or any portion of the leased area, the state shall direct the lessee in writing and the lessee shall have the right at any time within a period of one year after the expiration, termination, cancellation, or the agreed-to withdrawal period under paragraph 24(d), or any extension of that one-year period as may be granted by the state, to remove from the leased area or portion of the leased area all machinery, equipment, tools, and materials. Upon the expiration of that period or extension of that period and at the option of the state, any machinery, equipment, tools, and materials that the lessee has not removed from the leased area or portion of the leased area become the property of the state and may be removed by the state at the lessee's expense. At the option of the state, all improvements such as roads, pads, and wells must either be abandoned and the sites rehabilitated by the lessee to the satisfaction of the state, or be left intact and the lessee absolved of all further responsibility as to their maintenance, repair, and eventual abandonment and rehabilitation. Subject to the above conditions, the lessee shall deliver up the leased area or those portions of the leased area in good condition.

26. DAMAGES AND INDEMNIFICATION. (a) No rights reserved under the AS 38.05.125 may be exercised by the lessee until the lessee has provided to pay the owner of the land, his lessees and permittees, upon which the AS 38.05.125 reserved rights are sought to be exercised, full payment for all damage sustained by the owner by reason of entering the land. If the owner for any reason does not settle the damages, the lessee may enter the land after posting a surety bond determined by the state, after notice and an opportunity to be heard, to be sufficient in form, amount, and security to secure to the owner, his lessees and permittees, payment for damages, and may institute legal proceedings in a court of competent jurisdiction where the land is located to determine the damages which the owner of the land may suffer. The lessee agrees to pay for any damages that may become payable under AS 38.05.130 and to indemnify the state and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damages. The furnishing of a bond in compliance with this paragraph will be regarded by the state as sufficient provision for the payment of all damages that may become payable under AS 38.05.130 by virtue of this lease.

(b) The lessee shall indemnify the state for, and hold it harmless from, any claim, including claims for loss or damage to property or injury to any person caused by or resulting from any act or omission committed under this lease by or on behalf of the lessee. The lessee is not responsible to the state under this subparagraph for any loss, damage, or injury caused by or resulting from the sole negligence of the state.

(c) The lessee expressly waives any defense to an action for breach of a provision of this lease or for damages resulting from an Oil spill or other harm to the environment that is based on an act or omission committed by an

independent contractor in the lessee's employ. The lessee expressly agrees to assume responsibility for all actions of its independent contractors.

27. BONDS. Lessee agrees to maintain bonds in accordance with 11 AAC 83.505(4) and 11 AAC 83.160.

28. AUTHORIZED REPRESENTATIVES. The Director of the Division of Oil and Gas, Department of Natural Resources, State of Alaska, and the person executing this lease on behalf of the lessee will be authorized representatives for their respective principals for the purposes of administering this lease. The state or the lessee may change the designation of its authorized representative, or the address to which notices to that representative are to be sent, by a notice given in accordance with Paragraph 29 below. Where activities under a development plan are underway, the lessee shall also designate, by a notice under Paragraph 29 below, by name, job title, and address, an agent who will be present in the state during all lease activities.

29. NOTICES; PROTEST. (a) Any notices required or permitted under this lease must be by electronic media producing a permanent record or in writing and must be given personally or by registered or certified mail, return receipt requested, addressed as follows:

TO THE STATE:

DIRECTOR, DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES
550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560

TO THE LESSEE:

MARATHON OIL COMPANY
P.O. BOX 196168
ANCHORAGE, ALASKA 99519-6168
ATTENTION: LAND MANAGER

(b) Any notice given under this paragraph will be effective when delivered to the above authorized representative.

(c) A lessee who wishes to protest the amount of money due the state under this lease or any action of the state regarding a provision of this lease must file a written protest with the Division within 30 days after the mailing date of the state's notice or bill. A lessee who fails to file a protest within the required time waives any further right to protest. The state will establish the administrative appeal procedure to be followed and will inform the lessee of the procedure no later than 30 days after the filing of the written protest.

