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FORM 10-K405

BP PRUDHOE BAY ROYALTY TRUST - BPT

Filed: March 28, 1997 (period: December 31, 1996)

Annual report filed under Regulation S-K Item 405 (Discontinued)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Fiscal Year ended December 31, 1996

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number 1-10243

BP PRUDHOE BAY ROYALTY TRUST
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

13-6943724
(I.R.S. Employer
Identification No.)

THE BANK OF NEW YORK, TRUSTEE
101 BARCLAY STREET, 21W
NEW YORK, NEW YORK
(Address of principal executive offices)

10286
(Zip Code)

Registrant's telephone number, including area code: (212) 815-5092

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange On Which Registered -----
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UNITS OF BENEFICIAL INTEREST	NEW YORK STOCK EXCHANGE
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Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

As of March 27, 1997, 21,400,000 Units of Beneficial Interest were outstanding. The aggregate market value of Units (based on the closing price of the Units in New York Stock Exchange composite trading on March 26, 1997 as reported in The Wall Street Journal) held by nonaffiliates was approximately \$337,050,000.

Documents Incorporated by Reference: None

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PART I

ITEM 1. BUSINESS	
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INTRODUCTION

BP Prudhoe Bay Royalty Trust (the "Trust"), a grantor trust, was created as a Delaware business trust pursuant to the BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 (the "Trust Agreement") among The Standard Oil Company ("Standard Oil"), BP Exploration (Alaska) Inc. (the "Company"), The Bank of New York, as trustee (the "Trustee"), and F. James Hutchinson, co-trustee (The Bank of New York (Delaware), successor co-trustee). The Company and Standard Oil are indirect, wholly owned subsidiaries of The British Petroleum Company p.l.c. ("BP"). The Trustee's corporate trust offices are located at 101 Barclay Street, New York, New York 10286 and its telephone number is (212) 815-5092.

Upon creation of the Trust, the Company conveyed to Standard Oil, and Standard Oil, in turn, conveyed to the Trust an overriding royalty interest (the "Royalty Interest"), which entitles the Trust to a royalty on 16.4246 percent of the first 90,000 barrels of the average actual daily net production of oil and condensate per quarter from the working interest of the Company as of February 28, 1989 in the Prudhoe Bay Unit located on the North Slope in Alaska. The Royalty Interest is free of any exploration and development expenditures.

The only assets of the Trust are the Royalty Interest assigned to the Trust and cash or cash equivalents held by the Trustee from time to time as reserves or for distribution. The Trust is a passive entity, and the Trustee has been given only such powers as are necessary for the collection and distribution of revenues from the Royalty Interest and the payment of Trust liabilities and expenses. The beneficial interest in the Trust is divided into equal undivided units (the "Units"). The Units are not an interest in or an obligation of the Company, Standard Oil or BP. The Delaware Trust Act, under which the Trust was formed, entitles holders of the Units to the same limitation of personal liability as stockholders of a Delaware corporation.

The Company shares control of the operation of the Prudhoe Bay Unit with other working interest owners. The operations of the Company and the other working interest owners are governed by an agreement dated April 1, 1977 among the State of Alaska and such working interest owners establishing the Prudhoe Bay Unit (the "Prudhoe Bay Unit Agreement") and an agreement dated April 1, 1977 among the working interest owners governing Prudhoe Bay Unit operations (the "Prudhoe Bay Unit Operating Agreement"). The Company has no obligation to continue production from the Prudhoe Bay Unit or to maintain production at any level and may interrupt or discontinue production at any time. The operation of the Prudhoe Bay Unit is subject to normal operating hazards incident to the production and transportation of oil in Alaska. In the event of damage to the Prudhoe Bay Unit which is covered by insurance, the Company has no obligation to use insurance proceeds to repair such damage and may elect to retain such proceeds and close damaged areas to production.

The Trustee has no responsibility for the operation of the Prudhoe Bay Unit or authority over the Company, Standard Oil or BP. The information in this report relating to the Prudhoe Bay Unit, the calculation of the royalty payments and certain other matters has been furnished to the Trustee by the Company.

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THE TRUST

Duties and Limited Powers of Trustee

The duties of the Trustee are as specified in the Trust Agreement and by the laws of the State of Delaware. The descriptions of certain provisions of the Trust Agreement in this section and elsewhere in this report do not purport to be complete and are qualified by reference to the relevant provisions of the Trust Agreement, which is filed as an exhibit to this report.

The basic function of the Trustee is to collect income from the Royalty Interest, to pay from the Trust's income and assets all expenses, charges and obligations of the Trust, and to pay available cash to holders of Units. The Bank of New York (Delaware) has been appointed co-trustee in order to satisfy certain requirements of the Delaware Trust Act, but The Bank of New York alone is able to exercise the rights and powers granted to the Trustee in the Trust

Agreement.

The Trust Agreement grants the Trustee only such rights and powers as are necessary to achieve the purposes of the Trust. The Trust Agreement prohibits the Trust from engaging in any business, any commercial activity or, with certain exceptions, investment activity of any kind and from using any portion of the assets of the Trust to acquire any oil and gas lease, royalty or other mineral interest. The Trustee may sell Trust properties only as authorized by a vote of the holders of Units, or when necessary, to provide for the payment of specific liabilities of the Trust then due (if, among other things, the Trustee determines that it is not practicable to submit such sale to a vote of the holders of Units, and it receives an opinion of counsel to the effect that such sale will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes), or upon termination of the Trust. Pledges or other encumbrances to secure borrowings are permitted without a vote of holders of Units if the Trustee determines such action is advisable. Any sale of Trust properties must be for cash unless otherwise authorized by the holders of Units, and the Trustee is obligated to distribute the available net proceeds of any such sale to the holders of Units after establishing reserves for liabilities of the Trust.

Except in certain circumstances, the Trustee is entitled to be indemnified out of the assets of the Trust for any liability, expense, claim, damage or other loss incurred by it in the performance of its duties unless such loss results from its negligence, bad faith, or fraud or from its expenses in carrying out such duties exceeding the compensation and reimbursement it is entitled to under the Trust Agreement.

Employees

The Trust has no employees. All administrative functions of the Trust are performed by the Trustee.

Property of the Trust

Except for cash and cash equivalents held by the Trustee from time to time, the property of the Trust consists exclusively of the Royalty Interest. The Royalty Interest was conveyed to the Trust pursuant to an Overriding

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Royalty Conveyance dated February 27, 1989 between the Company and Standard Oil and a Trust Conveyance dated February 28, 1989 between Standard Oil and the Trust. The Overriding Royalty Conveyance and the Trust Conveyance are referred to collectively herein as the "Conveyance." For a description of the terms of the Royalty Interest, see "THE ROYALTY INTEREST" below. The discussion of the terms of the Conveyance herein is qualified in its entirety by reference to the relevant provisions of the Overriding Royalty Conveyance and the Trust Conveyance which are filed with the Securities and Exchange Commission as exhibits to this report.

The interest conveyed to the Trust by the Conveyance is an overriding royalty interest consisting of the right to receive a Per Barrel Royalty for each barrel of Royalty Production. The meaning of these terms is more fully described below under "THE ROYALTY INTEREST." The Trust does not have the right to take oil and gas in kind.

The Royalty Interest constitutes a non-operational interest in minerals. The Trust has no right to take over operations or to share in any operating decision whatsoever with respect to the Company's working interest in the Prudhoe Bay Unit. The Company is not obligated to continue to operate any well or maintain in force or attempt to maintain in force any portion of its working interest in the Prudhoe Bay Unit when, in its reasonable and prudent business judgment such well or interest ceases to produce or is not capable of producing oil or gas in paying quantities.

Under the terms of the Prudhoe Bay Unit Operating Agreement, if the Company fails to pay any costs and expenses chargeable to the Company under the Prudhoe Bay Unit Operating Agreement and the production of oil and condensate is insufficient to pay such costs and expenses, the Royalty Interest is chargeable with a pro rata portion of such costs and expenses and is subject to the enforcement against it of liens granted to the operators of the Prudhoe Bay Unit. However, in the Conveyance the Company agreed to pay

timely all costs and expenses chargeable to it and to ensure that no such costs and expenses will be chargeable against the Royalty Interest. The Trust is not liable for any expense, claim, damage, loss or liability incurred by the Company or others attributable to the Company's working interest in the Prudhoe Bay Unit or to the oil produced from it, and the Company has agreed to indemnify the Trust and hold it harmless against any such impositions.

The Company has the right to amend or terminate the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement and any leases or conveyances with respect to its working interest in the exercise of its reasonable and prudent business judgment without liability to the Trust. The Company also has the right to sell or assign all or any part of its working interest in the Prudhoe Bay Unit, so long as the sale or assignment is expressly made subject to the Royalty Interest and the terms and provisions of the Conveyance.

Amendment of the Trust Agreement

The Trust Agreement may be amended without a vote of the holders of Units to cure an ambiguity, to correct or supplement any provision of the Trust Agreement that may be inconsistent with any other such provision or to make any other provision with respect to matters arising under the Trust Agreement that do not adversely affect the holders of Units. The Trust Agreement also may be amended with the approval of a majority of the outstanding Units at a meeting of holders of Units. However, no such amendment may alter the

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relative rights of Unit holders, unless approved by the affirmative vote of 100 percent of the holders of Units and by the Trustee, or reduce or delay the distributions to the holders of Units or effect certain other changes unless approved by the affirmative vote of 80 percent of the holders of Units and by the Trustee. No amendment will be effective until the Trustee has received a ruling from the Internal Revenue Service or an opinion of counsel to the effect that such modification will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes.

Resignation or Removal of Trustee

The Trustee may resign at any time or be removed with or without cause by the holders of a majority of the outstanding Units. Its successor must be a corporation organized and doing business under the laws of the United States, any state thereof or the District of Columbia, authorized under such laws to exercise trust powers, or a national banking association domiciled in the United States, in either case having a combined capital, surplus and undivided profits of at least \$50,000,000 and subject to supervision or examination by federal or state authorities. Unless the Trust already has a trustee that is a resident of or has a principal office in the State of Delaware, then any successor trustee will be such a resident or have such a principal office. No resignation or removal of the Trustee shall become effective until a successor trustee shall have accepted appointment.

Liabilities and Contingent Reserves

Because of the passive nature of the Trust's assets and the restrictions on the power of the Trustee to incur obligations, the only liabilities incurred by the Trust are routine administrative expenses, such as Trustee's fees, and accounting, legal and other professional fees.

The Trustee may establish a cash reserve for the payment of material liabilities of the Trust which may become due, if the Trustee has determined that it is not practical to pay such liabilities out of funds anticipated to be available for subsequent quarterly distributions and that, in the absence of such a reserve, the trust estate is subject to the risk of loss or diminution in value or The Bank of New York is subject to the risk of personal liability for such liabilities. Except in certain limited circumstances, before establishing such a reserve the Trustee must have received an opinion of counsel to the effect that the establishment and maintenance of such reserve will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the

Trust to be treated as unrelated business taxable income for federal income tax purposes. The Trustee is obligated, subject to certain conditions, to borrow funds required to pay liabilities of the Trust when due, and to pledge or otherwise encumber the Trust's assets, if it determines that the cash on hand is insufficient to pay such liabilities and that it is not practical to pay such liabilities out of funds anticipated to be available for subsequent quarterly distributions, provided that, except in certain limited circumstances, it has received an opinion of counsel to the effect described above. Borrowings must be repaid in full before any further distributions are made to holders of Units.

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Termination of the Trust

The Trust is irrevocable and the Company has no power to terminate the Trust. The Trust will terminate: (a) on or prior to December 31, 2010 upon a vote of holders of not less than 70 percent of the outstanding Units, or (b) after December 31, 2010 either (i) at such time as the net revenues from the Royalty Interest for two successive years commencing after 2010 are less than \$1,000,000 per year, unless the net revenues during such period have been materially and adversely affected by an event constituting force majeure, or (ii) upon a vote of holders of not less than 60 percent of the outstanding Units.

Upon termination of the Trust, the Company will have an option to purchase the Royalty Interest (for cash unless holders representing 70 percent of the Units outstanding (60 percent if the decision to terminate the Trust is made after December 31, 2010) authorize the sale for non-cash consideration and the Trustee has received a ruling from the Internal Revenue Service or an opinion of counsel to the effect that such non-cash sale will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes) at a price equal to the greater of (i) the fair market value of the trust estate as set forth in an opinion of an investment banking firm or other entity qualified to give an opinion as to the fair market value of the assets of the Trust, or (ii) the number of outstanding Units multiplied by (a) the closing price of Units on the day of termination of the Trust on the stock exchange on which the Units are listed, or (b) if the Units are not listed on any stock exchange but are traded in the over-the-counter market, the closing bid price on the day of termination of the Trust as quoted on the NASDAQ National Market System. If the Units are neither listed nor traded in the over-the-counter market, the price will be the fair market value of the trust estate as set forth in the opinion mentioned above.

If the Company does not exercise its option, the Trustee will sell the Trust properties pursuant to procedures or material terms and conditions approved by the vote of holders of 70 percent of the outstanding Units (60 percent if the sale is made after December 31, 2010), unless the Trustee determines that it is not practicable to submit such procedures or terms to a vote of the holders of Units, and the sale is effected at a price which is at least equal to the fair market value of the trust estate as set forth in the opinion mentioned above and pursuant to terms and conditions deemed commercially reasonable by the investment banking firm or other entity rendering such opinion.

After satisfying all existing liabilities and establishing adequate reserves for the payment of contingent liabilities, the Trustee will distribute all available proceeds to the holders of Units.

In the Trust Agreement, holders of Units have waived the right to seek or secure any portion or distribution of the Royalty Interest or any other asset of the Trust or any accounting during the term of the Trust or during any period of liquidation and winding up.

Voting Rights of Holders of Units

Although holders of Units possess certain voting rights, their voting rights are not comparable to those of shareholders of a corporation. For

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example, there is no requirement for annual meetings of holders of Units or

annual or other periodic reelection of the Trustee.

THE ROYALTY INTEREST

The Royalty Interest is a property right under Alaska law which burdens production, but there is no other security interest in the reserves or production revenues to which the Royalty Interest is entitled. The royalty payable to the Trust under the Royalty Interest for each calendar quarter is the sum of the product of (i) the Royalty Production and (ii) the Per Barrel Royalty for each day in the quarter. The payment under the Royalty Interest for any calendar quarter may not be less than zero nor more than the aggregate value of the total production of oil and condensate from the Company's working interest in the Prudhoe Bay Unit for such calendar quarter, net of the State of Alaska royalty and less the value of any applicable payments made to affiliates of the Company.

Royalty Production

The "Royalty Production" for each day in a calendar quarter is 16.4246 percent of the first 90,000 barrels of the actual average daily net production of oil and condensate for such quarter from the Prudhoe Bay (Permo-Triassic) Reservoir and allocated to the oil and gas leases owned by the Company in the Prudhoe Bay Unit as of February 28, 1989 or as modified thereafter by any redetermination provided under the terms of the Prudhoe Bay Unit Operating Agreement and the Prudhoe Bay Unit Agreement (the "Subject Leases"). The Royalty Production is based on oil produced from the oil rim and condensate produced from the gas cap, but not on gas production or natural gas liquids production. The actual average daily net production of oil and condensate from the Subject Leases for any calendar quarter is the total production of oil and condensate for such quarter, net of the State of Alaska royalty, divided by the number of days in such quarter.

Per Barrel Royalty

The "Per Barrel Royalty" in effect for any day is an amount equal to the WTI Price for such day less the sum of (i) the product of the Chargeable Costs multiplied by the Cost Adjustment Factor and (ii) Production Taxes.

WTI Price

The "WTI Price" for any trading day means (i) the latest price (expressed in dollars per barrel) for West Texas intermediate crude oil of standard quality having a specific gravity of 40 degrees API for delivery at Cushing, Oklahoma ("West Texas Crude"), quoted for such trading day by the Dow Jones International Petroleum Report (which is published in The Wall Street Journal) or if the Dow Jones International Petroleum Report does not publish such quotes, then such price as quoted by Reuters, or if Reuters does not publish such quotes, then such price as quoted in Platt's Oilgram Price Report, or (ii) if for any reason such publications do not publish the price of West Texas Crude, then the WTI Price will mean, until the price quotations described in (i) are again available, the simple average of the daily mean prices (expressed in dollars per barrel) quoted for West Texas Crude by one major oil company, one petroleum broker and one petroleum trading company, in each case unaffiliated with BP and having substantial U.S. operations. Such

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major oil company, petroleum broker and petroleum trading company will be designated by the Company from time to time. In the event that prices for West Texas Crude are not quoted so as to permit the calculation of the WTI Price, "West Texas Crude," for the purposes of calculating the WTI Price will mean such other light sweet domestic crude oil of standard quality as is designated by the Company and approved by the Trustee in the exercise of its reasonable judgment, with appropriate allowance for transportation costs to the Gulf Coast (or other appropriate location) to equilibrate such price to the WTI Price. The WTI Price for any day which is not a trading day is the WTI Price for the next preceding trading day.

Chargeable Costs

The "Chargeable Costs" per barrel of Royalty Production for each calendar

year are fixed amounts specified in the Conveyance and do not necessarily represent the Company's actual costs of production. Chargeable Costs per barrel for the five calendar years ended December 31, 1996 were: \$6.00 during 1992; \$6.75 during 1993; \$8.00 during 1994; \$8.25 during 1995; and \$8.50 during 1996. Chargeable Costs for the calendar year ending December 31, 1997 and subsequent years are shown in the following table:

For the Year Ending December 31 -----	Chargeable Costs Per Barrel -----	For the Year Ending December 31 -----	Chargeable Costs Per Barrel -----
1997	\$ 8.85	2009	\$13.25
1998	9.30	2010	14.50
1999	9.80	2011	16.60
2000	10.00	2012	16.70
2001	10.75	2013	16.80
2002	11.25	2014	16.90
2003	11.75	2015	17.00
2004	12.00	2016	17.10
2005	12.25	2017	17.20
2006	12.50	2018	20.00
2007	12.75	2019	23.75
2008	13.00	2020	26.50

After 2020, Chargeable Costs increase at a uniform rate of \$2.75 per year.

Chargeable Costs may be reduced in future years by up to \$1.20 per barrel in the following circumstances:

(1) Chargeable Costs will be reduced by up to \$1.20 per barrel in each year from 2001 through 2005, inclusive, if, between January 1, 1996 and December 31, 2000, an additional 200,000,000 stock tank barrels ("STB") of proved reserves (before taking into account any production therefrom) have not been added to the proved reserves allocated to the Subject Leases. For the purpose of this calculation, additions to proved reserves include a credit equal to the number of STB of proved reserves in excess of 100,000,000 added to proved reserves after December 31, 1987 and before January 1, 1996.

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(2) Chargeable Costs will be reduced by up to \$ 1.20 per barrel in 2006 and subsequent years if, between January 1, 2001 and December 31, 2005, either (a) an additional 400,000,000 STB of proved reserves (before taking into account any production therefrom) have not been added to proved reserves allocated to the Subject Leases (including, for the purpose of this calculation, a credit equal to the number of STB of proved reserves in excess of 300,000,000 added to the Company's reserves after December 31, 1987 and before January 1, 2001), or (b) an additional 100,000,000 STB of proved reserves (before taking into account any production therefrom) have not been added to the reserves allocated to the Subject Leases, without allowing any credit for additions prior to January 1, 2001. In general, "proved reserves" for purposes of this determination consist of the Company's estimate (determined to be reasonable by independent petroleum engineers) of the quantities of crude oil and condensate that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions from the Prudhoe Bay (Permo-Triassic Reservoir) in the Prudhoe Bay Unit. See "THE PRUDHOE BAY UNIT - Reserve Estimates" below.