30. STATUTES AND REGULATIONS. This lease is subject to all applicable state and federal statutes and regulations in effect on the effective date of this lease, and to all statutes and regulations placed in effect after the effective date of this lease. A reference to a statute or regulation in this lease includes any change in that statute or regulation whether by amendment, repeal and replacement, or other means. This lease does not limit the power of the state or the United States of America to enact and enforce legislation or to promulgate and enforce regulations affecting, directly or indirectly, the activities of the lessee or its agents in connection with this lease or the value of the interest held under this lease. In case of conflicting provisions, statutes and regulations take precedence over this lease.

31. INTERPRETATION. (a) This lease is to be interpreted in accordance with the rules applicable to the interpretation of contracts made in the State of Alaska. The paragraph headings are not part of this lease and are inserted only for convenience. The state and the lessee expressly agree that the law of the State of Alaska will apply in any judicial proceeding affecting this lease.

(b) The term "including" when used in this lease will be by way of example only and shall not be considered in any way to be in limitation.

(c) Any reference to a dollar amount contained in this lease will refer to United States dollars.

(d) Unless the context requires otherwise, any reference in this lease to any document or instrument is a reference to that document or instrument and all schedules, exhibits, and attachments as amended and in effect from time to time.

(e) Unless otherwise stated, any reference in this lease to any person, entity, or organization includes its permitted successors and assigns and, in the case of any governmental authority, any person succeeding to its functions and capacities.

(f) Unless the context requires otherwise, the present tense will be read to include the past tense and the past tense will be read to include the present tense, and the singular will be read to include the plural and the plural will be read to include the singular.

(g) This lease is the product of negotiation and collaboration between the state and lessee and interpretation of the terms of this lease shall favor neither party.

32. INTEREST IN REAL PROPERTY. It is the intention of the state and lessee that the rights granted to the lessee by this lease constitute an interest in real property in the leased area.

33. WAIVER OF CONDITIONS. The state reserves the right to waive any breach of a provision of this lease, but any waiver extends only to the particular breach waived and does not limit the rights of the state with respect to any future breach; nor will the waiver of a particular breach prevent cancellation of this lease for any other cause or for the same cause occurring at another time. Notwithstanding the foregoing, the state will not be deemed to have waived a provision of this lease unless it does so in writing.

34. SEVERABILITY. If it is finally determined in any judicial proceeding that any provision of this lease is invalid, the state and the lessee may jointly agree by a written amendment to this lease that, in consideration of the provisions in that written amendment, the invalid portion will be treated as severed from this lease and that the remainder of this lease, as amended, will remain in effect.

35. LOCAL HIRE. The lessee is encouraged to hire and employ local and Alaska residents and companies, to the extent they are available and qualified, for work performed on the leased area. Lessees shall submit, with the operations plan, a proposal describing the means by which the lessee will comply with this measure. The lessee is encouraged, in formulating this proposal, to coordinate with employment services offered by the state and local communities and to recruit employees from local communities.

36. NONDISCRIMINATION. The lessee and the lessee's contractors and subcontractors may not discriminate against any employee or applicant because of race, religion, marital status, change in marital status, pregnancy, parenthood, physical handicap, color, sex, age, or national origin as set out in AS 18.80.220. The lessee and its contractors and subcontractors must, on beginning any operations under this lease, post in a conspicuous place notices setting out this nondiscrimination provision.

37. DEFINITIONS. All words and phrases used in this lease will be interpreted in accordance with AS 01.10.040. However, the following words have the following meanings unless the context unavoidably requires otherwise:

(1) "Associated Substances" means all substances except helium produced as an incident of production of Oil or Gas by ordinary production methods and not defined in this lease as Oil or Gas;

(2) "Commissioner" means the Commissioner of Natural Resources;

(3) "Division" means Division of Oil and Gas, Department of Natural Resources;

(4) "Drilling" means the act of boring a hole to reach a proposed bottom hole location through which Gas may be injected or withdrawn, and includes re-drilling, 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;

(5) "Force Majeure" means war, riots, acts of God, unusually severe weather, or any other cause beyond the lessee's reasonable ability to foresee or control and includes operational failure of existing transportation facilities and delays caused by judicial decisions or lack of them;

(6) "Gas" means all natural Gas (except helium gas) and all other hydrocarbons that are not defined in this lease as Oil;

(7) "Gas Storage Formation" means the reservoirs described in paragraph 2;

(8) "Injection" means the deposit of Non-Native Gas into the Gas Storage Formation;

(9) "Native Gas" means Gas within the Gas Storage Formation that has not been produced and for which production royalties have not been paid;

(10) "Non-Native Gas" means Gas injected into the leased area that has been previously produced and for which production royalties have been paid.

(11) "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;

(12) "Produced Gas" means Gas for which royalty has been paid to the mineral owner;

(11) "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;

(12) "Produced Gas" means Gas for which royalty has been paid to the mineral owner;

(13) "Storage" means the compression, Injection, containment, Withdrawal, treatment, processing, transportation, marketing and selling of Non-Native Gas;

(14) "Withdrawal" means the removal of Non-Native Gas from the Gas Storage Formation;

38. EFFECTIVE DATE. This lease takes effect on **MAY 01 2006**

BY SIGNING THIS LEASE, the state as lessor and the lessee agree to be bound by its provisions.

STATE OF ALASKA

By: *William D. Van Dyke*
William D. Van Dyke
Acting Director, Division of Oil and Gas

STATE OF ALASKA)
) ss.
Third Judicial District)

On **MAY 08 2006**, before me appeared William D. Van Dyke of the Division of Oil and Gas of the State of Alaska, Department of Natural Resources, and who executed this lease and acknowledged voluntarily signing it on behalf of the State of Alaska as lessor.

Dianna L. Lewis
Notary public in and for the State of Alaska
My commission expires September 28, 2007



MARATHON OIL COMPANY

By: *G. B. Robinson, Jr.*
G. B. Robinson, Jr.
Attorney in Fact

STATE OF ALASKA)
) ss.
Third Judicial District)

On **MAY 08 2006**, before me appeared G. B. Robinson, Jr., Attorney in Fact for MARATHON OIL COMPANY, and who executed this lease and acknowledged voluntarily signing it on behalf of MARATHON OIL COMPANY as lessee.

Dianna L. Lewis
Notary public in and for the State of Alaska
My commission expires September 28, 2007



MITIGATION MEASURES AND LESSEE ADVISORIES

Facilities and Operations

1. The Lessee must submit a plan of operations to the state for approval as required by 11 AAC 83.158. Where surface activities are proposed on non state-owned land, the Lessee must submit a copy of the plan of operations to the private surface owner. Plans of operation must describe the Lessee's efforts to minimize impacts on residential areas and privately-owned surface lands.
2. The Lessee must disclose any requests for exceptions to these mitigation measures and advisories in their plans of operation and applicable permit applications.
3. A plan of operations must describe the Lessee's efforts to minimize impacts on residential, commercial, and recreational areas, Native allotments and subsistence use areas. At the time of application, the Lessee must submit a copy of the proposed plan of operations to all surface owners whose property will be entered.
4. Facilities must be designed and operated to minimize sight and sound impacts in areas of high residential, commercial, recreational, and subsistence use and important wildlife habitat. Methods may include providing natural buffers and screening to conceal facilities, sound insulation of facilities, or by using alternative means approved by the Director, in consultation with OHMP.
5. The siting of facilities other than docks, roads, utility or pipeline corridors, will be prohibited within 500 feet of all fish bearing waterbodies. A facility may be sited within this buffer if the Lessee demonstrates to the satisfaction of the Director, in consultation with OHMP and the KPB, that a site location outside this buffer is not feasible and prudent or that a location inside the buffer is environmentally preferred. Road, utility and pipeline crossings must be aligned perpendicular or near perpendicular to watercourses.
6. Impacts to important wetlands must be minimized to the satisfaction of the Director, in consultation with OHMP and ADEC. The Director will consider whether facilities are sited in the least sensitive areas. Further, all activities within wetlands require permission from the U.S. Army Corps of Engineers (see Lessee Advisories).
7.
 - a. Pipelines that must cross marine waters will be constructed beneath the marine waters using directional drilling techniques, unless the Director, in consultation with OHMP and the KPB, approves an alternative method based on technical, environmental, and economic justification.
 - b. Wherever possible, onshore pipelines must utilize existing transportation corridors and be buried where soil and geophysical conditions permit. In areas where pipelines must be placed above ground, pipelines must be sited, designed and constructed to allow free movement of wildlife.
 - c. Pipelines must be located upslope of roadways and pads and must be designed to facilitate the containment and cleanup of any associated hydrocarbons and petroleum products. Pipelines, flowlines, and gathering lines must be designed and constructed to assure integrity against environmental conditions and geophysical hazards.
8. Dismantlement, Removal and Rehabilitation (DR&R): Upon abandonment of material sites, well sites, roads or other facilities, such facilities must be removed and the site rehabilitated to the satisfaction of the Director, unless the Director, in consultation with DMLW, OHMP, DEC, KPB, and any non-state surface owner, determines that such removal and rehabilitation is not in the state's interest.
9. With the exception of facilities specifically permitted, facilities must be consolidated, and the use of gravel must be minimized. Use of abandoned gravel structures may be permitted on an individual basis.
10. Gravel mining within an active floodplain will be prohibited. Upland sites will be restricted to the minimum necessary to effect lease operations efficiently.