As of December 31, 1987, the proved reserves of crude oil and condensate allocated to the Subject Leases were 2,035.6 million STB. Since that date, the Company has made the additions (and deductions) to its estimates of proved reserves allocated to the Subject Leases (before taking into account any production from such additions) as shown in the following table:

Additions to Proved Reserves

Year ended December 31 -----	----- Annual -----	----- Cumulative -----
	(Million STB)	
1988	42.3	42.3
1989	45.5	87.8
1990	24.0	111.8
1991	115.8	227.6
1992	144.3	371.9
1993	206.2	578.1
1994	89.9	668.0
1995	92.2	760.2
1996	(21.0)	739.2

The Company anticipates further additions in future years to the proved reserves allocated to the Subject Leases. As of December 31, 1996, the cumulative additions to the proved reserves allocated to the Subject Leases were sufficient to prevent any reduction in Chargeable Costs during the years 2001 through 2005. However, downward revisions of proved reserve estimates in 1997 or subsequent years could result in a reduction of Chargeable Costs being required as described above in the year 2001 or thereafter.

Cost Adjustment Factor

The "Cost Adjustment Factor" is the ratio of (1) the Consumer Price Index published for the most recently past February, May, August or November, as the case may be, to (2) 121.1 (the Consumer Price Index for January 1989), except

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that (a) if for any calendar quarter the average WTI Price is \$18.00 or less, then the Cost Adjustment Factor for that quarter will be the Cost Adjustment Factor for the immediately preceding quarter, and (b) the Cost Adjustment Factor for any calendar quarter in which the average WTI Price exceeds \$18.00, after a calendar quarter during which the average WTI Price is equal to or less than \$ 18.00, and for each following calendar quarter in which the average WTI Price is greater than \$18.00, will be the product of (x) the Cost Adjustment Factor for the most recently past calendar quarter in which the average WTI Price is equal to or less than \$18.00 and (y) a fraction, the numerator of which will be the Consumer Price Index published for the most recently past February, May, August or November, as the case may be, and the denominator of which will be the Consumer Price Index published for the most recently past February, May, August or November during a quarter in which the average WTI Price is equal to or less than \$18.00. The "Consumer Price Index" is the U.S. Consumer Price Index, all items and all urban consumers, U.S. city average, 1982-84 equals 100, as first published, without seasonal adjustment, by the Bureau of Labor Statistics, Department of Labor, without regard to subsequent revisions or corrections.

Production Taxes

"Production Taxes" are the sum of any severance taxes, excise taxes (including windfall profit tax, if any), sales taxes, value added taxes or other similar or direct taxes imposed upon the reserves or production, delivery or sale of Royalty Production. Such taxes are computed at defined statutory rates. In the case of taxes based upon wellhead or field value, the Conveyance provides that the WTI Price less the product of \$4.50 and the Cost Adjustment factor will be deemed to be the wellhead or field value. At the present time, the Production Taxes payable with respect to the Royalty Production are the Alaska Oil and Gas Properties Production Tax ("Alaska Production Tax") and the Alaska Oil and Gas Conservation Tax ("Alaska Conservation Tax"). For the purposes of the Royalty Interest, the Alaska Production Tax is computed without regard to the "economic limit factor," if any, as the greater of the "percentage of value amount" (based on the statutory rate and the wellhead value as defined above) and the "cents per barrel amount." As of the date of this report, the statutory rate for the purpose of calculating the "percentage of value amount" is 15 percent, and the Alaska Conservation Tax is a tax of \$0.004 per barrel of net production. A surcharge to the Alaska Production Tax increased Production Taxes by \$0.05 per barrel of net production effective July 1, 1989. Due to the spill response fund reaching \$50 million in 1995, \$0.02 per barrel of the surcharge has been

indefinitely suspended. In the event the balance of the spill response fund falls below \$50 million, the \$0.02 per barrel surcharge will be reinstated until the fund balance again reaches \$50 million. The remaining \$0.03 per barrel surcharge is not affected by the fund's balance and will continue to be imposed at all times.

Per Barrel Royalty Calculations

The following table shows how the above-described factors interacted during each of the past five years to produce the Per Barrel Royalty paid for each of the calendar quarters indicated.

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	Average WTI Price	Chargeable Costs	Cost Adjustment Factor	Adjusted Chargeable Costs	Production Taxes	Per Barrel Royalty (a)
	-----	-----	-----	-----	-----	-----
1992:						
1st Qtr	\$18.94	\$6.00	1.134	\$ 6.80	\$2.13	\$10.00
2nd Qtr	21.20	6.00	1.143	6.86	2.46	11.88
3rd Qtr	21.67	6.00	1.153	6.92	2.53	12.23
4th Qtr	20.50	6.00	1.162	6.97	2.34	11.18
1993:						
1st Qtr	19.85	6.75	1.171	7.90	2.24	9.71
2nd Qtr	19.76	6.75	1.180	7.96	2.22	9.57
3rd Qtr	17.77	6.75	1.180	7.96	1.92	7.88
4th Qtr	16.43	6.75	1.180	7.96	1.72	6.74
1994:						
1st Qtr	14.80	8.00	1.180	9.44	1.48	3.88
2nd Qtr	17.79	8.00	1.180	9.44	1.93	6.42
3rd Qtr	18.49	8.00	1.192	9.53	2.02	6.93
4th Qtr	17.67	8.00	1.192	9.53	1.90	6.23
1995:						
1st Qtr	18.35	8.25	1.200	9.90	2.00	6.45
2nd Qtr	19.32	8.25	1.212	10.00	2.11	7.21
3rd Qtr	17.87	8.25	1.212	10.00	1.90	5.98
4th Qtr	18.16	8.25	1.217	10.04	1.94	6.18
1996:						
1st Qtr	19.74	8.50	1.227	10.43	2.17	7.14
2nd Qtr	21.70	8.50	1.241	10.55	2.45	8.70
3rd Qtr	22.36	8.50	1.247	10.59	2.55	9.22
4th Qtr	24.71	8.50	1.257	10.68	2.89	11.13

<FN>

(a) Per Barrel Royalty figures shown in this column are exact; but subtracting the figures for Adjusted Chargeable Costs and Production Taxes from the figures for Average WTI Prices in the columns to the left does not yield the Per Barrel Royalty shown in all cases due to rounding.

Potential Conflicts of Interest

The interests of the Company and the Trust with respect to the Prudhoe Bay Unit could at times be different. In particular, because the Per Barrel Royalty is based on the WTI Price and Chargeable Costs rather than the Company's actual price realized and actual costs, the actual per barrel profit received by the Company on the Royalty Production could differ from the Per Barrel Royalty to be paid to the Trust. It is possible, for example, that the relationship between the Company's actual per barrel revenues and costs could be such that the Company may determine to interrupt or discontinue production in whole or in part even though a Per Barrel Royalty may otherwise have been payable to the Trust pursuant to the Royalty Interest. This potential

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conflict of interest could affect the royalties paid to Unit holders, although the Company will be subject to the terms of the Prudhoe Bay Unit Operating

Agreement.

THE UNITS

Units

Each Unit represents an equal undivided share of beneficial interest in the Trust. The Units do not represent an interest in or an obligation of the Company, Standard Oil or any of their respective affiliates. Units are evidenced by transferable certificates issued by the Trustee. Each Unit entitles its holder to the same rights as the holder of any other Unit. The Trust has no other authorized or outstanding class of equity securities.

Distributions of Income

The Company makes quarterly payments to the Trust of the amounts due with respect to the Trust's Royalty Interest on the fifteenth day following the end of each calendar quarter or, if the fifteenth is not a business day, on the next succeeding business day (the "Quarterly Record Date"). The Trustee then distributes an amount equal to the payment received from the Company (plus, if applicable, any decrease in cash reserves previously established for estimated liabilities and any other cash received by the Trustee), less the expenses and payments of liabilities of the Trust (plus, if applicable, any net increase in cash reserves for estimated liabilities) (the "Quarterly Distribution") to the persons in whose names the Units were registered at the close of business on the immediately preceding Quarterly Record Date.

A total of 8,040,000 Units were sold to the public in May 1989. Prior to the public offering, however, 13,360,000 Units were sold in a private placement to a number of institutional investors, including a number of employee benefit plans subject to the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Trust Agreement, therefore, contains a number of provisions intended to accommodate legal restrictions resulting from the benefit plan status of these initial investors.

The Trust Agreement provides that unless certain conditions have been satisfied or are applicable to the Trust, pending payment of the Quarterly Distribution to the Unit holders, the Trustee must hold the money uninvested in a non-interest bearing account. This requirement generally applies prior to the date (the "Opinion Date") on which the Company has delivered to the Trustee both (i) an opinion of nationally recognized ERISA counsel to the effect that the Units have been registered under the Securities Exchange Act of 1934, and the Units are both widely-held and freely transferable (within the meaning of Department of Labor regulations), and (ii) either an individual prohibited transaction exemption or an advisory opinion issued by the Department of Labor, or an opinion of nationally recognized ERISA counsel based on such a prohibited transaction exemption or advisory opinion, to the Trustee, the Trust or the Company to the effect that after the date upon which the requirements referred to in the opinion described in clause (i) have been satisfied, the assets of the Trust shall not constitute plan assets with respect to any employee benefit plan which became a Unit holder prior to the date such requirements have been satisfied. To date, the Company has not delivered the prohibited transaction exemption, advisory opinion or opinion of

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ERISA counsel referred to in clause (ii) of the preceding sentence and, consequently, the Opinion Date has not occurred.

The investment prohibition described in the preceding paragraph does not apply, however, during an "Insignificant Investor Period," which is defined to mean any period prior to the Opinion Date during which benefit plan investors (within the meaning of Department of Labor regulations) do not own a sufficient number of Units to cause their equity participation in the Trust to be "significant" (i.e., benefit plan investors hold 25 percent or more of the value of the Units). The Units, however, are predominantly held by their owners indirectly in "street name" through brokers and nominees. (Over 96 percent of the Units were held through brokers and nominees at December 31, 1996). The Trustee thus is unable to determine, on the basis of the names of the Unit holders registered as such on its books, whether or not Unit ownership by benefit plan investors is "significant" within the contemplation of the Trust Agreement. As a result of this uncertainty, to date the Trustee has held moneys received from the Company uninvested pending their

distribution to Unit holders, and The Bank of New York has had the use of those balances during such periods.

The Trust Agreement provides that, after the Opinion Date, or during an Insignificant Investor Period prior to the Opinion Date, the Trustee shall pay the Quarterly Distribution on the fifth day after the Trustee's receipt of the amount to be paid by the Company on each Quarterly Record Date, and that collected cash balances being held by the Trustee for distribution shall be invested in obligations issued or unconditionally guaranteed by the United States or any agency or instrumentality thereof and secured by the full faith and credit of the United States ("Government Obligations") or, if Government Obligations with a maturity date on the date of the distribution to Unit holders are not available, in repurchase agreements with banks having capital, surplus and undivided profits of \$100,000,000 or more (which may include The Bank of New York) secured by Government Obligations. If time does not permit the Trustee to invest collected funds in investments of the type described in the preceding sentence, the Trustee may invest such funds overnight in a time deposit with a bank meeting the foregoing requirement (including The Bank of New York).

As a result of the recent disposition of substantially all of their Units by several of the original institutional investors in the Trust, each of which had held in excess of five percent of the outstanding Units, the Trustee has conducted an examination of its Unit holder records and other available information and has concluded that, although the matter is not free from doubt, it is more probable than not that an Insignificant Investor Period under the Trust Agreement is in effect. The Trustee further has been advised by its counsel that, under present circumstances, there are likely to be no adverse consequences to any benefit plan investor, to the Trust, or to the Trustee if the Trustee were to commence investing collected funds pending their distribution to Unit holders in investments of the type permitted by the Trust Agreement. The Trustee therefore intends to commence investing collected funds as described above.

Reports to Unit Holders

Within 90 days after the end of each calendar year, the Trustee mails to the holders of record of Units at any time during the calendar year a report containing information to enable them to make the calculations necessary for federal and Alaska income tax purposes, including the calculation of any

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depletion or other deduction which may be available to them for the calendar year. In addition, after the end of each calendar year the Trustee mails to holders of Units an annual report containing audited financial statements of the Trust, a letter of the independent petroleum engineers engaged by the Trust setting forth a summary of such firm's determinations regarding the Company's estimates of proved reserves and other related matters, and certain other information required by the Trust Agreement.

Following the end of each quarter, the Trustee mails Unit holders a quarterly report showing the assets and liabilities, receipts and disbursements and income and expenses of the Trust and the Royalty Production for such Quarter.

Limited Liability of Unit Holders

The Trust Agreement provides that the holders of Units are, to the full extent permitted by Delaware law, entitled to the same limitation of personal liability extended to stockholders of private corporations for profit under Delaware law.

Possible Divestiture of Units

The Trust Agreement imposes no restrictions on nationality or other status of the persons eligible to hold Units. However, the Trust Agreement provides that if at any time the Trust or the Trustee is named a party in any judicial or administrative proceeding seeking the cancellation or forfeiture of any property in which the Trust has an interest because of the nationality, or any other status, of any one or more holders, the following procedures will be applicable:

(i) The Trustee will give written notice of the existence of such proceedings to each holder whose nationality or other status is an issue in the proceeding. The notice will contain a reasonable summary of such proceeding and will constitute a demand to each such holder that he dispose of his Units within 30 days to a party not of the nationality or other status at issue in the proceeding described in the notice.

(ii) If any holder fails to dispose of his Units in accordance with such notice, the Trustee will redeem, at any time during the 90-day period following the termination of the 30-day period specified in the notice, any Unit not so transferred for a cash price per Unit equal to the closing price of the Units on the stock exchange on which the Units are then listed or, in the absence of any such listing, the closing bid price on the NASDAQ National Market System if the Units are so quoted or, if not, the mean between the closing bid and asked prices for the Units in the over-the-counter market, in either case as of the last business day prior to the expiration of the 30-day period stated in the notice. If the Units are neither listed nor traded in the over-the-counter market, the price will be the fair market value of the Units as determined by a recognized firm of investment bankers or other competent advisor or expert.

Units redeemed by the Trustee will be cancelled. The Trustee may, in its sole discretion, cause the Trust to borrow any amount required to redeem the Units. If the purchase of Units from an ineligible holder by the Trustee would result in a non-exempt "prohibited transaction" under ERISA, or under the Internal Revenue Code of 1986, the Units subject to the Trustee's right of

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redemption will be purchased by the Company or a designee thereof, at the above described purchase price.

Issuance of Additional Units

The Trust Agreement provides that the Company or an affiliate from time to time may assign to the Trust additional royalty interests meeting certain conditions, and, upon satisfaction of various other conditions, including receipt by the Trustee of a ruling from the Internal Revenue Service to the effect that neither the existence nor the exercise of the right to assign the additional royalty interest or the power to accept such assignment will adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes, the Trust may issue up to an additional 18,600,000 Units. The Company has not conveyed any additional royalty interests to the Trust, and the Trust has not issued any additional Units, since the inception of the Trust.

THE BP SUPPORT AGREEMENT

BP has agreed pursuant to the terms of a Support Agreement, dated February 28, 1989, among BP, the Company, Standard Oil and the Trust (the "Support Agreement"), to provide financial support to the Company in meeting its payment obligations under the Royalty Interest.

Within 30 days of notice to BP, BP will ensure that the Company is in a position to perform its payment obligations under the Royalty Interest and to satisfy its payment obligations to the Trust under the Trust Agreement, including contributing to the Company such funds as are necessary to make such payments. BP's obligations under the Support Agreement are unconditional and directly enforceable by Unit holders.

Except as described below, no assignment, sale, transfer, conveyance, mortgage or pledge or other disposition of the Royalty Interest will relieve BP of its obligations under the Support Agreement.

Neither BP nor the Company may transfer or assign its rights or obligations under the Support Agreement without the prior written consent of the Trust, except that BP can arrange for its obligations under the Support Agreement to be performed by any affiliate of BP, provided that BP remains responsible for ensuring that such obligations are performed in a timely manner.

The Company may sell or transfer all or part of its working interest in

the Prudhoe Bay Unit, although such a transfer will not relieve BP of its responsibility to ensure that the Company's payment obligations with respect to the Royalty Interest and under the Trust Agreement and the Conveyance are performed.

BP will be released from its obligation under the Support Agreement upon the sale or transfer of all or substantially all of the Company's working interest in the Prudhoe Bay Unit if the transferee agrees to assume and be bound by BP's obligation under the Support Agreement in a writing reasonably satisfactory to the Trustee and if the transferee is an entity having a rating assigned to outstanding unsecured, unsupported long term debt from Moody's Investors Service, Inc. of at least A3 or from Standard & Poor's Rating Services of at least A- or an equivalent rating from at least one nationally-

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recognized statistical rating organization (after giving effect to the sale or transfer to such entity of all or substantially all of the Company's working interest in the Prudhoe Bay Unit and the assumption by such entity of all of the Company's obligations under the Conveyance and of all BP's obligations under the Support Agreement).

THE PRUDHOE BAY UNIT

General

The Prudhoe Bay field (the "Field") is located on the North Slope of Alaska, 250 miles north of the Arctic Circle and 650 miles north of Anchorage. The Field extends approximately 12 miles by 27 miles and contains nearly 150,000 productive acres. The Field, which was discovered in 1968 by BP and others, has been in production since 1977. The Field is the largest producing oil field in North America. As of December 31, 1996, approximately 9.6 billion STB of oil and condensate had been produced from the Field. Field development is well advanced with approximately \$17 billion gross capital spent and a total of about 1,700 wells drilled. Other large fields located in the same area include the Kuparuk, Endicott, and Lisburne fields. Production from those fields is not included in the Royalty Interest.

Since several oil companies hold acreage within the Field, the Prudhoe Bay Unit was established to optimize Field development. The Prudhoe Bay Unit Operating Agreement specifies the allocation of production and costs to Prudhoe Bay Unit owners. The Company and a subsidiary of the Atlantic Richfield Company ("Arco") are the two Field operators. Other Field owners include affiliates of Exxon Corporation ("Exxon"), Mobil Corporation ("Mobil"), Phillips Petroleum Company ("Phillips") and Chevron Corporation ("Chevron").

Geology

The principal hydrocarbon accumulations at Prudhoe Bay are in the Ivishak sandstone of the Sadlerochit Group at a depth of approximately 8,700 feet below sea level. The Ivishak is overlain by four minor reservoirs of varying extent which are designated the Put River, Eileen, Sag River and Shublik (collectively, "PESS") formations. Underlying the Sadlerochit Group are the oil-bearing Lisburne and Endicott formations. The net production referred to herein pertains only to the Ivishak and PESS formations, collectively known as the Prudhoe Bay (Permo-Triassic) Reservoir, and does not pertain to the Lisburne and Endicott formations.

The Ivishak sandstone was deposited, commencing some 250 million years ago, during the Permian and Triassic geologic periods. The sediments in the Ivishak are composed of sandstones, conglomerate and shales which were deposited by a massive braided river and delta system that flowed from an ancient mountain system to the north. Oil was trapped in the Ivishak by a combination of structural and stratigraphic trapping mechanisms.

Gross reservoir thickness is 550 feet, with a maximum oil column thickness of 425 feet. The original oil column is bounded on the top by a gas-oil contact, originally at 8,575 feet below sea level across the main field, and on the bottom by an oil-water contact at approximately 9,000 feet below sea level. A layer of heavy oil and tar overlays the oil-water contact in the main field and has an average thickness of around 40 feet.

Oil Characteristics

The produced oil from the reservoir is a medium grade, low sulfur crude with an average specific gravity of 27 degrees API. The gas cap composition is such that, upon surfacing, a liquid hydrocarbon phase, known as condensate, is formed.

The interests of the Unit holders are based upon oil produced from the oil rim and condensate produced from the gas cap, but not upon gas production (which is currently uneconomic) or natural gas liquids production stripped from gas produced.

Prudhoe Bay Unit Operation and Ownership

Since several companies hold acreage within the Field's limits, a unit was established to ensure optimum development of the Field. The Prudhoe Bay Unit, which became effective on April 1, 1977, divided the Field into two operating areas. The Company is the operator of the Western Operating Area and Arco Alaska Inc. is the operator of the Eastern Operating Area. Oil and condensate production comes from both the Western Operating Area and the Eastern Operating Area.

The Prudhoe Bay Unit Operating Agreement specifies the allocation of production and costs to the working interest owners. The Prudhoe Bay Unit Operating Agreement also defines operator responsibilities and voting requirements and is unusual in its establishment of separate participating areas for the gas cap and oil rim. Effective December 31, 1995, the Company acquired the interest of Amerada Hess Corporation of 0.5379191 percent on the oil rim participating area. Under the terms of the Conveyance, this increase in the Company's participation is not allocated to the Subject Leases and does not increase the Trust's Royalty Interest.

The ownership of the Prudhoe Bay Unit by participating area as of December 31, 1996 is summarized in the following table:

	Oil Rim -----		Gas Cap -----
BP	51.22%	(a)	13.84%
Arco	21.87		42.56
Exxon	21.87		42.56
Mobil/Phillips/Chevron	4.44		1.04
Others	0.60		0.00
	-----		-----
Total	100.00%		100.00%
	=====		=====

<FN>

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(a) The Trust's share of oil production is computed based on BP's ownership interest of 50.68 percent as of February 28, 1989.

Historical Production

Production began on June 19, 1977, with the completion of the Trans Alaska Pipeline System. The pipeline has a capacity of 1.5 million barrels of oil per day.

As of December 31, 1996, there were about 1,079 producing oil wells, 36 gas reinjection wells, 42 water injection wells and 140 water and miscible gas injection wells in the Field. In terms of individual well performance, oil production rates range from 60 to 5,000 barrels of oil per day. Currently, the average well production rate is about 788 barrels of oil per day.

The Company's share of the hydrocarbon liquids production from the Field includes oil, condensate and natural gas liquids. Using the production allocation procedures from the Prudhoe Bay Unit Operating Agreement, the

Field's production and the share of oil and condensate (net of State of Alaska royalty) allocated to the Subject Leases have been as follow during the periods indicated:

Year Ended December 31	Oil		Condensate	
	Total Field	Subject Leases	Total Field	Subject Leases
	(Million STB per day)			
1992	1,050.5	465.9	131.4	15.9
1993	906.8	402.2	150.0	18.2
1994	785.5	348.4	177.5	21.5
1995	659.3	292.4	200.0	24.2
1996	583.1	258.6	187.6	22.7

The Company estimates that production will decline at an average rate of approximately 10 percent per year for the next three to five years, and that the rate of decline will decrease to approximately five percent per year by the year 2030.

Transportation of Prudhoe Bay Oil

Production from the Field is carried to Pump Station 1, which is the starting point for the Trans Alaska Pipeline System, through two 34-inch diameter transit lines, one from each half of the Field. At Pump Station 1, Alyeska Pipeline Service Company, the pipeline operator, meters the oil and pumps it south to Valdez where it is either loaded onto marine tankers or stored temporarily. It takes the oil about six days to make the trip in the 48-inch diameter pipeline.

Various protests of the Trans Alaska Pipeline System tariffs have been filed by, among others, the State of Alaska over a period of several years. Proceedings to resolve these protests are ongoing in the Federal Energy Regulatory Commission, the Alaska Public Utilities Commission and a Court of Appeal.

Reservoir Management

The Prudhoe Bay Field is a complex, combination-drive reservoir, with widely varying reservoir properties. Reservoir management involves directing Field activities and projects to maximize the economic value of Field reserves.

Several different oil recovery mechanisms are currently active in the Field, including pressure depletion, gravity drainage/gas cap expansion, waterflooding and miscible gas flooding. Separate yet integrated reservoir management strategies have been developed for the areas affected by each of these recovery processes.

Reserve Estimates

The Company's net proved remaining reserves of oil and condensate in the Prudhoe Bay Unit as of December 31, 1996 were estimated to be approximately 1,247 million barrels. This current estimate of reserves is based upon various assumptions, including a reasonable estimate of the allocation of hydrocarbon liquids between oil and condensate pursuant to the procedures of the Prudhoe Bay Unit Operating Agreement. Estimates of proved reserves are inherently imprecise and subjective and are revised over time as additional data becomes available. Such revisions may often be substantial. The Company anticipates that net production from current proved reserves allocated to the Subject Leases will exceed 90,000 barrels per day until the year 2009. The occurrence of major gas sales could accelerate the time at which the Company's net production would fall below 90,000 barrels per day, due to the consequent decline in reservoir pressure. The Company also projects continued economic production thereafter, at a declining rate, until the year 2030;

however, on the basis of the economic conditions and reserve estimates as of December 31, 1996, the Per Barrel Royalty will be zero after the year 2017.

The Company's reserve estimates and production assumptions and projections are predicated upon a reasonable estimate of hydrocarbon allocation between oil and condensate. Oil and condensate are physically produced in a commingled stream of hydrocarbon liquids. The allocation of hydrocarbon liquids between the oil and condensate from the Field is a theoretical calculation performed in accordance with procedures specified in the Prudhoe Bay Unit Operating Agreement. Due to the differences in percentages between oil and condensate, the overall share of oil and condensate production allocated to the Subject Leases will vary over time according to the proportions of hydrocarbon liquid being allocated as condensate or as oil under the Prudhoe Bay Unit Operating Agreement allocation procedures. Under the terms of an Issues Resolution Agreement entered into by the Prudhoe Bay Unit owners in October 1990, the allocation procedures have been adjusted to generally allocate condensate in a manner which approximates the anticipated decline in the production of oil until an agreed original condensate reserve of 1.175 billion barrels has been allocated to the working interest owners.

The reserves attributable to the Trust's Royalty Interest constitute only a part of the overall reserves allocated to the Subject Leases. The Company has estimated that the net remaining proved reserves attributable to the Trust as of December 31, 1996 were 111.1 million barrels of oil and condensate, of which 102.0 million barrels were proved developed reserves and 9.1 million barrels were proved undeveloped reserves. Using procedures specified in Financial Accounting Standards Board Statement of Financial Standards No. 69,

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the Company calculated that as of December 31, 1996 production of oil and condensate from the proved reserves allocated to the Trust will result in estimated future net revenues to the Trust of \$780 million, with a present value of \$412 million. The Company's estimates of proved reserves and the estimated future net revenues from the Prudhoe Bay Unit have been reviewed by Miller and Lents, Ltd., independent oil and gas consultants, as set forth in their report following this section.

There is no precise method of allocating estimates of physical quantities of reserve volumes between the Company and the Trust, since the Royalty Interest is not a working interest and the Trust does not own and is not entitled to receive any specific volume of reserves from the Field. Reserve volumes attributable to the Trust are estimated by allocating to the Trust its share of estimated future production from the Field, based on WTI Prices.

The following table shows the net remaining proved reserves of oil and condensate allocated to the Subject Leases, the net proved reserves allocated to the Trust, and the WTI Prices on the dates indicated:

December 31	Net Proved Reserves		WTI Prices Per Barrel
	Subject Leases (a)	Trust (b)	
	(Million STB)		
1992	1,387.9	94.3	\$19.50
1993	1,439.9	43.2	14.15
1994	1,395.0	81.0	17.75
1995	1,371.4	81.0	19.58
1996	1,247.0	111.1	25.93

<FN>

(a) Includes proved undeveloped reserves of 448.9 million STB at December 31, 1992; 243.1 million STB at December 31, 1993; 211.0 million STB at December 31, 1994; 275.2 million STB at December 31, 1995; and 223.4 million STB at December 31, 1996.

(b) Includes proved undeveloped reserves of 14.9 million STB at December 31, 1992; 0 STB at December 31, 1993 and 1994; 0.8 million STB at December 31, 1995; and 9.1 million STB at December 31, 1996.

The reserve volumes attributable to the Trust are estimated using an allocation of reserve volumes based on estimated future production and the current WTI Price, and assume no future movement in the Consumer Price Index and no future additions by the Company of proved reserves. The estimated reserve volumes attributable to the Trust will vary if different estimates of production, prices and other factors are used. Even if expected reservoir performance does not change, the estimated reserves, economic life, and future revenues attributable to the Trust may change significantly in the future. This may result from changes in the WTI Price or from changes in other prescribed variables utilized in calculations defined by the Overriding Royalty Conveyance. See Note 5 of the Notes to Financial Statements in Item 8.

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The Company is under no obligation to make investments in development projects which would add additional non-proved resources to proved reserves and cannot make such investments without the concurrence of the Prudhoe Bay Unit working interest owners. However, several such investments which would augment Prudhoe Bay projects are already in process. These include additional drilling, waterflood expansions and miscible injection continuation/expansion projects. Other possible investments could include expanded gas cycling, miscible/waterflood infill drilling, miscible injection supply increases to peripheral areas, heavy oil tar recovery and development of the smaller reservoirs. While there is no assurance that the Prudhoe Bay Unit working interest owners will make any such investments they do regularly assess the technical and economic attractiveness of implementing further projects to increase Prudhoe Bay Unit proved reserves.

In the event of changes in the Company's current assumptions, oil and condensate recoveries may be reduced from the current estimates, unless recovery projects other than those included in the current estimates are implemented.

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INDEPENDENT OIL AND GAS CONSULTANTS' REPORT

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The Bank of New York
Trustee, BP Prudhoe Bay Royalty Trust
101 Barclay Street 21 W
New York, New York 10286

Re: Estimates of Proved Reserves, Future Production Rates,
and Future Net Revenues for the BP Prudhoe Bay Royalty
Trust As of December 31, 1996

Gentlemen:

This letter report is a summary of investigations performed in accordance

with our engagement by you as described in Section 4.8(d) of the Overriding Royalty Conveyance dated February 27, 1989, between BP Exploration (Alaska) Inc., and The Standard Oil Company. The investigations included reviews of the estimates of Proved Reserves and production rate forecasts of oil and condensate made by BP Exploration (Alaska) Inc. attributable to the BP Prudhoe Bay Royalty Trust as of December 31, 1996. Additionally, we reviewed calculations of the resulting Estimated Future Net Revenues and Present Value of Estimated Future Net Revenues attributable to the BP Prudhoe Bay Royalty Trust.

The estimates and calculations reviewed are summarized in the report prepared by BP Exploration (Alaska) Inc. and transmitted with a cover letter dated February 7, 1997, addressed to Ms. Marie Trimboli of The Bank of New York and signed by Mr. David K. Woodward. Reviews were also performed by Miller and Lents, Ltd. during this year or in previous years of (1) the procedures for estimating and documenting Proved Reserves, (2) the estimates of in-place reservoir volumes, (3) the estimates of recovery factors and production profiles for the various areas, pay zones, projects, and recovery processes that are included in the estimate of Proved Reserves, (4) the production strategy and procedures for implementing that strategy, (5) the sufficiency of the data available for making estimates of Proved Reserves and

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production profiles, and (6) pertinent provisions of the Prudhoe Bay Unit Operating Agreement, the Issues Resolution Agreement, the Overriding Royalty Conveyance, the Trust Conveyance, the BP Prudhoe Bay Royalty Trust Agreement, and other related documents referenced in the Form F-3 Registration Statement filed with the Securities and Exchange Commission on August 7, 1989, by BP Exploration (Alaska) Inc.

Proved Reserves were estimated by BP Exploration (Alaska) Inc. in accordance with the definitions contained in Securities and Exchange Commission Regulation S-X, Rule 4-10(a). Estimated Future Net Revenues and Present Value of Estimated Future Net Revenues are not intended and should not be interpreted to represent fair market values for the estimated reserves.

The Prudhoe Bay (Permo-Triassic) Reservoir is defined in the Prudhoe Bay Unit Operating Agreement. The Prudhoe Bay Unit is an oil and gas unit situated on the North Slope of Alaska. The BP Prudhoe Bay Royalty Trust is entitled to a royalty payment on 16.4246 percent of the first 90,000 barrels of the actual average daily net production of oil and condensate for each calendar quarter from the BP Exploration (Alaska) Inc. working interest as defined in the Overriding Royalty Conveyance. The payment amount depends upon the Per Barrel Royalty which in turn depends upon the West Texas Intermediate Price, the Chargeable Costs, the Cost Adjustment Factor, and Production Taxes, all of which are defined in the Overriding Royalty Conveyance. "Barrel" as used herein means Stock Tank Barrel as defined in the Overriding Royalty Conveyance.

Our reviews do not constitute independent estimates of the reserves and annual production rate forecasts for the areas, pay zones, projects, and recovery processes examined. We relied upon the accuracy and completeness of information provided by BP Exploration (Alaska) Inc. with respect to pertinent ownership interests and various other historical, accounting, engineering, and geological data.

As a result of our cumulative reviews, based on the foregoing, we conclude that:

1. A large body of basic data and detailed analyses are available and were used in making the estimates. In our judgment, the quantity and quality of currently available data on reservoir boundaries, original fluid contacts, and reservoir rock and fluid properties are sufficient to indicate that any future revisions to the estimates of total original in-place volumes should be minor. Furthermore, the data and analyses on recovery factors and future production rates are sufficient to support the Proved Reserves estimates.
2. The methods and procedures employed to accumulate and evaluate the necessary information and to estimate, document, and reconcile reserves, annual production rate forecasts, and future net revenues are effective and are in accordance with generally accepted geological and engineering practice in the petroleum industry.

3. Based on our limited independent tests of the computations of reserves, production flowstreams, and future net revenues, such computations were performed in accordance with the methods and procedures described to us.
4. The estimated net remaining Proved Reserves attributable to the BP Prudhoe Bay Royalty Trust as of December 31, 1996, of 111.1 million

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barrels of oil and condensate are, in the aggregate, reasonable. Of the 111.1 million barrels of total Proved Reserves, 102.0 million barrels are Proved Developed Reserves, and 9.1 million barrels are Proved Undeveloped Reserves.

5. Utilizing the specified procedures outlined in Financial Accounting Standards Board Statement of Financial Accounting Standards No. 69, BP Exploration (Alaska) Inc. calculated that as of December 31, 1996, production of the Proved Reserves will result in Estimated Future Net Revenues of \$780 million and Present Value of Estimated Future Net Revenues of \$412 million to the BP Prudhoe Bay Royalty Trust. These estimates are reasonable.
6. BP Exploration (Alaska) Inc. estimated that, as of December 31, 1996, 739.2 million barrels of Proved Reserves have been added to Current Reserves. This estimate is reasonable. Current Reserves are defined in the Overriding Royalty Conveyance as net Proved Reserves of 2,035.6 million barrels as of December 31, 1987. Net additions to Proved Reserves after December 31, 1987 affect the Chargeable Costs that are used to calculate the Per Barrel Royalty paid to the BP Prudhoe Bay Royalty Trust.
7. The BP Exploration (Alaska) Inc. projection that its net production of oil and condensate from Proved Reserves will continue at an average rate exceeding 90,000 barrels per day until the year 2009 is reasonable. As long as the Per Barrel Royalty has a positive value, average daily production attributable to the BP Prudhoe Bay Royalty Trust will remain constant until the net production falls below 90,000 barrels per day; thereafter, production attributable to the BP Prudhoe Bay Royalty Trust will decline with the BP Exploration (Alaska) Inc. production. However, the Per Barrel Royalty will not have a positive value if the West Texas Intermediate Price is less than the sum of the per barrel Chargeable Costs and per barrel Production Taxes, appropriately adjusted in accordance with the Overriding Royalty Conveyance. Under such circumstances, average daily production attributable to the BP Prudhoe Bay Royalty Trust will have no value and therefore will not contribute to the reserves regardless of BP Exploration (Alaska) Inc.'s net production level.
8. Based on the West Texas Intermediate Price of \$25.93 per barrel on December 31, 1996, current Production Taxes, and the Chargeable Costs adjusted as prescribed by the Overriding Royalty Conveyance, the projection that royalty payments will continue through the year 2017 is reasonable. BP Exploration (Alaska) Inc. expects continued economic production at a declining rate through the year 2030; however, for the economic conditions and production forecast as of December 31, 1996, the Per Barrel Royalty will be zero following the year 2017. Therefore, no reserves are currently attributed to the BP Prudhoe Bay Royalty Trust after that date.
9. Even if expected reservoir performance does not change, the estimated reserves, economic life, and future revenues attributable to the BP Prudhoe Bay Royalty Trust may change significantly in the future. This may result from changes in the West Texas Intermediate Price or from changes in other prescribed variables utilized in calculations defined by the Overriding Royalty Conveyance.

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Estimates of ultimate and remaining reserves and production scheduling depend upon assumptions regarding expansion or implementation of alternative projects or development programs and upon strategies for production optimization. BP Exploration (Alaska) Inc. has continual reservoir management, surveillance, and planning efforts dedicated to (1) gathering new

information, (2) improving the accuracy of its reserves and production capacity estimates, (3) recognizing and exploiting new opportunities, (4) anticipating potential problems and taking corrective actions, and (5) identifying, selecting, and implementing optimum recovery program and cost reduction alternatives. Given this significant effort and ever-changing economic conditions, estimates of reserves and production profiles will change periodically.

The current estimate of Proved Reserves includes only those projects or development programs that are deemed reasonably certain to be implemented, given current economic and regulatory conditions. Future projects, development programs, or operating strategies different from those assumed in the current estimates may change future estimates and affect recoveries. However, because several complementary and alternative projects are being considered for recovery of the remaining oil in the reservoir, a decision not to implement a currently planned project may allow scope expansion or implementation of another project, thereby increasing the overall likelihood of recovering the reserves.

Future production rates will be controlled by facilities limitations and upsets, well downtime, and the effectiveness of programs to optimize production and costs. BP Exploration (Alaska) Inc. currently expects continued economic production from the reservoir at a declining rate through the year 2030. Additional drilling, workovers, facilities modifications, new recovery projects, and programs for production enhancement and optimization are expected to mitigate but not eliminate the decline in gross oil and condensate production capacity.

In making its future production rate forecasts, BP Exploration (Alaska) Inc. provided for normal downtime and planned facilities upsets. Although allowances for unplanned upsets are also considered in the estimates, the studies do not provide for any impediments to crude oil production as a consequence of major disruptions.

Under current economic conditions, gas from the Alaskan North Slope, except for minor volumes, cannot be marketed commercially. Oil and condensate recoveries are expected to be greater as a result of continued reinjection of produced gas than the recoveries would be if major volumes of produced gas were being sold. No major gas sale is assumed in the current estimates. If major gas sales are determined to be economically viable in the future, BP Exploration (Alaska) Inc. estimates that such sales would not actually commence until eight to ten years after such a determination. In the event that major gas sales are initiated, ultimate oil and condensate recoveries may be reduced from the current estimates unless recovery projects other than those included in the current estimates are implemented.

Large volumes of natural gas liquids are likely to be produced and marketed in the future whether or not major gas sales become viable. Natural gas liquids reserves are not included in the estimates cited herein. The BP Prudhoe Bay Royalty Trust is not entitled to royalty payments from production or sales of natural gas or natural gas liquids.

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The evaluations presented in this report, with the exceptions of those parameters specified by others, reflect our informed judgments based on accepted standards of professional investigation but are subject to those generally recognized uncertainties associated with interpretation of geological, geophysical, and engineering information. Government policies and market conditions different from those reflected in this study or disruption of existing transportation routes or facilities may cause the total quantity of oil or condensate to be recovered, actual production rates, prices received, or operating and capital costs to vary from those reviewed in this report.

Miller and Lents, Ltd., is an independent oil and gas consulting firm. None of the principals of this firm have any direct financial interests in BP Exploration (Alaska) Inc. or its parent or any related companies or in the BP Prudhoe Bay Royalty Trust. Our fee is not contingent upon the results of our work or report, and we have not performed other services for BP Exploration (Alaska) Inc. or the BP Prudhoe Bay Royalty Trust that would affect our objectivity.