Fish and Wildlife Habitat

11. Compaction or removal of snow cover overlying fish bearing waterbodies is prohibited except for approved crossings. If ice thickness is not sufficient to facilitate a crossing, ice or snow bridges may be required.
12. Surface entry will be prohibited within one-quarter mile of trumpeter swan nesting sites from April 1 through August 31. The siting of permanent facilities, including roads, material sites, storage areas, powerlines, and

above-ground pipelines will be prohibited within one-quarter mile of known nesting sites. Trumpeter swan nesting sites will be identified by ADF&G at the request of the Lessee.

13. Before commencement of any activities requiring human presence, the Lessee shall consult with ADF&G to identify the locations of known bear den sites that are occupied in the season of proposed activity. Activities requiring human presence may not be conducted within ½-mile of known occupied brown bear dens, unless alternative mitigation measures are approved by ADF&G. A Lessee who encounters an occupied bear den not previously identified by ADF&G must report it to the Division of Wildlife Conservation, ADF&G, within 24 hours (Soldotna, 907-262-9368).

Access

14. Public access to, or use of, the leased area may not be restricted except within the immediate vicinity of well sites and related structures. Areas of restricted access must be identified in the plan of operations. Lease facilities and operations shall not be located so as to block access to or along navigable and public waters as defined at AS 38.05.965(13) and (17).

Waste and Wastewater Disposal

15. Waste from operations must be reduced, reused, or recycled to the maximum extent practicable. Garbage and domestic combustibles must be incinerated whenever possible or disposed of at an approved site in accordance with 18 AAC 60.
16. Discharge of drilling mud and cuttings into lakes, streams, rivers, or important wetlands is prohibited. On pad temporary cuttings storage will be allowed as necessary to facilitate annular injection, regulated by AOGCC, or backhaul operations in accordance with ADEC solid waste regulations at 18 AAC 60.
17. Wastewater disposal:
 - a. Unless authorized by NPDES and/or state permit, disposal of wastewater into freshwater bodies, intertidal areas, or estuarine waters is prohibited.
 - b. Disposal of produced waters to freshwater bodies, intertidal areas, and estuarine waters is prohibited.
 - c. Disposal of produced waters in upland areas, including wetlands, will be by subsurface disposal techniques approved by AOGCC.
 - d. Surface discharge of reserve pit fluids will be prohibited unless authorized in a permit issued by ADEC and approved by DMLW.