Very truly yours,

[STATE OF TEXAS

By /s/ William P. Koza

*

WILLIAM P. KOZA

William P. Koza

58894

Vice President

REGISTERED
PROFESSIONAL
ENGINEER]

WPK/hsd

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INDUSTRY CONDITIONS

The production of oil and gas in Alaska is affected by many state and federal regulations with respect to allowable rates of production, marketing, environmental matters and pricing. Future regulations could change allowable rates of production or the manner in which oil and gas operations may be lawfully conducted.

In general, the Company's oil and gas activities are subject to laws and regulations relating to environmental quality and pollution control. The Company believes that the equipment and facilities currently being used in its operations generally comply with the applicable legislation and regulations. During the past few years, numerous environmental laws and regulations have taken effect at the federal, state and local levels. Oil and gas operations are subject to extensive federal and state regulation and to interruption or termination by governmental authorities due to ecological and other considerations. Although the existence of legislation and regulation has had no material adverse effect on the Company's current method of operations, existing and future legislation and regulations could result in the Company experiencing delays and uncertainties in commencing projects. The ultimate impact of such legislation and regulations cannot generally be predicted.

Oil prices are subject to international supply and demand. Political developments (especially in the Middle East) and the outcome of meetings of the Organization of Petroleum Exporting Countries can particularly affect world oil supply and oil prices.

CERTAIN TAX CONSIDERATIONS

The following is a summary of the principal tax consequences to Unit holders resulting from the ownership and disposition of Units. The laws and regulations affecting these matters are complex, and are subject to change by future legislation or regulations or new interpretations by the Internal Revenue Service, state taxing authorities or the courts. In addition, there may be differences of opinion as to the applicability or interpretation of present tax laws and regulations. The Company and the Trust have not requested any rulings from the Internal Revenue Service with respect to the tax treatment of the Units, and no assurance can be given that the Internal Revenue Service would concur with the statements below.

Unit holders are urged to consult their tax advisors regarding the effects on their specific tax situations of owning and disposing of Units.

Federal Income Tax

Classification of the Trust

The following discussion assumes that the Trust is properly classified as a grantor trust under current law and is not an association taxable as a corporation.

General Features of Grantor Trust Taxation

A grantor trust is not subject to tax, and its beneficiaries (the Unit holders in the case of the Trust) are considered for tax purposes to own the

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assets of the trust directly. The Trust pays no federal income tax but files an information return reporting all items of income or deduction. If a court were to hold that the Trust is an association taxable as a corporation, the Trust would incur substantial income tax liabilities in addition to its other expenses.

Taxation of Unit Holders

In computing his federal income tax liability, each Unit holder is required to take into account his share of all items of Trust income, gain, loss, deduction, credit and tax preference, based on the Unit holder's method of accounting. Consequently, it is possible that in any year a Unit holder's share of the taxable income of the Trust may exceed the cash actually distributed to him in that year. For example, if the Trustee should establish a reserve or borrow money to satisfy debts and liabilities of the Trust income used to establish the reserve or to repay the loan must be reported by the Unit holder, even though the income is not distributed to the Unit holder.

The Trust makes quarterly distributions to Unit holders of record on each Quarterly Record Date. The terms of the Trust Agreement seek to assure to the extent practicable that income, expenses and deductions attributable to each distribution are reportable by the Unit holder who receives the distribution.

The Trust allocates income and deductions to Unit holders based on record ownership at Quarterly Record Dates. It is not known whether the Internal Revenue Service will accept the allocation based on this method.

Depletion Deductions

The owner of an economic interest in producing oil and gas properties is entitled to deduct an allowance for the greater of cost depletion or (if otherwise allowable) percentage depletion on each such property. A Unit holder's deduction for cost depletion in any year is calculated by multiplying the holder's adjusted tax basis in his Units (generally his cost less prior depletion deductions) by Royalty Production during the year and dividing that product by the sum of Royalty Production during the year and estimated remaining Royalty Production as of the end of the year. The allowance for percentage depletion generally does not apply to interests in proven oil and gas properties that were transferred after December 31, 1974 and prior to October 12, 1990. The Omnibus Budget Reconciliation Act of 1990 repealed this rule for transfers occurring on or after October 12, 1990. Unit holders who acquired their Units on or after that date may be permitted to deduct an allowance for percentage depletion if such deduction would otherwise exceed the allowable deduction for cost depletion. In order to take percentage depletion, a Unit holder must qualify for the independent producer exemption contained in section 613A(c) of the Internal Revenue Code of 1986. Percentage depletion is based on the Unit holder's gross income from the Trust rather than on his adjusted basis in his Units. Any deduction for cost depletion or percentage depletion allowable to a Unit holder reduces his adjusted basis in his Units for purposes of computing subsequent depletion or gain or loss on any subsequent disposition of Units.

Unit holders must maintain records of their adjusted basis in their Units, make adjustments for depletion deductions to such basis, and use the adjusted basis for the computation of gain or loss on the disposition of the Units.

Taxation of Foreign Unit Holders

Generally, a holder of Units who is a nonresident alien individual or which is a foreign corporation (a Foreign Taxpayer) is subject to tax on the gross income produced by the Royalty Interest at a rate equal to 30 percent (or at a lower treaty rate, if applicable). This tax is withheld by the Trustee and remitted directly to the United States Treasury. A Foreign Taxpayer may elect to treat the income from the Royalty Interest as effectively connected with the conduct of a United States trade or business under Internal Revenue Code section 871 or section 882, or pursuant to any similar provisions of applicable treaties. If a Foreign Taxpayer makes this election, it is entitled to claim all deductions with respect to such income, but a United States federal income tax return must be filed to claim such

deductions. This election once made is irrevocable unless an applicable treaty allows the election to be made annually.

Section 897 of the Internal Revenue Code and the Treasury Regulations thereunder treat the Trust as if it were a United States real property holding corporation. Foreign holders owning more than five percent of the outstanding Units are subject to United States federal income tax on the gain on the disposition of their Units. Foreign Unit holders owning less than five percent of the outstanding Units are not subject to United States federal income tax on the gain on the disposition of their Units, unless they have elected under Internal Revenue Code section 871 or section 872 to treat the income from the Royalty Interest as effectively connected with the conduct of a United States trade or business.

If a Foreign person is a corporation which made an election under Internal Revenue Code section 882(d), the corporation would also be subject to a 30 percent tax under Internal Revenue Code section 884. This tax is imposed on U.S. branch profits of a foreign corporation that are not reinvested in the U.S. trade or business. This tax is in addition to the tax on effectively connected income. The branch profits tax may be either reduced or eliminated by treaty.

Sale of Units

Generally, a Unit holder will realize gain or loss on the sale or exchange of his Units measured by the difference between the amount realized on the sale or exchange and his adjusted basis for such Units. Gain on the sale of Units by a holder that is not a dealer with respect to such Units will generally be treated as capital gain. However, pursuant to Internal Revenue Code section 1254, certain depletion deductions claimed with respect to the Units must be recaptured as ordinary income upon sale or disposition of such interest.

Backup Withholding

A payor must withhold 31 percent of any reportable payment if the payee fails to furnish his taxpayer identification number ("TIN") to the payor in the required manner or if the Secretary of the Treasury notifies the payor that the TIN furnished by the payee is incorrect. Unit holders will avoid backup withholding by furnishing their correct TINs to the Trustee in the form required by law.

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State Income Taxes

Unit holders may be required to report their share of income from the Trust to their state of residence or commercial domicile. However, only corporate Unit holders will need to report their share of income to the State of Alaska. Alaska does not impose an income tax on individuals or estates and trusts. All Trust income is Alaska source income to corporate Unit holders and should be reported accordingly.

ITEM 2. PROPERTIES

Reference is made to Item 1 for the information required by this item.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF UNIT HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR THE UNITS AND RELATED UNIT HOLDER MATTERS

The Units are listed on the New York Stock Exchange (ticker symbol BPT). The following table shows the high and low sales prices of the Units in New York Stock Exchange composite transactions, and the cash distributions per Unit, for each calendar quarter in the two years ended December 31, 1996.

	High -----	Low -----	Distributions Per Unit -----
1995:			

First Quarter	\$18	\$15 7/8	\$0.389
Second Quarter	19	16 3/8	0.445
Third Quarter	17 1/8	15 5/8	0.375
Fourth Quarter	16 1/4	13	0.386
1996:			

First Quarter	16 1/2	14 3/8	0.439
Second Quarter	17	14 1/4	0.533
Third Quarter	17 3/4	14 7/8	0.582
Fourth Quarter	17 7/8	16 1/4	0.702

As of March 25, 1997, 21,400,000 Units outstanding and were held by 1,338 holders of record.

Future payments of cash distributions are dependent on such factors as the prevailing WTI Price, the relationship of the rate of change in the WTI Price to the rate of change in the Consumer Price Index, the Chargeable Costs, the rates of Production Taxes prevailing from time to time, and the actual production from the Prudhoe Bay Unit.

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents in summary form selected financial information regarding the Trust.

	1996 -----	1995 -----	1994 -----	1993 -----	1992 -----
	(In thousands, except per Unit amounts)				
Royalty revenues	\$ 42,263	\$ 34,886	\$ 32,401	\$ 51,727	\$ 65,250
Trust administration expenses	750	688	658	554	413
Cash earnings	\$ 41,513	\$ 34,198	\$ 31,743	\$ 51,173	\$ 64,837
Cash distributions	\$ 41,513	\$ 34,198	\$ 31,743	\$ 51,173	\$ 64,837
Cash distributions per unit	\$ 1.940	\$ 1.598	\$ 1.483	\$ 2.391	\$ 3.030
Units outstanding	21,400,000	21,400,000	21,400,000	21,400,000	21,400,000

ITEM 7. TRUSTEE'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The Trust is a passive entity, and the Trustee's activities are limited to collecting and distributing the revenues from the Royalty Interest and paying liabilities and expenses of the Trust. The Trust has no source of liquidity and no capital resources other than the revenue attributable to the Royalty Interest that it receives from time to time. See generally the discussion under "THE ROYALTY INTEREST" in Item 1 for a description of the calculation of the Per Barrel Royalty, and the discussion under "THE PRUDHOE BAY UNIT - Reserve Estimates" and "INDEPENDENT OIL AND GAS CONSULTANTS' REPORT" in Item 1 for information concerning the estimated future net revenues of the Trust.

Results of Operations

Royalty revenues are generally received on the Quarterly Record Date (generally the fifteenth day of the month) following the end of the calendar quarter in which the related Royalty Production occurred. The Trustee, to the extent possible, pays all expenses of the Trust for each quarter on the Quarterly Record Date on which the revenues for the quarter are received. Both revenues and Trust expenses are recorded on a cash basis and, as a result, distributions to Unit holders in the years ended December 31, 1996, 1995 and 1994 are attributable to the Company's operations during the twelve-month periods ended September 30, 1996, 1995 and 1994, respectively.

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As long as the Company's average daily net production from the Prudhoe Bay Unit exceeds 90,000 barrels, which the Company currently projects will continue until the year 2009, the only factors affecting the Trust's revenues and distributions to Unit holders are changes in WTI Prices, scheduled annual increases in Chargeable Costs, changes in the Consumer Price Index, changes in Production Taxes and changes in the expenses of the Trust.

1995 compared to 1994

Both royalty revenues and cash distributions increased by approximately 7.7 percent from 1994 to 1995, reflecting generally higher WTI Prices during 1995 which were not fully offset by relatively modest increases in Adjusted Chargeable Costs and Production Taxes. See "THE ROYALTY INTEREST - Per Barrel Royalty Calculations" in Item 1. Although trust administration expenses increased by approximately 4.6 percent, from \$658,000 in 1994 to \$688,000 in 1995, they remained constant in relation to royalty revenues, at approximately 2 percent in each of 1994 and 1995.

1996 compared to 1995

Royalty revenues and cash distributions increased by approximately 21.2% and 21.4%, respectively, from 1995 to 1996, reflecting continued increases in WTI Prices that outpaced increases in Adjusted Chargeable Costs and Production Taxes. Trust administration expenses increased by 9.0% from 1995 to 1996, but fell to 1.8% in relation to royalty revenues in 1996.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BP PRUDHOE BAY ROYALTY TRUST INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Trustee and Holders of Trust Units of
BP Prudhoe Bay Royalty Trust:

We have audited the accompanying statements of assets, liabilities and Trust Corpus of BP Prudhoe Bay Royalty Trust as of December 31, 1996 and 1995, and the related statements of cash earnings and distributions and changes in Trust Corpus for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trustee, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2 to the financial statements, these financial statements have been prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and Trust Corpus of BP Prudhoe Bay Royalty Trust as of December 31, 1996 and 1995, and its cash earnings and distributions and its changes in Trust Corpus for each of the years in the three-year period ended December 31, 1996, on the basis of accounting described in note 2.

KPMG Peat Marwick LLP

New York, New York
March 27, 1997

BP PRUDHOE BAY ROYALTY TRUST

Statements of Assets, Liabilities and Trust Corpus

December 31, 1996 and 1995
(In thousands, except unit data)

Assets

1996

1995

	----	----
Royalty Interest (notes 1 and 2)	\$ 535,000	535,000
Less: accumulated amortization	(265,970)	(230,330)
	-----	-----
Total assets	\$ 269,030	304,670
	=====	=====
Liabilities and Trust Corpus		
Accrued expenses	\$ 90	126
Trust Corpus (40,000,000 units of beneficial interest authorized, 21,400,000 units issued and outstanding)	268,940	304,544
	-----	-----
Total liabilities and Trust Corpus	\$ 269,030	304,670
	=====	=====

<FN>
See accompanying notes to financial statements.

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BP PRUDHOE BAY ROYALTY TRUST

Statements of Cash Earnings and Distributions

For the Years Ended December 31, 1996, 1995 and 1994
(In thousands, except unit data)

	1996	1995	1994
	----	----	----
Royalty revenues	\$ 42,263	34,886	32,401
Trust administrative expenses	750	688	658
	-----	-----	-----
Cash earnings	\$ 41,513	34,198	31,743
	=====	=====	=====
Cash distributions	\$ 41,513	34,198	31,743
	=====	=====	=====
Cash distributions per unit	\$ 1.940	1.598	1.483
	=====	=====	=====
Units outstanding	21,400,000	21,400,000	21,400,000
	=====	=====	=====

<FN>
See accompanying notes to financial statements.

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BP PRUDHOE BAY ROYALTY TRUST

Statements of Changes in Trust Corpus

For the Years Ended December 31, 1996, 1995 and 1994
(In thousands)

	1996	1995	1994
	----	----	----
Trust Corpus at beginning of year	\$ 304,544	340,193	407,057
Cash earnings	41,513	34,198	31,743

Decrease (increase) in			
accrued Trust expenses	36	(8)	(34)
Cash distributions	(41,513)	(34,198)	(31,743)
Amortization of Royalty Interest	(35,640)	(35,641)	(66,830)
	-----	-----	-----
Trust Corpus at end of year	\$ 268,940	304,544	340,193
	=====	=====	=====

<FN>

See accompanying notes to financial statements.

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BP PRUDHOE BAY ROYALTY TRUST

Notes to Financial Statements

December 31, 1996, 1995 and 1994

(1) FORMATION OF THE TRUST AND ORGANIZATION

BP Prudhoe Bay Royalty Trust (the "Trust") was formed pursuant to a Trust Agreement dated February 28, 1989 among The Standard Oil Company ("Standard Oil"), BP Exploration (Alaska) Inc. (the "Company"), The Bank of New York and a co-trustee (collectively, the "Trustee"). Standard Oil and the Company are indirect wholly owned subsidiaries of the British Petroleum Company p.l.c. ("BP").

On February 28, 1989, Standard Oil conveyed an overriding royalty interest (the "Royalty Interest") to the Trust. The Trust was formed for the sole purpose of owning and administering the Royalty Interest. The Royalty Interest represents the right to receive, effective February 28, 1989, a per barrel royalty (the "Per Barrel Royalty") on 16.4246% of the lesser of (a) the first 90,000 barrels of the average actual daily net production of oil and condensate per quarter or (b) the average actual daily net production of oil and condensate per quarter from the Company's working interest in the Prudhoe Bay Field (the "Field") as of February 28, 1989, located on the North Slope of Alaska. Trust Unit holders will remain subject at all times to the risk that production will be interrupted or discontinued or fall, on average, below 90,000 barrels per day in any quarter. BP has guaranteed the performance by the Company of its payment obligations with respect to the Royalty Interest.

The co-trustees of the Trust are The Bank of New York, a New York corporation authorized to do a banking business, and The Bank of New York (Delaware), a Delaware banking corporation. The Bank of New York (Delaware) serves as co-trustee in order to satisfy certain requirements of the Delaware Trust Act. The Bank of New York alone is able to exercise the rights and powers granted to the Trustee in the Trust Agreement.

The Per Barrel Royalty in effect for any day is equal to the price of West Texas Intermediate crude oil (the "WTI Price") for that day less scheduled Chargeable Costs (adjusted in certain situations for inflation) and Production Taxes (based on statutory rates then in existence). For years subsequent to 2001, Chargeable Costs will be reduced up to a maximum amount of \$1.20 per barrel in each year if additions to the Field's proved reserved do not meet certain specific levels.

The Trust is passive, with the Trustee having only such powers as are necessary for the collection and distribution of revenues, the payment of Trust liabilities and the protection of the Royalty Interest. The Trustee, subject to certain conditions, is obligated to establish cash reserves and borrow funds to pay liabilities of the Trust when they become due. The Trustee may sell Trust properties only (a) as authorized by a vote of the Trust Unit holders, (b) when necessary to provide for the payment of specific liabilities of the Trust then due (subject to certain conditions) or (c) upon termination of the Trust. Each Trust Unit issued and outstanding represents an equal undivided share of beneficial interest in the Trust. Royalty payments are received by the

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Trust and distributed to Trust Unit holders, net of Trust expenses, in the month succeeding the end of each calendar quarter. The Trust will terminate upon the first to occur of the following events:

- (a) On or prior to December 31, 2010: upon a vote of Trust Unit holders of not less than 70% of the outstanding Trust Units.
- (b) After December 31, 2010: (i) upon a vote of Trust Unit holders of not less than 60% of the outstanding Trust Units, or (ii) at such time the net revenues from the Royalty Interest for two successive years commencing after 2010 are less than \$1,000,000 per year (unless the net revenues during such period are materially and adversely affected by certain events).

(2) BASIS OF ACCOUNTING

The financial statements of the Trust are prepared on a modified cash basis and reflect the Trust's assets, liabilities and Trust Corpus and the earnings and distributions as follows:

- (a) Revenues are recorded when received (generally within 15 days of the end of the preceding quarter) and distributions to Trust Unit holders are recorded when paid.
- (b) Trust expenses (which include accounting, engineering, legal, and other professional fees, trustees' fees and out-of-pocket expenses) are recorded when incurred.
- (c) Amortization of the Royalty Interest is calculated based on the units of production attributable to the Trust over the production of estimated proved reserves attributable to the Trust at the beginning of the fiscal year (approximately 80,991,000, 80,991,000 and 43,193,000 barrels of estimated proved reserves were used to calculate the amortization of the Royalty Interest for the years ended December 31, 1996, 1995 and 1994, respectively). Such amortization is charged directly to the Trust Corpus, and does not affect cash earnings. The rate for amortization per net equivalent barrel of oil was \$6.61, \$6.61 and \$12.39 for the years ended December 31, 1996, 1995 and 1994, respectively. The remaining unamortized balance of the net overriding Royalty Interest at December 31, 1996 is not necessarily indicative of the fair market value of the interest held by the Trust.

While these statements differ from financial statements prepared in accordance with generally accepted accounting principles, the cash basis of reporting revenues and distributions is considered to be the most meaningful because quarterly distributions to the Unit holders are based on net cash receipts.

The conveyance of the Royalty Interest by Standard Oil to the Trust was accounted for as a purchase transaction. On February 28, 1989, Standard Oil sold 13,360,000 Trust Units to a group of institutional investors for \$334 million in a private placement. For financial reporting purposes, the Trust's management valued the remaining Trust Units owned by Standard Oil (8,040,000 units) at a per unit value equivalent to the amount paid by the investors in the private placement.

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Estimates and assumptions are required to be made regarding assets, liabilities and changes in Trust Corpus resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

(3) INCOME TAXES

The Trust files its federal tax return as a grantor trust subject to the provisions of subpart E of Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, rather than as an association taxable as a corporation. The Unit holders are treated as the owners of Trust income and Corpus, and the entire taxable income of the Trust will be reported by the Unit holders on their respective tax returns.

If the Trust were determined to be an association taxable as a corporation, it would be treated as an entity taxable as a corporation on the taxable income from the Royalty Interest, the Trust Unit holders would be treated as shareholders, and distributions to Trust Unit holders would not be deductible in computing the Trust's tax liability as an association.

(4) SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

A summary of selected quarterly financial information for the years ended December 31, 1996 and 1995 is as follows (in thousands, except unit data):

	1st Quarter -----	2nd Quarter -----	3rd Quarter -----	4th Quarter -----
1996				
Royalty revenues	\$8,411	9,610	11,701	12,541
Trust administrative expenses	151	213	299	87
	-----	-----	-----	-----
Cash earnings	8,260	9,397	11,402	12,454
Cash distributions	8,260	9,397	11,402	12,454
Cash distributions per unit	0.386	0.439	0.533	0.582
1995				
Royalty revenues	\$8,478	8,584	9,698	8,126
Trust administrative expenses	141	267	185	95
	-----	-----	-----	-----
Cash earnings	8,337	8,317	9,513	8,031
Cash distributions	8,337	8,317	9,513	8,031
Cash distributions per unit	0.390	0.389	0.445	0.375

(5) SUPPLEMENTAL RESERVE INFORMATION AND STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW RELATING TO PROVED RESERVES (UNAUDITED)

Pursuant to Statement of Financial Accounting Standards No. 69 - "Disclosures About Oil and Gas Producing Activities" ("FASB 69"), the Trust is required to include in its financial statements supplementary information regarding estimates of quantities of proved reserves

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attributable to the Trust and future net cash flows.

Estimates of proved reserves are inherently imprecise and subjective and are revised over time as additional data becomes available. Such revisions may often be substantial. Information regarding estimates of proved reserves attributable to the combined interests of the Company and the Trust were based on Company-prepared reserve estimates. The Company's reserve estimates are believed to be reasonable and consistent with presently known physical data concerning the size and character of the Field.

There is no precise method of allocating estimates of physical quantities of reserve volumes between the Company and the Trust, since the Royalty Interest is not a working interest and the Trust does not own and is not entitled to receive any specific volume of reserves from the Field. Reserve volumes attributable to the Trust were estimated by allocating to the Trust its share of estimated future production from the Field, based on the WTI Price on December 31, 1996 (\$25.93 per barrel), December 31, 1995 (\$19.58 per barrel) and December 31, 1994 (\$17.75 per barrel). Because the reserve volumes attributable to the Trust are estimated using an allocation of reserve volumes based on estimated future production and on the current WTI Price, a change in the timing of estimated production or a change in the WTI price will result in a change in the Trust's estimated reserve volumes. Therefore, the estimated reserve volumes attributable to the Trust will vary if different production estimates and prices are used.

In addition to production estimates and prices, reserve volumes

attributable to the Trust are affected by the amount of Chargeable Costs that will be deducted in determining the Per Barrel Royalty. The Royalty Interest includes a provision under which, in years subsequent to 2001, if additions to the Field's proved reserves from January 1, 1988 (after certain adjustments) do not meet certain specified levels, Chargeable Costs will be reduced up to a maximum amount of \$1.20 per barrel in each year. Under the provisions of FASB 69, no consideration can be given to reserves not considered proved at the present time. Accordingly, in estimating the reserve volumes attributable to the Trust, Chargeable Costs were reduced by the maximum amount in years subsequent to 1996, after considering the amount of reserves that have been added to the Field's proved reserves from January 1, 1988.

Net proved reserves of oil and condensate attributable to the Trust as of December 31, 1996, 1995 and 1994 based on the Company's latest reserve estimate at such time, the WTI Prices on December 31, 1996, 1995 and 1994 and a reduction in Chargeable Costs in years subsequent to 1996, were estimated to be 111, 81 and 81 million barrels, respectively (of which 102, 80 and 81 million barrels, respectively, are proved developed).

The standardized measure of discounted future net cash flow relating to proved reserves disclosure required by FASB 69 assigns monetary amounts to proved reserves based on current prices. This discounted future net cash flow should not be construed as the current market value of the Royalty Interest. A market valuation determination would include, among other things, anticipated price increases and the value of additional reserves not considered proved at the present time or reserves that may be produced after the currently anticipated end of field life. At December 31, 1996, 1995 and 1994 the standardized measure of

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discounted future net cash flow relating to proved reserves attributable to the Trust (estimated in accordance with the provisions of FASB 69), based on the WTI Prices on those dates of \$25.93, \$19.58 and \$17.75, respectively, were as follows (in thousands):

	December 31, 1996 -----	December 31, 1995 -----	December 31, 1994 -----
Future net cash flows	\$ 779,517	331,052	257,080
10% annual discount for estimated timing of cash flows	(367,217) -----	(128,458) -----	(93,935) -----
Standardized measure of discounted future net cash flow relating to proved reserves (a)	\$ 412,300 =====	202,594 =====	163,145 =====

<FN>

- (a) The standardized measure of discounted future net cash flow relating to proved reserves, estimated without reducing Chargeable Costs in years subsequent to 1996, would be \$388,249, \$202,602 and \$154,200 at December 31, 1996, 1995 and 1994, respectively.

The following are the principal sources of the change in the standardized measure of discounted future net cash flows (in thousands):

	1996 ----	1995 ----	1994 ----
Revisions of prior estimates:			
Reserve volumes	\$ 21,565	1,678	28,853
WTI price	278,082	79,833	(115,530)

Chargeable costs - inflation	(18,891)	(11,791)	(3,300)
Production taxes	(40,513)	(10,279)	(17,093)
Other	(1,807)	(1,504)	(827)
	-----	-----	-----
	238,436	57,937	123,163
Royalty income received (b)	(48,989)	(34,803)	(31,707)
Accretion of discount	20,259	16,315	6,517
	-----	-----	-----
Net increase during the year	\$ 209,706	39,449	97,973
	=====	=====	=====

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<FN>

(b) Royalty income received for 1996, 1995 and 1994 includes the royalty applicable to the period October 1, 1996 through December 31, 1996 (\$15,138), October 1, 1995 through December 31, 1995 (\$8,411) and October 1, 1994 through December 31, 1994 (\$8,478), which was received by the Trust in January 1997, 1996 and 1995, respectively.

The changes in quantities of proved oil and condensate were as follows (thousands of barrels):

Estimated net proved reserves of oil and condensate at December 31, 1994	80,991
Production	(5,395)
Change in timing of estimated production	5,395

Estimated net proved reserves of oil and condensate at December 31, 1995	80,991
Production	(5,410)
Change in timing of estimated production	35,485

Estimated net proved reserves of oil and condensate at December 31, 1996	111,066
	=====
Proved reserves:	
December 31, 1994	80,991
	=====
December 31, 1995	80,991
	=====
December 31, 1996	111,066
	=====

As of December 31, 1996, the 111.1 million barrels of proved reserves were comprised of 102.0 million barrels of proved developed reserves and 9.1 million barrels of proved undeveloped reserves.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Trust has no directors or executive officers. The Trustee has only

such rights and powers as are necessary to achieve the purposes of the Trust.

ITEM 11. EXECUTIVE COMPENSATION

Not applicable.

ITEM 12. UNIT OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Unit Ownership of Certain Beneficial Owners.

The following table sets forth information regarding the ownership of Units by all persons known to the Trustee as of March 26, 1997 to be the beneficial owners of more than five percent of the Units. Except as noted below, to the Trustee's knowledge, such owners have sole voting and investment power for the Units indicated as beneficially owned by them.

Name And Address Of Beneficial Owner -----	Amount And Nature Of Beneficial Ownership -----	Percentage of Outstanding Units -----
J. Taylor Crandall Keystone, Inc. 201 Main Street, Suite 3100 Fort Worth, TX 76102	1,259,500 (a)	5.9%
Robert W. Bruce III Robert Bruce Management Co., Inc. P.O. Box 252 South Salem, NY 10590	1,259,500 (b)	5.9
Alpine Capital, L.P. 201 Main Street, Suite 3100 Fort Worth, TX 76102	1,189,300	5.6
Algenpar, Inc. 201 Main Street, Suite 3100 Fort Worth, TX 76102	1,189,300 (c)	5.6

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<FN>

(a) J. Taylor Crandall has shared voting power and investment power, solely in his capacity as president and sole stockholder of Algenpar, Inc., which is one of two general partners of Alpine Capital, L.P., with respect to 1,189,300 Units, and shared voting power and investment power in his capacity as a director of The Anne T. and Robert M. Bass Foundation (the "Bass Foundation") with respect to 70,200 Units beneficially owned by the Bass Foundation.

(b) Robert W. Bruce III has shared voting power and investment power, solely in his capacity as one of two general partners of Alpine Capital, L.P., with respect to 1,189,300 Units, and shared voting power and investment power in his capacity as a principal of The Robert Bruce Management Co., Inc., which has shared investment discretion over 70,200 Units beneficially owned by the Bass Foundation.

(c) Algenpar, Inc. has shared voting power and investment power with respect to 1,189,300 Units beneficially owned by Alpine Capital, L.P., solely in its capacity as one of the general partners thereof.

Unit Ownership of Management

Neither the Company, Standard Oil, nor BP owns any Units. No Units are owned by The Bank of New York, as Trustee or in its individual capacity, or by The Bank of New York (Delaware), as co-trustee or in its individual capacity.

Changes in Control

The Trustee knows of no arrangement, including the pledge of Units, the operation of which may at a subsequent date result in a change in control of the Trust.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS

The following financial statements of the Trust are included in Part II, Item 8:

Independent Auditors' Report

Statements of Assets, Liabilities and Trust Corpus
as of December 31, 1996 and 1995

Statements of Cash Earnings and Distributions for the years
ended December 31, 1996, 1995, and 1994

Statements of Changes in Trust Corpus for the years
ended December 31, 1996, 1995, and 1994

Notes to Financial Statements

(b) FINANCIAL STATEMENT SCHEDULES

All financial statement schedules have been omitted because they are either not applicable, not required or the information is set forth in the financial statements or notes thereto.

(c) EXHIBITS

4.1 BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee.

4.2 Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company.

4.3 Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust.

4.4 Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The standard Oil Company and BP Prudhoe Bay Royalty Trust.

27 Financial Data Schedule

(d) REPORTS ON FORM 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission by the Trust during the quarter ended December 31, 1996.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BP PRUDHOE BAY ROYALTY TRUST

THE BANK OF NEW YORK, as Trustee

By: /s/ Marie Trimboli

Marie Trimboli
Assistant Treasurer

March 27, 1997

The Registrant is a trust and has no officers, directors, or persons performing similar functions. No additional signatures are available and none have been provided.

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INDEX TO EXHIBITS

Exhibit No. -----	Exhibit Description -----
4.1	BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee. Filed herewith.
4.2	Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company. Filed herewith.
4.3	Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust. Filed herewith.
4.4	Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The standard Oil Company and BP Prudhoe Bay Royalty Trust. Filed herewith.
27	Financial Data Schedule. Filed herewith.

BP PRUDHOE BAY ROYALTY TRUST AGREEMENT

THIS ROYALTY TRUST AGREEMENT (the "Agreement"), made and entered into as of the 28th day of February, 1989, by and among The Standard Oil Company, an Ohio corporation having its principal office in Cleveland, Ohio ("SOC"), as depositor and trustor, BP Exploration (Alaska) Inc., a Delaware corporation having its principal office in Anchorage, Alaska (formerly Standard Alaska Production Company) (the "Company"), The Bank of New York, a corporation organized under the laws of the State of New York, authorized to do a banking business and having a principal corporate trust office in New York, New York, as trustee and F. James Hutchinson, a resident of the State of Delaware, as co-trustee.

WHEREAS, the Company is engaged in the business of developing and producing oil and gas and owns mineral interests in lands that contain proved reserves and are currently producing oil and gas; and

WHEREAS, the Company has determined to convey to SOC the Initial Royalty Interest (hereinafter defined) pursuant to an Overriding Royalty Conveyance (as hereinafter defined); and WHEREAS, SOC has determined to offer and sell trust units representing undivided beneficial interests in the Trust, which will own the Initial Royalty Interest; and

WHEREAS, SOC has determined to grant to the Trust the Initial Royalty Interest pursuant to a Trust Conveyance (as hereinafter defined) in consideration of the issuance by the Trust of the Trust Units, (as hereinafter defined); and

WHEREAS, The British Petroleum Company p.l.c. ("BP") has agreed to support the payment obligations of the Company and SOC as more fully set forth in the Support Agreement (as hereinafter defined); and

WHEREAS, the Initial Conveyance (as hereinafter defined) is contemporaneously executed and delivered to the Trust;

NOW, THEREFORE, the Initial Royalty Interest has been granted, assigned and delivered unto the Trust, receipt of which is hereby acknowledged and accepted by the Trustee on behalf of the Trust, to have and to hold, in trust as hereinafter set forth, such property and all other properties, real or personal (including Additional Royalty Interests), which may hereafter be received by the Trust pursuant to this Agreement; and the Company, SOC, The Bank of New York in its capacity as Trustee, and the Co-Trustee (as hereinafter defined) agree that such properties shall be held, administered, paid and delivered for the purposes and subject to the terms and conditions hereinafter provided.

ARTICLE I

Definitions

As used herein, the following terms have the meanings indicated:

Section 1.01. "Affiliate" of a Person means another Person controlled by, controlling or under common control with such Person.

Section 1.02. "Additional Conveyance" means collectively any instruments pursuant to which one or more Additional Royalty Interests are created or conveyed to the Trust as provided in Section 2.04 hereof.

Section 1.03. "Additional Royalty Interest" means any royalty interest which is identical in all respects to the Initial Royalty Interest, except for the identity of the parties (other than the Trust), the effective date and the percentage set forth in the definition of Royalty Production in the related Additional Conveyance.

Section 1.04. "Agreement" means this instrument, as originally executed, or, if amended pursuant to the provisions of Section 10.02 or 10.03 hereof, as so amended.

Section 1.05. "Beneficial Interest" means the right to share in the benefits and the obligation to share in the detriments resulting from the

accomplishment of the purposes of the Trust as expressly set out in this Agreement, and includes without limitation the right to share in distributions during the term of the Trust, to share in the final distributions from the Trust and to participate in decisions affecting the Trust only to the extent expressly provided herein, and, except as limited by the provisions of this Agreement, to exercise all other rights of a beneficiary of a business trust created under the Delaware Trust Act.

Section 1.06. "BP" means The British Petroleum Company p.l.c., its successors and assigns.

Section 1.07. "Business Day" means any day that is not a Saturday, Sunday, a holiday determined by the New York Stock Exchange as "affecting 'ex' dates" or any other day on which banking institutions in New York, New York, or in any other city where the principal corporate trust office of the Trustee may be located, are closed as authorized or required by law.

Section 1.08. "Certificate" means a certificate issued by the Trust pursuant to ARTICLE III hereof evidencing the ownership of one or more Units.

Section 1.09. "Code" means the Internal Revenue Code of 1986, as amended, or any successor statute or statutes.

Section 1.16. "Company" means BP Exploration (Alaska) Inc., a Delaware corporation and includes successors or assigns of the Company.

Section 1.11. "Conveyance" means collectively the Initial Conveyance and any Additional Conveyance.

Section 1.12. "Co-Trustee" shall have the meaning ascribed to it in Section 1.33 hereof.

Section 1.13. "Delaware Trust Act" means 12 Delaware Code Section 3801 et sec.

Section 1.14. "Distribution Date" means the date of any distribution pursuant to Section 4.02 hereof.

Section 1.15. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute or statutes.

Section 1.16. "Initial Conveyance" means collectively the Overriding Royalty Conveyance and the Trust Conveyance.

Section 1.17. "Initial Royalty Interest" means the royalty interest being conveyed by the Company to SOC and by SOC to the Trust contemporaneously with the execution and delivery of this Agreement pursuant to the Initial Conveyance.

Section 1.18. "Insignificant Investor Period" means each period of time prior to the Opinion Date during which benefit plan investors (within the meaning of Department of Labor regulation section 2510.3-101(f)(2)) do not own a sufficient number of Units of a "class" to cause their equity participation in the Trust to be "significant" (within the meaning of Department of Labor regulation section 2510.3-101(f)(1)).

Section 1.19. "Officer's Certificate" means a certificate duly executed on behalf of the Company or SOC, as the case may be, signed by any president, any vice president, any assistant vice president, or any treasurer or assistant treasurer, or any certificate reasonably believed by the Trustee to have been so signed.

Section 1.20. "Opinion Date" means the first date upon which all of the following requirements have been satisfied: (i) the Trust Units have been registered under section 12(b) or section 12(g) of the Securities Exchange Act of 1934; (ii) the Trust Units are widely-held (within the meaning of paragraph (b)(3) of the Regulation); (iii) the Trust Units are freely transferable (within the meaning of paragraph (b)(4) of the Regulation); (iv) the Company has delivered to the Trustee an opinion of nationally recognized ERISA counsel (such counsel to be selected by the Company and approved by the Trustee and such opinion to be reasonably acceptable to the Trust's counsel) which states, in effect, that the requirements described in clauses (i), (ii) and (iii) above have been satisfied; and (v) the Company has delivered to the Trustee either (a) an opinion of nationally recognized ERISA counsel (such counsel to be selected by the Company and approved by the Trustee and such opinion to be

reasonably acceptable to the Trust's counsel) or (b) an individual prohibited transaction exemption or an advisory opinion issued by the Department of Labor to the Trustee, the Trust or the Company which opinion, exemption or advisory opinion states, in effect, that from and after the date upon which the requirements described in clauses (i), (ii) and (iii) above have been satisfied, the assets of the Trust shall not constitute plan assets (within the meaning of the Regulation) with respect to any employee benefit plan (as such term is defined in section 3(3) of ERISA) which became a Unit Holder prior to the date such requirements have been satisfied (provided, however, that if the Company has delivered to the Trustee an opinion of counsel as described in clause (v)(a) above, such opinion must specifically reference and be based primarily upon an advisory opinion or other published announcement of similar authoritative import issued by the Department of Labor which favorably addresses the same issues which are to be addressed in such opinion and which is based upon facts similar to those involving the Trust and such employee benefits plans). The Company shall use its best efforts to obtain promptly, at its expense, from the Department of Labor the individual prohibited transaction exemption or advisory opinion referred to in clause (v)(b) above; provided, however, that if the Company has delivered the opinion of counsel referred to in clause (v)(a) above, then its obligation to use its best efforts to obtain such exemption or advisory opinion shall terminate. For purposes of this Section, the term "Regulation" means Department of Labor regulation section 2510.3-101.

Section 1.21. "Overriding Royalty Conveyance" means the Overriding Royalty Conveyance from the Company to SOC, the form which is attached hereto as part of Exhibit A.

Section 1.22. "Person" means an individual, corporation, partnership, unincorporated association, trust, estate or other organization.