Fuel and Hazardous Substances

18. Secondary containment shall be provided for the storage of fuel or hazardous substances.
19. During equipment storage or maintenance, the site shall be protected from leaking or dripping fuel and hazardous substances by the placement of drip pans or other surface liners designed to catch and hold fluids under the equipment, or by creating an area for storage or maintenance using an impermeable liner or other suitable containment mechanism.
20. During fuel or hazardous substance transfer, secondary containment or a surface liner must be placed under all container or vehicle fuel tank inlet and outlet points, hose connections, and hose ends. Appropriate spill response equipment, sufficient to respond to a spill of up to five gallons, must be on hand during any transfer or handling of fuel or hazardous substances. Trained personnel shall attend transfer operations at all times.
21. Vehicle refueling shall not occur within the annual floodplain, except as addressed and approved in the plan of operations.
22. All independent fuel and hazardous substance containers shall be marked with the contents and the Lessee's or contractor's name using paint or a permanent label.
23. A fresh water aquifer monitoring well, and quarterly water quality monitoring, is required down gradient of a permanent fuel storage facility, unless alternative acceptable technology is approved by ADEC.

Prehistoric, Historic, and Archeological Sites

24.
 - a. Prior to the construction or placement of any structure, road, or facility, the Lessee must conduct an inventory of prehistoric, historic, and archeological sites within the area affected by an activity. The inventory must include consideration of literature provided by the KPB and local residents; documentation of oral history regarding prehistoric and historic uses of such sites; evidence of consultation with the Alaska Heritage Resources Survey and the National Register of Historic Places; and site surveys. The inventory must also include a detailed analysis of the effects that might result from the activity.
 - b. The inventory must be submitted to the Director for distribution to DPOR for review and comment. In the event that a prehistoric, historic, or archeological site or area may be adversely affected by a leasehold activity, the Director, after consultation with DPOR and the KPB, will direct the Lessee as to what course of action will be necessary to avoid or minimize the adverse effect.
 - c. In the event any site, structure, or object of prehistoric, historic, or archaeological significance is discovered during leasehold operations, the Lessee must immediately report such findings to the Director. The Lessee must make every reasonable effort to preserve and protect such site, structure, or object from damage until the Director, after consultation with the SHPO, has given directions as to its preservation.

Local Hire and Training

25. To the extent they are available and qualified, the Lessee is encouraged to employ local and Alaska residents and contractors for work performed on the leased area. The Lessee shall submit, as part of the plan of operations, a proposal detailing the means by which the Lessee will comply with the measure. The proposal must include a description of the operator's plans for partnering with local communities to recruit and hire local and Alaska residents and contractors. The Lessee is encouraged, in formulating this proposal, to coordinate with employment services offered by the state of Alaska and local communities and to recruit employees from local communities.
26. A plan of operations application must include a description of a training program for all personnel, including contractors and subcontractors. The program must be designed to inform each person working on the project of environmental, social, and cultural concerns that relate to the individual's job. The program must use methods to ensure that personnel understand and use techniques necessary to preserve geological, archeological, and biological resources. In addition, the program must be designed to help personnel increase their sensitivity and understanding of community values, customs, and lifestyles in areas where they will be operating.

Lessee Advisories

Lessee Advisories are intended to alert the Lessee to possible additional restrictions that may be imposed at the permitting stage of a proposed project or activity, especially where entities other than DO&G have permitting authority.

DNR/OHMP and DNR/DMLW

1. Under the provisions of Title 41 of the Alaska Statutes, the measures listed below may be imposed by OHMP to protect designated anadromous fish bearing streams and to ensure the free and efficient passage of fish in all fish-bearing water bodies. Specific information on the location of anadromous waterbodies and prior written approval for activities affecting fishbearing waterbodies may be obtained from OHMP.
 - a. Alteration of river banks may be prohibited.
 - b. Operation of equipment within riparian habitats may be prohibited.
 - c. The operation of equipment, excluding boats, in open water areas of rivers and streams will be prohibited.
 - d. Bridges or non-bottom founded structures will be required for crossing fish spawning and important rearing habitats. In areas where culverts are used, they must be designed, installed, and maintained to provide for the efficient passage of fish.
2. Removal of water from fish bearing waterbodies shall be subject to prior written approval by OHMP and DMLW.
3. For activity in proximity to areas frequented by bears, the Lessee is encouraged to prepare and implement bear interaction plans to minimize conflicts between bears and humans. These plans could include measures to: (a)