Section 1.23. "Quarter" means a period of approximately three months beginning on the day after a Quarterly Record Date and continuing through and including the next succeeding Quarterly Record Date, which shall be the Quarterly Record Date for such Quarter; provided, however, that the first Quarter hereunder shall be a period beginning on the date hereof and continuing until April 17, 1989.

Pursuant to the Conveyance royalty amounts payable to the Trust are calculated on a calendar quarter basis, and each royalty payment is required to be made on the Quarterly Record Date immediately following the close of the calendar quarter during which the related oil production occurs. Therefore, pursuant to the Conveyance royalty payments for the four calendar quarters in each year are due and payable to the Trust on the Quarterly Record Date in April, July and October of such year and in January of the following year. The term "Quarter" as used herein refers to a three-month period which ends on the Quarterly Record Date which occurs approximately one-half month after the end of the corresponding royalty calculation period.

Section 1.24. "Quarterly Income Amount" for any Quarter means the sum of (a) the cash received by the Trust during the Quarter that is directly attributable to the Royalty Interest, any cash available for distribution as a result of the reduction or elimination during the Quarter of any existing cash reserve created pursuant to Section 6.07 hereof and (c) any other cash receipts of the Trust during the Quarter including without limitation any cash received from interest earned pursuant to Section 6.07 hereof, reduced by the sum of (i) the liabilities of the Trust paid during the Quarter and (ii) the amount of any cash used in the Quarter to establish or increase a cash reserve pursuant to Section 6.07 hereof. If (a) prior to the end of a Quarter the Trustee makes a determination of the Quarterly Income Amount which it anticipates will be distributed to Unit Holders of record on the Quarterly Record Date for such Quarter, based on notice provided to the Trustee by the Company pursuant to Section 4.8(e) of the Overriding Royalty Conveyance (and similar provisions of any Additional Conveyance), and (b) the Quarterly Income Amount is not equal to the amount so determined because the amounts stated in such notice were not received on or prior to such Quarterly Record Date, the Trustee shall treat such amounts when received as if they were received on such Quarterly Record Date.

Notwithstanding anything to the contrary in this Section 1.24, the Quarterly Income Amount for any Quarter shall not include any amount that would have been required to be reported to any stock exchange on which the Units are listed in connection with the establishment of an "ex" date in order to be distributed to Unit Holders who were such on the Quarterly Record Date for such Quarter but was not so reported unless the stock exchange agrees to

such amount being a part of that Quarter's Quarterly Income Amount or the Trustee receives an opinion of counsel stating that neither the Trust, the Trustee nor The Bank of New York will be adversely affected by such inclusion. An amount that, pursuant to the preceding sentence, is not included in the Quarterly Income Amount for that Quarter shall be treated as if received during the next Quarter. In this connection, the Trustee shall report quarterly to such stock exchange (so long as reporting is so required by the stock exchange), at the time required by the stock exchange, the amount that, pursuant to the first paragraph of this Section 1.24, the Trustee in good faith reasonably expects to be the Quarterly Income Amount for the Quarter being reported on.

Section 1.25. "Quarterly Record Date" means the.fifteenth day of each January, April, July and October; provided, however, that if such day is not a Business Day then the Quarterly Record Date shall be the next Business Day after such day and provided further that if the Trustee determines that a different date is required to comply with applicable law or the rules or regulations of any stock exchange on which the Units are listed, it means such different date. The first Quarterly Record Date shall be April 17, 1989.

Section 1.26. "Record Date Unit Holder" means a Person who was a Unit Holder of record on the Voting Record Date for a meeting of Unit Holders.

Section 1.27. "Royalty Interest" means the Initial Royalty Interest and any Additional Royalty Interests which may hereafter be granted to the Trust pursuant to this Agreement, taken together.

Section 1.28. "Royalty Statement" means the statement prepared by the Company and delivered to the Trust pursuant to Section 4.8(f) of the Overriding Royalty Conveyance or the comparable provision of any Additional Conveyance.

Section 1.29. "Support Agreement" means the Support Agreement dated as of even date herewith by and among BP, the Company, SOC and the Trust.

Section 1.30. "Trust" means the business trust under the Delaware Trust Act created by and administered under the terms of this Agreement.

Section 1.31. "Trust Conveyance" means the Trust Conveyance from SOC to the Trust, the form of which is attached hereto as part of Exhibit A.

Section 1.32. "Trust Estate" means all assets, however and whenever acquired, that may belong to the Trust at any designated time and shall include both income and principal.

Section 1.33. "Trustee" means collectively (except as otherwise provided in Section 8.06 hereof) The Bank of New York, a corporation organized under the laws of the State of New York and authorized to do a banking business and qualified to exercise trust powers, in its capacity as trustee hereunder, and, F. James Hutchinson, in his capacity as co-trustee hereunder. The Bank of New York and F. James Hutchinson shall serve as the initial trustees under this instrument. The term "Trustee" shall include any ancillary or successor trustee or co-trustee hereunder, during the period it is so serving in such capacity. The term "Co-Trustee". means F. James Hutchinson, in his capacity as co-trustee hereunder, and any successor co-trustee hereunder, during the period he or it is serving in such capacity. References to The Bank of New York or to the Trustee, individually, or similar references shall be deemed to be references to The Bank of New York in its individual capacity and not in its capacity as Trustee hereunder and shall be deemed to include its successors or assigns which serve as Trustee in their individual capacities and not in their capacities as successor Trustees hereunder.

Section 1.34. "Unit" or "Trust Unit" means an undivided fractional interest in the Beneficial Interest determined as hereinafter provided.

Section 1.35. "Unit Holder" means the owner of one or more Units as shown by the records of the Trustee pursuant to the provisions of ARTICLE III hereof.

Section 1.36. "Voting Record Date" means a date selected by the Trustee as the record date for determining Unit Holders of record entitled to notice of and to vote at a meeting of Unit Holders, as provided in ARTICLE V hereof.

ARTICLE II

Creation, Name and Purpose of Trust

Section 2.01 - Creation and Name of Trust. The Trust is hereby created under the Delaware Trust Act as a Delaware business trust for the benefit of the Unit Holders. The Trust shall be known as the BP Prudhoe Bay Royalty Trust, and the Trustee may transact all affairs of the Trust in that name. Pursuant to the Trust Conveyance, SOC has granted, bargained, sold, conveyed, assigned, set over and delivered the Initial Royalty Interest to the Trust. The Initial Royalty Interest shall constitute the initial Trust Estate.

Section 2.02 - Purposes. The purposes of the Trust are (a) to convert the Royalty Interest to cash either (1) by retaining the Royalty Interest and collecting the proceeds from production in accordance with the terms of the Conveyance until production has ceased permanently or the Royalty Interest has otherwise terminated or (2) by selling or otherwise disposing of the Royalty Interest (within the limits stated herein); and (b) to distribute such cash, net of amounts for payment of expenses and liabilities of the Trust, to the Unit Holders as provided herein.

It is the intention and agreement of SOC, the Company and the Trustee to create a grantor trust for federal income tax purposes of which the Unit Holders are treated as the owners of trust income and corpus. As set forth above and amplified herein, the Trust is intended to be a passive entity limited to the receipt of revenues attributable to the Royalty Interest and the distribution of such revenues, after payment of or provision for Trust expenses and liabilities, to the Unit Holders. It is neither the purpose nor the intention of the parties hereto to create, and nothing in this Agreement shall be construed as creating, a partnership, joint venture, joint stock company or similar business association between or among Unit Holders, present or future, or between or among Unit Holders, or any of them, and the Trustee or SOC or the Company.

Section 2.03. - Initial Conveyance. SOC, as depositor and trustor, has delivered, and the Trustee on behalf of the Trust has accepted, executed copies of the Initial conveyance. Accordingly, the Initial Royalty Interest described therein constitutes the initial Trust Estate. In consideration of the grant of the Initial Royalty Interest and the execution and delivery of the Support Agreement, the Trustee is hereby directed to execute and deliver on behalf of SOC Certificates representing an aggregate of 21,400,000 Trust Units in such denominations and to the Persons identified by SOC in an Officer's Certificate delivered to the Trustee; provided, however, that the Trustee shall not be obligated to execute and deliver such Certificates to any Person unless such Person delivers to the Trustee a written instrument evidencing the agreement of such Person with respect to matters set forth in subsections (i) through (iv) of the last paragraph of Section 2.04 hereof.

Section 2.04. - Additional Conveyances. The Company or an Affiliate may from time to time grant, assign and deliver unto the Trust one or more Additional Royalty Interests by executing and delivering to the Trust one or more Additional Conveyances, and, subject to the conditions set forth below, the Trustee shall accept on behalf of the Trust the assignment of such Additional Royalty Interests and the delivery of such Additional Conveyances.

The obligation of the Trustee to accept the assignment of any such Additional Royalty Interest shall be subject to the condition that the Additional Royalty Interest shall be identical in all respects to the Initial Royalty Interest except for the effective date of the Additional Conveyance (which must be on the first day of a calendar quarter and must be the date of delivery thereof to the Trustee), the percentage set forth in the definition of Royalty Production in the related Additional Conveyance and the identity of the parties (other than the Trust) to the Additional Conveyance (provided that the entity which will make payments to the Trust under any Additional Royalty Interest must be the same entity which will make payments to the Trust under the Initial Royalty Interest). Any Additional Conveyance must be identical in all respects to the Initial Conveyance, except for changes which may be necessary to ensure that the Additional Royalty Interest conforms to the conditions set forth herein.

In consideration of the grant of an Additional Royalty Interest, and in exchange therefor, the Trustee shall issue, upon receipt of an Officer's Certificate containing the direction of the Company or such Affiliate to issue to the order of the Company or such Affiliate, a number of whole Units in the Trust not to exceed a total of 18,600,000 additional Units determined by the following formula:

Number of Units = A x 21,400,000

 16.4246%

where "A" equals the percentage set forth in the definition of "Royalty Production" in the related Additional Conveyance. In connection with such issuance, the recipients of such Units and their transferees shall not be treated as Unit Holders of record entitled to distributions with respect to the Quarterly Income Amount for the Quarterly Record Date which occurs during the month in which such Additional Conveyance is effective and shall not be entitled to transfer such Units (other than to the Company or one of its Affiliates) on or prior to such Quarterly Record Date, and the Certificates therefor shall prominently so state.

The acceptance by the Trustee of any assignment of an Additional Royalty Interest shall be subject to the condition precedent that the Trustee shall have received (a) a ruling from the Internal Revenue Service to the effect that neither the existence nor exercise of the right to assign the Additional Royalty Interest, the power to accept such assignment or the issuance of additional Units as herein contemplated will adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes and (b) a ruling from the Internal Revenue Service or an unqualified written opinion of counsel to the Trust to the effect that such assignment will not cause (i) the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes or (ii) the Unit Holders to recognize income, gain or loss attributable to the Royalty Interests as a result of such assignment, except to the extent of any gain or loss attributable to any cash received by the Trust in connection with such assignment.

In addition, the Trustee shall require that the Company or such Affiliate making the deposit of the Additional Royalty Interest to the Trust pay the expenses of such assignment and contribute a cash reserve equal to the value of the cash reserve, if any, existing on the date such Additional Conveyance is effective multiplied by a fraction whose numerator is the additional number of Units to be issued and whose denominator is the sum of (a) the number of Units outstanding immediately preceding such deposit of the Additional Royalty Interest and (b) the number of Units then to be issued. The Trustee shall invest the cash, if any, deposited with respect to such cash reserve as provided in Section 6.07 hereof in investments maturing on the next succeeding Quarterly Record Date, and there shall be included in the Quarterly Income Amount distributed to Unit Holders of record on the Quarterly Record Date which occurs during the month in which such Additional Conveyance is effective an amount equal to the sum of (a) the amount so deposited and (b) the interest earned on such amount from the time it is invested to such Quarterly Record Date.

Upon acceptance thereof by the Trustee on behalf of the Trust, the Additional Royalty Interest shall constitute a part of the Trust Estate and, to the extent permitted by law, shall be treated by the Trustee, together with the Initial Royalty Interest and all other Additional Royalty Interests previously assigned to the Trust, as constituting one Royalty Interest held for the benefit of all Unit Holders.

Notwithstanding any other provision of this Agreement, with respect to any Additional Royalty Interest to be conveyed to the Trust prior to the date upon which the requirements of clauses (i), (ii), (iii) and (iv) of Section 1.20 have been satisfied (the "Restriction Date"), the Trustee shall not be required to accept such Additional Royalty Interest on behalf of the Trust unless each Person who is to be issued Units in connection with such conveyance delivers to the Trustee a written instrument evidencing the agreement of such Person:

- (i) to furnish to the Trustee, from time to time and within five days of its receipt of a written request from the Trustee, complete and correct information in a form and manner reasonably acceptable to the Trustee as to whether such Person is a benefit plan investor (within the meaning of Department of Labor regulation section 2510.3-101(f)(2)) and, if such Person is a benefit plan investor, information as to (a) the identity of the employee benefit plan or plans established or maintained in connection with, or owning an interest in, such benefit plan investor if such benefit plan investor is not a "collective investment fund maintained by a bank" within the meaning of Department of Labor Prohibited

Transaction Exemption 80-51 (a "Fund") nor an insurance company pooled separate account within the meaning of Department of Labor Prohibited Transaction Exemption 78-19 (an "Account"), (b) the identity of the employee benefit plan or plans owning an interest in excess of five percent (with all such plans maintained by the same employer or employee organization treated as a single plan for purposes of this determination) of all of the assets in such benefit plan investor if such benefit plan investor is a Fund or an Account, and (c) the identity of the sponsor of the plan or plans described in subclauses (a) or (b) above, and (d) information as to whether any Person designated by the Trustee as a Person with whom the Trust proposes to engage in a transaction is a "party in interest" (within the meaning of Section 3(14) of ERISA) or a "disqualified person" (within the meaning of Section 4975(e)(2) of the Code), (collectively referred to as a "party in interest"), as to such benefit plan investor (including without limitation, each Plan owning a five percent interest in a Fund or Account),

- (ii) that the Trustee shall be authorized to disclose any information described in clause (i) above which is provided by such Person to the Trustee and which may be necessary, in the sole opinion of the Trustee, in order for the Trustee to perform its duties under this Agreement,
- (iii) to comply in all respects with the recordkeeping and examination requirements of Section III of (a) Department of Labor Prohibited Transaction Exemption 80-51 if such Person is a benefit plan investor which is a Fund, or (b) Department of Labor Prohibited Transaction Exemption 78-19 if such Person is a benefit plan investor which is an Account, and
- (iv) that such Person will not directly or indirectly transfer any of the Units to be issued to such Person prior to the Restriction Date unless the transferee of such Units delivers to the Trustee a written instrument evidencing its agreement with respect to the matters described in clauses (i), (ii) and (iii) above and this clause (iv) as if such transferee had received a direct issuance of Units from the Trust in connection with the conveyance of such Additional Royalty Interest.

Section 2.05. - Certificate of Trust. The Trustee shall cause to be filed a certificate of trust in the office of the Secretary of State of Delaware in compliance with Section 3810 of the Delaware Trust Act.

In the event that the Trustee becomes aware that any statement contained or any matter described in the certificate of trust has changed making the certificate false in any material respect, the Trustee shall promptly file a certificate of amendment in the office of the Secretary of State of Delaware in compliance with Section 3810 of the Delaware Trust Act. Upon the termination of the Trust pursuant to Section 9.01 of this Agreement, the Trustee shall file a certificate of cancellation in the office of the Secretary of State of Delaware in compliance with Section 3810 of the Delaware Trust Act.

Section 2.06. - Acceptance by Trustee. The Trustee, by joining in the execution of this Agreement, accepts the Trust herein created and provided for and accepts all of the rights, powers, privileges, duties and responsibilities of the Trustee hereunder and agrees to exercise and perform the same in accordance with the terms and provisions contained herein.

Section 2.07. - Registration of the Units. In connection with the contemplated registration of the Units under the Securities Act of 1933, as amended, if required by the Securities and Exchange Commission, the Company, or its designee, is hereby granted full power and authority to sign on behalf of the Trust such registration statements and any amendments, including post-effective amendments and any other related documents relating to the Units as may be necessary to effect or to continue in effect such registration.

ARTICLE III

Creation of Units and Certificates

Section 3.01 - Creation of Units. The entire Beneficial Interest shall

initially be divided into 21,400,000 Units.

If at any time there is assigned to the Trust an Additional Royalty Interest pursuant to Section 2.04 hereof, the Beneficial Interest shall thereafter be considered to be divided into a number of Units equal to the sum of the number of Units existing prior to such assignment and the number of Units created upon such assignment pursuant to Section 2.04 hereof, and upon the acceptance of such assignment, the Trustee shall cause to be issued in accordance with Section 2.04 hereof new Certificates representing the number of Units created upon such assignment.

Section 3.02 - Certificates as Evidence of Ownership of Units. The ownership of the Units shall be evidenced by Certificates in substantially the form set forth in Exhibit B attached hereto. Except as otherwise provided in Sections 2.04 and 3.08 hereof and notwithstanding anything else stated herein, the Trustee may for all purposes set forth in this Agreement, including, without limitation, the making of distributions and voting, treat the holder of any Certificate as shown by the records of the Trustee maintained pursuant to Section 3.06 hereof as the owner of the Units evidenced thereby.

Section 3.03. - Rights of Unit Holders. Except as otherwise specifically provided herein, the Unit Holders shall own pro rata the Beneficial Interest and shall be entitled to participate pro rata in the rights and benefits of Unit Holders under this Agreement. A Unit Holder by assignment or otherwise shall take and hold the same subject to all the terms and provisions of this Agreement and the Conveyance, which shall be binding upon and inure to the benefit of the successors, assigns, legatees, heirs and personal representatives of the Unit Holder. By an assignment or transfer of one or more Units, the assignor thereby shall, effective as of the close of business on the date of transfer and with respect to such assigned or transferred Unit or Units, part with, except as provided in Sections 3.06 and 4.02 hereof in the case of a transfer after a Quarterly Record Date and prior to the corresponding Distribution Date, (a) all of his Beneficial Interest attributable thereto, (b) all of his rights in, to and under such Unit or Units and (c) all interests, rights and benefits under this Agreement of a Unit Holder that are attributable to such Unit or Units as against all other Unit Holders, the Trust and the Trustee.

Section 3.04. - Character of Rights. The sole interest of each Unit Holder shall be his pro rata portion of the Beneficial Interest and the obligations of the Trust expressly created under this Agreement with respect to the Beneficial Interest. Such interest of a Unit Holder is and shall be construed for all purposes (except for tax purposes) to be intangible personal property, and no Unit Holder as such shall have any legal title in or to any real property interest that is a part of the Trust Estate including, without limiting the foregoing, the Royalty Interest or any part thereof. No Unit Holder shall have the right to seek or secure any partition or distribution of the Royalty Interest or any other asset of the Trust Estate or any accounting during the term of the Trust or during the period of liquidation and winding up under Section 9.02 hereof.

Section 3.05. - Form, Execution and Dating of Certificates. The Certificates may contain such changes of form, but not substance, as the Trustee, from time to time in its discretion, may deem necessary or desirable. In addition, the Certificates shall contain such changes (not inconsistent with the provisions of this Agreement) as from time to time may be required to comply with any rule or regulation of any stock exchange on which the Units are listed. Each Certificate shall be dated the date of its issuance. Each Certificate shall be signed on behalf of the Trust by a duly authorized signatory of the Trustee (which signature may be a facsimile to the extent permitted by law or regulations of any stock exchange on which the Units are listed) and may be sealed with the seal of the Trustee or a facsimile thereof.

Pending the preparation of definitive Certificates, the Trustee shall execute, and the Transfer Agent and Registrar (as provided in Section 3.06 hereof) shall record, countersign and register, temporary Certificates, as directed in an Officer's Certificate of SOC. Temporary Certificates may contain such references to any provisions of this Agreement as may be appropriate. Every temporary Certificate shall be executed by the Trustee and recorded, countersigned and registered upon the same conditions and in substantially the same manner, and with like effect, as the definitive Certificates.

As promptly as practicable, the Trustee shall execute and furnish definitive Certificates and thereupon temporary Certificates may be

surrendered in exchange therefor without charge to the Unit Holders at the principal corporate trust office of The Bank of New York at which Certificates may be presented for a transfer pursuant to Section 3.06 hereof, and the Transfer Agent and Registrar shall record, countersign and register in exchange for such temporary Certificates a like aggregate amount of definitive Certificates. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Agreement as definitive Certificates.

Section 3.06 - Registration and Transfer of Units. With respect to the issuance of the initial Certificates representing ownership of the Units (including Certificates issued pursuant to Section 2.04 hereof) and upon subsequent transfer of such Certificates in accordance with the provisions of this Section 3.06, the Trustee shall maintain records that reflect the name and address of the holder of each Certificate, the number of Units represented by each Certificate, the date of issuance and/or transfer of each Certificate, the name of each transferee of a Certificate and any other such information as the Trustee shall deem necessary or advisable.

Until the Units have been registered under the Securities Act of 1933, as amended (the "Act"), and qualified under the securities laws of the various states in which qualification is required, the Units may not be transferred except pursuant to the provisions of Rule 144 or, if adopted, Rule 144A under the Act or another exemption from registration under the Act, provided that prior to any such proposed transfer (other than a transfer to an affiliated company), the holder of the Trust Units to be transferred shall give written notice to the Company and the Trustee of such holder's intention to effect such transfer, which notice shall be accompanied by an unqualified written opinion of legal counsel, which counsel (who the Company and the Trustee acknowledge may be counsel in the employ of the transferring Unit Holder) and opinion (in form, scope and substance) shall be reasonably satisfactory to the Company and the Trustee, to the effect that the proposed transfer of such Trust Units may be effected without registration under the Act and applicable state securities laws. Further, until the requirements of clauses (i), (ii), (iii) and (iv) of Section 1.20 have been satisfied (and for purposes of this agreement, such requirements shall be deemed to be satisfied simultaneously with the delivery of the opinion required by clause (iv) of Section 1.20), the Units may not be transferred unless the Trustee shall have received a written instrument from the proposed transferee evidencing its agreement with respect to the matters described in clauses (i), (ii), (iii) and (iv) of the last paragraph of Section 2.04 hereof (applied without regard to whether the Units were originally acquired in connection with an Additional Conveyance or the Initial Conveyance). Except as set forth in the preceding sentences of this paragraph and as set forth in Section 2.04 hereof, all Units shall be freely transferable, but (except as otherwise provided in Section 6.12 hereof) no transfer of any Unit shall be effective as against the Trustee prior to entry on the records of the Trustee upon the surrender of the Certificate or Certificates evidencing ownership of such Unit or Units (or upon compliance with the provisions of Section 3.07 hereof) and compliance with such reasonable regulations and requirements, including but not limited to such instruments of transfer, including signature guarantees of a broker or bank located, or having a correspondent located, within New York City, as the Trustee may prescribe. Certificates shall be presented for transfer at the principal corporate trust office of The Bank of New York or at such office or agency of the Trustee as the Trustee shall maintain (and hereby agrees to maintain) in the Borough of Manhattan, in the event the Units are listed on any stock exchange.

The Trustee hereby appoints The Bank of New York as Transfer Agent and Registrar for the registration of transfer of Units. The Trustee may in its sole discretion remove The Bank of New York as Transfer Agent and Registrar and appoint such one or more other Transfer Agents and Registrars as it deems appropriate.

No service charge will be made by the Trustee to the transferor or transferee of a Certificate for any transfer of a Unit evidenced by the transferred Certificate, but the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation to such transfer. Until any such transfer, the Trustee may treat the holder of any Certificate as shown by its records as the owner of the Units evidenced thereby and shall not be charged with notice of any claim or demand respecting such Certificate or the interest represented thereby by any other party. Any such transfer of a Unit as evidenced by a transfer of a Certificate shall, as to the Trustee, transfer to the transferee of the Certificate as of the close of business on the date of transfer all of the undivided right, title and interest of the transferor in and to the Beneficial

Interest, provided that, as to the Trustee, a transfer of a Certificate after any Quarterly Record Date shall not transfer to the transferee of such Certificate the right of the transferor of the Certificate to any sum payable to the transferor as the holder of record of the Certificate on such Quarterly Record Date. However, nothing stated herein shall affect the right of the Trustee to act in accordance with Sections 3.07 and 6.12 hereof.

Notwithstanding the foregoing, in the event that the Trust receives an amount which will comprise, in whole or in part, a Quarterly Income Amount on a day other than a Quarterly Record Date, the Trustee may notify Unit Holders of the fact of such receipt by any means, including a press release, which the Trustee deems appropriate in the circumstances.

As to matters affecting the title, ownership, warranty or transfer of Certificates, Article 8 of the Uniform Commercial Code, the Uniform Act for Simplification of Fiduciary Security Transfers and other statutes and rules with respect to the transfer of securities, each as adopted and then in force in the State of Delaware, shall govern and apply. The death of any Unit Holder shall not entitle such Unit Holder's transferee to an accounting or valuation for any purpose, but as to the Trustee, the transferee of a deceased Unit Holder shall succeed to all rights of the deceased Unit Holder under this Agreement upon proper proof of title satisfactory to the Trustee.

Upon the Trustee's receipt of written notice of the death of a Unit Holder, the Trustee may refuse to effect the transfer of any Units held by such deceased Unit Holder until it has received satisfactory evidence of compliance with all tax, probate and other requirements of applicable law.

Section 3.07 - Mutilated, Destroyed, Lost or Stolen Certificates. In the event that any Certificate is mutilated, destroyed, lost or stolen, the Trustee shall, if the conditions in this section are met and the Trustee has not received notice that such Certificate has been acquired by a bona fide holder, issue to the holder of such Certificate as shown by the records of the Trustee a new Certificate in exchange and substitution for the mutilated Certificate or in lieu of and substitution for the Certificate so destroyed, lost or stolen. In every case, the applicant for a substituted Certificate shall furnish to the Trust and the Trustee such security or indemnity as the Trustee may reasonably require to save the Trust and the Trustee harmless and, in every case of destruction, loss or theft, the applicant shall also furnish to the Trustee evidence to the Trustee's reasonable satisfaction of the destruction, loss or theft of such Certificate. Upon the issuance of any substituted Certificate, the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses incurred in connection therewith.

Section 3.08 - Protection of Trustee. The Trustee shall be protected in acting upon any notice, stock power, Royalty Statement, Officer's Certificate, opinion of counsel, report of certified public accountant, any petroleum engineer or auditor or other expert, credential, certificate, instrument of assignment or transfer or other document or instrument reasonably believed by the Trustee to be genuine and correct and to be signed or sent by the proper party or parties. The Trustee is specifically authorized to rely upon the application of Article 8 of the Uniform Commercial Code, the Uniform Act for Simplification of Fiduciary Security Transfers and other statutes and rules with respect to the transfer of securities, each as adopted and then in force in the State of Delaware, as to all matters affecting title, ownership, warranty or transfer of Certificates and the Units represented thereby, without any personal liability for such reliance, and the indemnity granted pursuant to Section 7.02(a) hereof shall specifically extend to any matters arising as a result thereof.

Section 3.09 - Transfer Agent and Registrar. Any references in this ARTICLE III to the rights and duties of the Trustee with respect to the transfer or registration of Certificates shall also be deemed to be references to the Transfer Agent and Registrar acting hereunder.

Section 3.10 - Limitation of Personal Liability of Unit Holders. Unit Holders shall, to the full extent permitted by Section 3803 of the Delaware Trust Act, be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit under the laws of the State of Delaware.

ARTICLE IV

Accounting and Distribution

Section 4.01 - Fiscal Year and Accounting Method. Except as otherwise required pursuant to Section 4.03 hereof, the fiscal year of the Trust shall be the calendar year. The Trustee shall maintain the books of the Trust on a cash basis, in accordance with generally accepted accounting practices, except to the extent that such books must be kept on any other basis pursuant to applicable law.

Section 4.02 - Distributions. On the fifth day after the Trustee's receipt in same day finally collected funds of amounts to be received on a Quarterly Record Date for each Quarter in each year during the term of the Trust or if such day is not a Business Day on the next succeeding Business Day, the Trustee shall distribute the Quarterly Income Amount for the Quarter to which such Quarterly Record Date relates to the Unit Holders of record on such Quarterly Record Date (except those Unit Holders which, pursuant to Section 2.04 hereof, are not treated as Unit Holders of record entitled to distributions with respect to the Quarterly Income Amount for such Quarterly Record Date) in proportion to the Units owned by each such Unit Holder; provided that during any period prior to the Opinion Date which is not an Insignificant Investor Period, the Trustee shall distribute such Quarterly Income Amount (including amounts referred to in the last sentence of this Section 4.02) on or as soon as practicable following the Quarterly Record Date and such amounts shall be held uninvested in a non-interest bearing account. Payment of each Unit Holder's pro rata portion of the Quarterly Income Amount shall be made by check or draft mailed to each of the Unit Holders. Notwithstanding the foregoing, payments of \$100,000 or more shall be made to any Unit Holder who enters into an agreement with the Trustee providing for such payments by wire transfer in immediately available funds to an account of such Unit Holder as specified in the agreement. The Trustee shall, upon the request of any such Unit Holder, enter into such an agreement unless such agreement adversely affects The Bank of New York's own rights, duties or immunities under this Agreement or otherwise, in which case the Trustee may, but shall not be obligated to, enter into such an agreement. Except as otherwise provided in any such agreement, if, pursuant to the last sentence of the first paragraph of Section 1.24, the Trustee treats amounts received after a Quarterly Record Date as if they were received on such Quarterly Record Date, the distributions of such amounts shall be made on the fifth day after the date of receipt thereof by the Trust in finally collected same day funds or if such day is not a Business Day, on the next succeeding Business Day.

Section 4.03 - Income Tax Withholdings and Reporting. For federal and Alaska state income tax purposes, the Trustee shall effect such withholdings and file such returns and statements as in its judgment are required to comply with applicable provisions of the Code and the regulations thereunder and any Alaska state income tax laws and regulations thereunder.

Section 4.04 - Reports to Unit Holders. As promptly as practicable following the end of each calendar year of the Trust, but no later than 90 days following the end of each calendar year, the Trustee shall mail to each Person who was a Unit Holder of record at any time during such calendar year a report containing sufficient information to enable Unit Holders to make all calculations necessary for federal and Alaska tax purposes, including the calculation of any depletion deduction which may be available to them for such calendar year.

As promptly as practicable following the end of each Quarter during the term of the Trust, but no later than 60 days following the end of each such Quarter, the Trustee shall mail to each Person who was a Unit Holder of record on the Quarterly Record Date immediately preceding the distribution of such report a report showing in reasonable detail on a cash basis the assets and liabilities, receipts and disbursements and income and expenses of the Trust and the Royalty Production (as that term is defined in the overriding Royalty Conveyance) for such Quarter.

Within 90 days following the end of each calendar year (or at such earlier time as may be required by any stock exchange on which the Units are listed), the Trustee shall mail to each Person who was a Unit Holder of record on the Quarterly Record Date immediately preceding the distribution of such report an annual report containing (a) financial statements audited by a nationally recognized firm of independent public accountants retained by the Trust for such purposes, (b) a certification by such firm stating whether or not all fees and expenses paid by the Trust to the Trustee from the beginning of such calendar year through the first Quarterly Record Date in the next following year were calculated and paid in accordance with this Agreement and

setting forth any exceptions as may be noted by such firm, (c) such information as the Trustee deems appropriate from a letter of the Independent Accountants (as such term is defined in the Overriding Royalty Conveyance) which has been provided to the Trustee stating whether or not, based on procedures set forth in detail in such letter (i) the Company has complied in all material respects with the terms and provisions of the Overriding Royalty Conveyance, Article Three and Article Four, Sections 4.1 to 4.7 inclusive, and comparable provisions of any Additional Conveyance, and (ii) the amounts payable to the Trust in respect of the Royalty Interest have been accurately computed, and setting forth any exceptions to the foregoing matters as may be noted by such firm (d) a letter of the Independent Petroleum Engineers (as such term is defined in the Overriding Royalty Conveyance) setting forth a summary of such firm's determinations regarding the Company's methods, procedures and estimates referred to in Section 4.8(d) of the Overriding Royalty Conveyance (and similar provisions of any Additional Conveyance) and (e) copies of the latest annual report or reports, if any, with respect to the Units filed with the Securities and Exchange Commission or, if no such report is filed, a summary of the information furnished to the Trustee pursuant to Section 4.8(c) of the Overriding Royalty Conveyance (and similar provisions of any Additional Conveyance). The Trust shall engage annually a nationally recognized firm of independent public accountants, a firm of Independent Accountants (which may be the same firm as the nationally recognized firm of independent public accountants) and a firm of Independent Petroleum Engineers in order to furnish such services as are required to permit the Trustee to perform its obligations under this Section 4.04.

The Trustee shall mail to Unit Holders any other reports or statements, financial or otherwise, required to be provided to Unit Holders by law or governmental regulation or the requirements of any stock exchange on which the Units are listed.

Section 4.05 - Information to be Supplied by the Company. The Company shall provide to the Trustee on a timely basis upon request such information not known or otherwise available to the Trustee concerning the Royalty Interest (including information with respect to the properties burdened by the Royalty Interest) as shall be necessary to permit the Trustee to comply with respect to the Trust with the reporting obligations of the Trust pursuant to the Securities Exchange Act of 1934, as amended, the requirements of any stock exchange on which the Units are listed and this Agreement and for any other reasonable purpose of the Trust.

The Company hereby agrees to indemnify The Bank of New York, the Trustee and the Trust, against any loss, liability, damage and expense (including reasonable attorneys' fees) incurred by The Bank of New York, the Trustee or the Trust as a result of or arising out of any of the information provided to the Trustee by the Company pursuant to this Section 4.05 being untimely, incorrect, misleading or untrue in any material respect.

Section 4.06 - Information to be Provided to the Company. To the extent the Company is required to file any report with respect to the Trust with any stock exchange on which the Units are listed or any governmental authority, the Trustee will provide to the Company on a timely basis upon the Company's request such information with respect to the Trust and the Trustee that is not within the knowledge of the Company and that is necessary to the Company's ability to make such filing or such report. The Company shall be indemnified by the Trustee (which shall in turn be indemnified to the extent provided pursuant to Section 7.02(a) hereof) against any loss, liability, damage and expense (including reasonable attorneys' fees) incurred by the Company as a result of or arising out of any of the information provided to the Company by the Trustee pursuant to this Section 4.06 being untimely or incorrect or untrue in any material respect. Any indemnification by the Trustee of the Company pursuant to this Section 4.06, except for indemnification which relates to any such information concerning The Bank of New York, shall be limited to amounts actually received by the Trustee for such purposes from the Trust Estate.

ARTICLE V

Meetings of Unit Holders

Section 5.01 - Purpose of Meetings. A meeting of the Unit Holders may be called at any time and from time to time pursuant to the provisions of this ARTICLE V to act with respect to any matter regarding which the Unit Holders are authorized to act by the express terms of this Agreement.

Section-5.02 - Call and Notice of Meetings. Any such meeting of the Unit Holders may be called by the Trustee in its discretion and will be called by the Trustee (i) as soon as practicable after receipt of a written request by the Company or (ii) as soon as practicable after receipt of a written request that sets forth in reasonable detail the action proposed to be taken at such meeting and is signed by unit Holders owning not less than 25 percent of the then outstanding units or (iii) as may be required by applicable law or regulations of any stock exchange on which the Units are listed. Except as may be otherwise required by applicable law or by any stock exchange on which the Units are listed, written notice signed by the Trustee (which signature may be a facsimile) of every meeting of the Unit Holders setting forth the time and place of such meeting and in general terms the matters proposed to be acted upon at such meeting shall be given in person or by mail not more than 60 nor fewer than 10 days before such meeting is to be held to all Unit Holders of record on a date ("Voting Record Date") selected by the Trustee, which Voting Record Date shall not be more than 60 days before the date of such meeting. If such notice is given to any Unit Holder by mail, it shall be directed to him at his last address as shown by the records of the Trustee and shall be deemed to have been duly given when so addressed and deposited in the United States mail, postage prepaid. No matter other than that stated in the notice shall be acted upon at any meeting. All such meetings shall be held at such time and place in the Borough of Manhattan, The City of New York, as the notice of any such meeting may designate.

Section 5.03 - Voting. Only a Person who was a Unit Holder on the Voting Record Date ("Record Date Unit Holder") shall be entitled to be present, speak or vote at any such meeting. A person appointed by an instrument in writing as a proxy for such Record Date Unit Holder shall be entitled at such meeting to exercise all rights exercisable by such Record Date Unit Holder as if such Record Date Unit Holder attended such meeting and exercised such rights in person. In addition, any representative of the Company and the Trustee shall be entitled to be present, speak and generally to participate in any such meeting. All references in this Agreement to Record Date Unit Holders shall mean either such Record Date Unit Holder or his duly appointed proxy.

At any such meeting, the presence in person or by proxy of Record Date Unit Holders holding Certificates representing a majority of the Units outstanding on the Voting Record Date shall constitute a quorum and, unless otherwise provided in this Agreement, any matter shall be deemed to have been approved if it is approved by the Vote of Record Date Unit Holders holding Certificates representing a majority of the Units represented at the meeting. Each Record Date Unit Holder shall be entitled to one vote for each Unit represented by the Certificate or Certificates held by him. The Trustee, subject to all applicable laws, may solicit from and vote proxies of Unit Holders entitled to vote at any meeting thereof.

Section 5.04 - Conduct of Meetings. The Trustee may make such reasonable regulations as it may deem advisable governing the conduct of any such meeting including, without limitation, provisions governing the appointment of proxies, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote, the preparation and use at the meeting of a list of the Persons entitled to vote at the meeting and the appointment of a chairman and secretary of the meeting.

Section 5.05. Voting of Units Held by Company, SOC and Their Respective Affiliates. SOC and the Company agree that, at any meeting of Unit Holders, they will vote or cause to be voted any Units held of record or beneficially by the Company, SOC or any Affiliate of either of them in the same proportion as the Units voted by other Unit Holders voting at such meeting.

ARTICLE VI

Administration of Trust and Powers of Trustee

Section 6.01 - General Authority. Subject to the limitations set forth in this Agreement, the Trustee is authorized to and shall take such actions as in its judgment are necessary, desirable or advisable to achieve the purposes of the Trust, including the appointment of an ancillary trustee or trustees under this Agreement, the solicitation and voting of proxies at meetings of Unit Holders, the taking of appropriate action to enforce the terms of the Conveyances and the Support Agreement (including the institution of any

actions or proceedings at law or in equity necessary to the foregoing) and the authority to agree to modifications of the terms of the Conveyances or the Support Agreement or to settle disputes with respect thereto, so long as (i) the Trustee shall have received an unqualified written opinion of counsel to the Trust to the effect that such modification or settlement will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes, and (ii) such modifications or settlements do not alter the nature of or the amount or time of receipt of payments under the Royalty Interest. The Trustee shall not be (i) obligated or permitted to make any investment or operating decision or otherwise physically inspect the properties burdened by the Royalty Interest or (ii) obligated to prevent drainage or any other event or state of facts which damages or diminishes the value of the Royalty Interest. The Trustee is authorized to execute the Trust Conveyance and the Support Agreement on behalf of the Trust. The Trustee is authorized to and shall take such actions as in its judgment are necessary or advisable to give such approvals as may be appropriate under the Conveyance, and to make such requests as in its judgment are necessary or advisable under Section 4.8 of the Overriding Royalty Conveyance or any comparable provision of any Additional Conveyance, in order to preserve and protect the Trust Estate and to discharge its other duties hereunder.