minimize attraction of bears to drill sites; (b) organize layout of facilities and work areas to minimize human/bear interactions; (c) warn personnel of bears near or on work sites and the proper procedures to take; (d) if authorized, deter bears from the work site; (e) provide contingencies in the event bears do not leave the site; (f) discuss proper storage and disposal of materials that may be toxic to bears; and (g) provide a systematic record of bears on site and in the immediate area.

DNR/OPMP

4. Pursuant to Alaska Statutes, the Lessee is required to comply with all requirements of the Alaska Coastal Management Program, including the District Coastal Management Plan.

ADEC

5. The Lessee is advised that air quality permits may be required prior to construction and operation, pursuant to state regulations administered by ADEC and the Clean Air Act administered by EPA.

USCOE

6. Any activity involving wetland-related dredge or fill activities requires a permit from the USCOE.

USFWS

7. Bald eagles are protected under the Bald Eagle Protection Act (16 U.S.C. 668-668c) and the Migratory Bird Treaty Act of 1918 (16 U.S.C. 703-712) and are under authority of the USFWS. The Lessee is responsible to ensure its actions do not take bald eagles. The Eagle Protection Act defines "take" to include disturbing birds. Any nests located within ½-mile of the project site must be mapped, and destruction of nest trees or locations is prohibited. If any nests are located within ½-mile of a project site, the Lessee shall meet with the USFWS to review any site-specific concerns regarding the subject nest. The USFWS generally recommends no clearing of vegetation within 330 feet of any nest. No activity should occur within 660 feet of any nests between March 1 and June 1. Between June 1 and August 31, no activity should occur within 660 feet of active eagle nests until after juvenile birds have fledged, unless specifically authorized by the USFWS. While the USFWS can recommend ways to avoid the take of eagles, final accountability lies with the party responsible for the action.
8. The Lessee is advised of the need to comply with the Migratory Bird Treaty Act (MBTA) (16 U.S.C. 703) which is administered by the USFWS. Under the MBTA, it is illegal to "take" migratory birds, their eggs, feathers or nests. "Take" is defined (50 CFR 10.12) to include "pursuing, hunting, shooting, wounding, killing, trapping, capturing, or collecting." The MBTA does not distinguish between "intentional" and "unintentional" take. Migratory birds include songbirds, waterfowl, shorebirds, and raptors. In Alaska, all native birds except grouse and ptarmigan (which are protected by the State of Alaska) are protected under the MBTA.

To ensure compliance with the MBTA, it is recommended that the Lessee survey the project area prior to construction, vegetation clearing, excavation, discharging fill or other activities that create disturbance, and confirm there are no active migratory bird nests. It is recommended the Lessee contact the USFWS for assistance and guidance on survey needs, and other compliance issues under the MBTA. While the Service can recommend methods to avoid unintentional take, responsibility for compliance with the MBTA rests with the Lessee.

Exhibit A
POOL 6 GAS STORAGE AREA

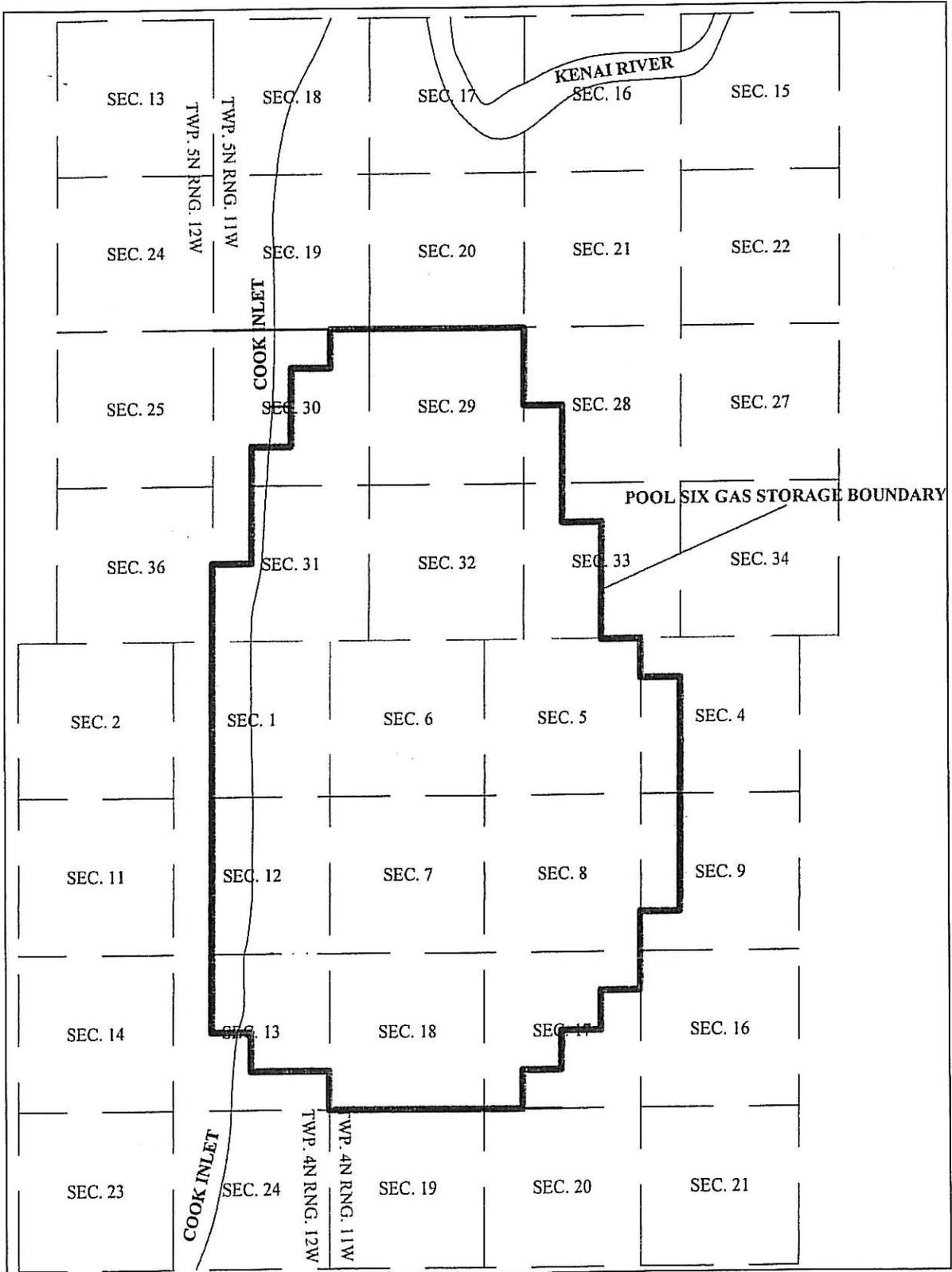


Exhibit B

ADL 390821

ALLOCATION OF PRODUCTION

Gas removed from the Gas Storage Formation shall be allocated as follows:

1. From date of first Non-Native Gas Injection, the percentage of Gas removed from the Gas Storage Formation that is agreed to be Native Gas shall be as follows:

Year 1	90%
Year 2	80%
Year 3	70%
Year 4	60%
Year 5	50%
All subsequent years	50%

except however that the allocation shall go to zero when the full volume of recoverable Native Gas as defined in Paragraph 7(a) has been recovered. Year 1 is the 12 month period commencing with the date of first Non-Native Gas Injection. Year 2 is the 12 month period immediately following Year 1, etc.

2. The allocation shall be 100% Native Gas if at any time there is zero Non-Native Gas in the Gas Storage Formation.