The Company and the Trustee are hereby authorized to make and shall be responsible for all filings on behalf of the Trust with the Securities and Exchange Commission required by the Exchange Act and with the Securities and Exchange Commission or such other governmental authorities required by applicable law or regulation with respect to the Units as may be specified from time to time in an Officer's Certificate delivered to the Trustee. It is the expectation of the Company that the Units may, in the future, be listed on the New York Stock Exchange or another stock exchange. In this regard, the Company will advise the Trustee of any actions that the Trustee should take in connection with effectuating such listing and, unless the Trustee shall determine that such actions are not in the best interest of the Trust, the Trustee shall take such actions. If listing is accomplished, the Trustee will take all actions necessary to maintain such listing including compliance with the rules of the stock exchange and the filing of any reports required by the stock exchange; provided, however, that if at any time the Company shall have informed the Trustee in writing that, in the opinion of the Company, such listing is not in the best interest of the Unit Holders or the interests of the Unit Holders would be better served by listing the Units on another stock exchange as specified by the Company, then the Trustee shall as soon as practicable call a meeting of Unit Holders in accordance with the provision of ARTICLE V hereof and submit to a vote of Unit Holders at such meeting a proposal to delist the Units, or to delist the Units and list the Units on another stock exchange as specified by the Company; if such proposal is approved at such meeting by the affirmative vote of the Record Date Unit Holders holding Certificates representing a majority of the Units represented at such meeting in accordance with ARTICLE V, the Company will seek to accomplish the delisting, or the delisting and listing on such other stock exchange, without the involvement of the Trustee, but if the Company determines that action by the Trustee is necessary, the Company will instruct the Trustee regarding what actions the Trustee must take in order to accomplish such delisting, or delisting and listing on such other stock exchange; in such event the Trustee shall take such action, if any, as shall be specified by the Company in order to accomplish the delisting of the Units from their then current stock exchange or such delisting and listing of the Units on such other stock exchange. The Company agrees to consider, on a periodic basis, whether or not such listing is in the best interest of the Unit Holders and whether the interests of the Unit Holders would be better served by listing the Units on another stock exchange, and the Company agrees that if it should reach either conclusion it will furnish appropriate notice in writing to the Trustee.

The Trustee may not dispose of all or any portion of the Royalty Interest except as provided in Sections 6.02, 6.06 or 9.02 hereof.

Section 6.02 - Limited Power to Dispose of Royalty Interest and Other Trust Interests. (a) The Trustee shall not sell or otherwise dispose of all or any part of the Trust Estate, including all or any part of the Royalty Interest, or any interest therein, except that

(i) the Trustee shall make cash distributions to Unit Holders and pay the liabilities of the Trust as provided herein,

(ii) the Trustee shall sell or otherwise dispose of all or a part of the Royalty Interest or an interest therein if, prior thereto, such sale or other disposition and all material terms and conditions thereof (including, if practicable, the record date for determining Unit Holders of record entitled to receive any cash to be distributed as a result of such sale) are approved by the affirmative vote of the Record Date Unit Holders holding Certificates representing 70% of the Units outstanding on the Voting Record Date if such sale is to be effected on or prior to December 31, 2010, or 60% of the Units outstanding on the Voting Record Date if such sale is to be effected thereafter, in each case at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof (provided that if the terms or conditions of such sale or other disposition adversely affect The Bank of New York's own rights, duties or immunities under this Agreement or otherwise, the Trustee may in its discretion, but shall not be obligated to, effect such sale or other disposition); provided, however, that if such sale is effected in order to provide for the payment of specific liabilities of the Trust then due and involves a part, but not all or substantially all, of the Trust Estate, such sale shall be approved by the affirmative vote of the Record Date Unit Holders holding Certificates representing a majority of the Units outstanding on the Voting Record Date for such meeting,

(iii) the Trustee shall mortgage, pledge, grant security interests in or otherwise encumber the Trust Estate, or a portion thereof, if required pursuant to Section 6.06 or 6.12 hereof,

(iv) the Trustee shall dispose of the Trust Estate if required pursuant to Section 9.02 hereof,

(v) the Trustee shall sell for cash the Trust Estate, or a portion thereof, if and to the extent that

(1) the Trustee is unable to effect a borrowing by the Trust, as specified in sections 6.06 or Section 6.12 hereof,

(2) the Trustee determines that it is not practicable to submit such sale and all material terms and conditions thereof to a vote of the Unit Holders pursuant to clause (ii) of this paragraph (a) above,

(3) such sale is effected in order to provide for the payment of specific liabilities of the Trust then due, and the cash on hand is insufficient to discharge such liabilities,

(4) the Trustee determines that the failure to pay such liabilities at such time will be contrary to the best interest of the Unit Holders and that such sale is necessary to provide for the payment of such liabilities,

(5) the sale is effected at a price which, in the opinion of an investment banking firm, commercial banking firm or other Person qualified to render such opinion and selected by the Trustee, is at least equal to the fair market value of the interest sold, and the sale is effected pursuant to terms and conditions which, in the opinion of such investment banking firm, commercial banking firm or other Person, are commercially reasonable when compared to alternatives available to the Trust, and

(6) the Trustee has received an unqualified written opinion of counsel to the Trust to the effect that such sale will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes; provided, however, that if the Trustee is unable to obtain such opinion the Trustee shall nevertheless effect such sale if the Trustee determines that the failure to effect such sale will be materially detrimental to the Unit Holders considered as a whole.

(b) The Trustee shall distribute any cash received as a result of any such sale pursuant to clause (ii) of paragraph (a) above, subject to the need to pay any liabilities of the Trust or to establish or increase any cash reserves pursuant to Section 6.07 hereof, or any cash received as a result of a sale pursuant to clause (v) of paragraph (a) which is in excess of the amount needed to discharge liabilities of the Trust then due, to Unit Holders of record as specified in connection with the Unit Holder vote or, if there is no Unit Holder vote or no record date for determining Unit Holders of record entitled to receive any cash to be distributed as a result of such sale is so specified, to unit Holders as part of the Quarterly Income Amount distributed with respect to the first Quarterly Record Date following the date of any such

sale (unless such sale occurs on a Quarterly Record Date or within ten days prior to a Quarterly Record Date in which event the distribution may be on such Quarterly Record Date unless the Trustee determines that such an immediate distribution would prevent the Trust from complying with applicable law or any regulation of any stock exchange on which the Units are listed).

Section 6.03 - No Power to Engage in Business or Make Investments. Notwithstanding any provision of the Delaware Trust Act, the Trustee shall not cause the Trust to engage in any business, commercial or investment activity of any kind whatsoever, except for investment activity permitted in Section 6.07 hereof, and shall not under any circumstances use any portion of the Trust Estate to acquire any oil and gas lease, royalty or other mineral interest or, except as permitted in Sections 6.07 and 6.12, acquire any other asset. The Trustee shall not accept any contribution to the Trust other than the Initial Royalty Interest, any Additional Royalty Interest and any cash required to be deposited pursuant to Section 2.04 hereof; provided that nothing herein shall be construed to prevent the Trust from receiving the benefits of the Conveyance and the Support Agreement.

Section 6.04 - Payment of Liabilities of Trust. The Trustee is authorized to and shall first apply all money received by it (other than amounts contributed under Section 2.04 hereof with respect to any cash reserve) for the payment of all liabilities of the Trust, including but not limited to all expenses, taxes and liabilities incurred of all kinds, compensation to it for its services and reimbursement of its expenses pursuant to Sections 7.03 and 7.04 hereof and compensation to such parties as may be consulted pursuant to Section 7.05 hereof.

Section 6.05 - Timing of Trust Income and Expenses. The Trustee will use reasonable efforts to cause the Unit Holders to recognize income (including any income from interest earned on investments made in accordance with this Agreement or from any sale of the Royalty Interest, except as may be specified in a vote of Unit Holders in the case of a sale pursuant to clause (ii) of paragraph (a) of Section 6.02 hereof) and expenses on Quarterly Record Dates. The Trustee will invoice the Trust for services rendered by the Trustee and, to the extent provided in Section 7.04 hereof, reimbursement of expenses incurred by the Trustee relating to the Trust only on a Quarterly Record Date and shall cause the Trust to pay such invoice only on the Quarterly Record Date on which such invoice is rendered and will use reasonable efforts to cause all Persons to whom the Trust becomes liable to invoice the Trust for such liability on a Quarterly Record Date and to cause the Trust to pay such liability on the Quarterly Record Date on which such liability is invoiced. In connection with the requirements of any stock exchange on which the Units are listed, the Trustee will, if required by such stock exchange, use reasonable efforts to determine the Quarterly Income Amount and report such amount to such stock exchange at such time as may be required by such stock exchange; provided that the Trustee shall not be required to calculate any amounts payable pursuant to the Conveyance. Nothing in this Section 6.05 shall be construed as requiring the Trustee to cause payment to be made for Trust liabilities on any date other than on such date as in its sole discretion it shall deem to be in the best interests of the Unit Holders.

Section 6.06 - Limited Power to Borrow. If at any time the amount of cash on hand (which amount shall not include any amounts which have been reported to a stock exchange on which the Units are listed or otherwise publicly announced as the amount which will be paid to Unit Holders with respect to a Quarterly Record Date and which amounts have not been paid) is not sufficient to pay liabilities of the Trust then due (including any amount payable upon redemption of Units pursuant to Section 6.12 hereof), the Trustee shall borrow from another Person not affiliated with the Trustee, on a secured or unsecured basis, such amounts as are required after use of any available Trust funds to pay such liabilities as have become due; provided that the Trustee shall effect such borrowing only under the following conditions:

(a) the Trustee shall have determined that it is not practical to pay such liabilities on subsequent Quarterly Record Dates out of funds anticipated to be available on such dates and that, in the absence of such borrowing, the Trust Estate is subject to the risk of loss or diminution in value;

(b) the borrowing is effected pursuant to terms and conditions which, in the opinion of an investment banking firm, commercial banking firm or other Person qualified to render such opinion and selected by the Trustee, are commercially reasonable when compared to alternatives available to the Trust, and

(c) the Trustee shall have received an unqualified written opinion of counsel to the Trust to the effect that such borrowing will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes; provided, however, that if the Trustee is unable to obtain such opinion the Trustee shall nevertheless effect such borrowing if the Trustee determines that the failure to effect such borrowing will be materially detrimental to the Unit Holders considered as a whole.

To secure payment of such indebtedness, the Trustee is authorized to mortgage, pledge, grant security interests in or otherwise encumber (and to include as a part thereof any and all terms, powers, remedies, covenants and provisions deemed necessary or advisable in the Trustee's discretion including, without limitation, the power of sale with or without judicial proceedings) the Trust Estate, or any portion thereof, including the Royalty Interest and to carve out and convey production payments. The Trustee is prohibited from borrowing in its capacity as Trustee or on behalf of the Trust except as provided in this Section 6.06 and in Section 6.12(d) hereof. In the event of such borrowings, no further Trust distributions shall be made until the indebtedness created by such borrowings has been paid in full.

Section 6.07 - Cash Reserves and Cash Held Pending Distribution Date. The Trustee shall establish a cash reserve for the payment of material liabilities of the Trust which may become due, but only under the following conditions: (a) the Trustee shall have determined that it is not practical to pay such liabilities on subsequent Quarterly Record Dates out of funds anticipated to be available on such dates and that, in the absence of such reserve, the Trust Estate is subject to the risk of loss or diminution in value or The Bank of New York is subject to the risk of personal liability for such liabilities and (b) the Trustee shall have received an unqualified written opinion of counsel to the Trust to the effect that the establishment and maintenance of such reserve will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes; provided however, that if the Trustee is unable to obtain such opinion the Trustee shall nevertheless establish such reserve if the Trustee determines that the failure to establish such reserve will be materially detrimental to the Unit Holders considered as a whole or will subject The Bank of New York to the risk of personal liability for such liabilities.

Collected cash balances being held by the Trustee as a reserve for liabilities shall be invested (i) in obligations issued by (or unconditionally guaranteed by) the United States or any agency or instrumentality thereof (provided such obligations are secured by the full faith and credit of the United States) or (ii) if such obligations maturing as required in the last sentence of this paragraph are not available, in repurchase agreements (1) with any bank, having capital, surplus and undivided profits of \$100,000,000 or more; (2) which are secured by collateral of the type specified in (i) above which collateral (a) is in the possession of the Trustee either directly or through the Federal Reserve book-entry account of the Trustee individually or a third party acting solely as agent for the Trustee, (b) is not subject to any third party claims, (c) has a market value (determined at the execution date of the relevant repurchase agreement) at least equal to the principal amount invested in the repurchase agreement; and (3) which have a fixed rate of return. Any such obligation or repurchase agreement must mature (x) on the next succeeding Quarterly Record Date or, if the due date of the liability with respect to which the reserve is established is known, on the due date of such liability and (y) must be held to maturity unless there is an earlier default. In the event of a default thereon prior to maturity, the Trustee may liquidate such investment and reinvest in another obligation of the type and maturity date specified in this Section 6.07, provided that the rate of return thereon is not in excess of the rate of return specified in the investment so liquidated.

Collected cash balances being held by the Trustee for distribution at the next Distribution Date shall be invested (i) in obligations issued by (or unconditionally guaranteed by) the United States or any agency or instrumentality thereof (provided such obligations are secured by the full faith and credit of the United States) or (ii) if such obligations with a maturity date on such Distribution Date are not available, in repurchase agreements as described in the immediately preceding paragraph; provided that any such obligation or repurchase agreement must mature on such Distribution Date and must be held to maturity, except as provided in the last sentence of

the previous paragraph.

Except as otherwise provided in Section 4.02 hereof, in the event funds are received by the Trustee at a time that does not allow it sufficient time to invest in obligations or repurchase agreements of the type and maturity specified in this Section 6.07 with interest accruing from the day such funds are received by the Trustee, the Trustee shall, if practicable, invest such funds overnight in a time deposit with a bank having capital, surplus and undivided profits of \$100,000,000 or more and shall, on the following day, reinvest such funds (and any interest earned thereon) in obligations or repurchase agreements of the type and maturity so specified.

Notwithstanding the foregoing, prior to the Opinion Date and during any period which is not an Insignificant Investor Period, none of the investments described in this section shall be purchased from The Bank of New York.

Section 6.08 - Settlement of Claims. The Trustee is authorized to prosecute and defend, and to settle by arbitration or otherwise, any claim of or against the Trustee, the Trust or the Trust Estate, to waive or release rights of any kind and to pay or satisfy any debt, tax or claim upon any evidence by it deemed sufficient, without the joinder or consent of any Unit Holder.

Section 6.09 - Income and Principal. The Trustee shall not be required to keep separate accounts or records for income and principal or maintain any reserves for depletion of any mineral assets in the Trust Estate. To the extent that such separate accounts or records are kept, the Trustee may allocate the receipts, disbursements and reserves of the Trust between income and principal in the discretion of the Trustee, and the Trustee's discretion need not accord with the provision of any, requirement of applicable law. Regardless of any such characterization, however, the Trustee shall not make any distribution, accumulate any funds or maintain any reserve except as expressly provided in this Agreement.

Section 6.10 - Effect of Trustee's Power on Trust Property. The powers granted the Trustee under this Agreement may be exercised upon such terms as the Trustee deems advisable and may affect Trust properties.

Section 6.11 - No Requirement of Diversification. The Trustee shall be under no obligation to diversify the Trust's assets or to dispose of any wasting assets.

Section 6.12 - Divestiture of Units. If at any time the Trust or the Trustee is made a party in any judicial or administrative proceeding which seeks the cancellation or forfeiture of any property in which the Trust has an interest because of the nationality, or any other status, of any one or more Unit Holders, the following procedures will be applicable:

(a) The Trustee will promptly give written notice ("Notice") of the existence of such controversy to each Unit Holder ("Ineligible Holder") whose nationality or other status is an issue in the proceeding and will mail a copy of such notice to SOC and the Company. The Notice will contain a reasonable summary of such controversy and will constitute a demand to each Ineligible Holder that he dispose of his Units to a party that would not be an Ineligible Holder, within 30 days after the date of the Notice.

(b) If any Ineligible Holder fails to dispose of his Units as required by the Notice, the Trustee shall have the right to redeem and shall redeem any such Units at any time during the 90 days after the expiration of the 30-day period specified in the Notice. The redemption price on a per Unit basis will be determined as of the last Business Day ("determination day") preceding the end of the 30-day period specified in the Notice and will equal the following per Unit amount:

(1) if the Units are then listed on a stock exchange, the price will equal the closing price of the Units on such stock exchange (or, if the Units are then listed on more than one stock exchange, on the largest such stock exchange in terms of the volume of Units traded thereon during the preceding 12 months, or for the period the Units have been traded on such stock exchange if less than 12 months) on the determination day if any units were sold on such stock exchange on such day or, if not, on the last day preceding the determination day on which any Units were sold on such stock exchange, or

(2) if the Units are not then listed on any stock exchange but are

traded in the over-the-counter market, the price will equal the closing bid price on the determination date as quoted on the National Market System of the National Association of Securities Dealers Automatic Quotation System if the Units are so quoted or, if not, the mean between the closing bid and asked prices for the Units in the over-the-counter market on the determination day, if quotations for such prices on such day are available or, if not, on the last day preceding the determination day for which such quotations are available, or

(3) if the Units are neither listed nor traded in the over-the-counter market, the price shall equal the price which, in the written opinion of a recognized firm of investment bankers selected by the Trustee, is the fair market value of the Units. The Trustee in relying on the opinion of such investment banking firm, shall have full authorization and be entitled to the full protection provided by Section 7.05 hereof. If the Trustee cannot obtain an opinion from an investment banking firm which in the Trustee's sole discretion is competent to render such opinion, then the Trustee may obtain (and rely on) the opinion of any other advisor or expert which the Trustee in its sole discretion believes to have sufficient competence to render such opinion. Such redemption (or sale) will be accomplished by tender of the above cash price to the Ineligible Holder at his address as shown on the records of the Trustee, either in person or by mail as provided in Section 12.05 hereof, accompanied by notice of cancellation. Concurrently with such tender the Trustee shall cancel or cause to be cancelled all Certificates representing Units then owned by such Ineligible Holder and for which tender has been made. In the event the tender is refused by the Ineligible Holder or if he cannot be located after reasonable efforts to do so, the tendered but unclaimed sum shall be held by the Trustee in a non-interest bearing account, uninvested and in trust for the benefit of such Ineligible Holder, until proper claim for same has been made by such holder, but subject to applicable laws concerning unclaimed property.

(c) During any period prior to the Opinion Date which is not an Insignificant Investor Period, if the redemption provided in paragraph (b) of this Section 6.12, if effected by the Trust, would constitute a non-exempt "prohibited transaction" within the meaning of section 406 of ERISA or section 4975 of the Code, the Units subject to the Trust's right of redemption shall be purchased by the Company or by another Person eligible to purchase such Units and designated by the Company in a transaction which does not constitute such a non-exempt "prohibited transaction." Such purchase shall be accomplished by tender of the cash price referred to in paragraph (b) to the Ineligible Holder at his address as shown on the records of the Trustee, either in person or by mail as provided in Section 12.05 hereof, accompanied by notice that the Units will be transferred to the purchaser. In the event the tender is refused by the Ineligible Holder or if he cannot be located after reasonable efforts to do so, the Company shall cause the tendered but unclaimed sum to be placed in a non-interest bearing account, uninvested and in trust for the benefit of such Ineligible Holder, until a proper claim for same has been made by such holder, but subject to applicable laws concerning unclaimed property. Upon receipt by the Trustee of notice from the Company or the purchaser that the tender has been refused or that the Ineligible Holder has not been located after reasonable efforts to do so and that the tendered but unclaimed sum has been placed in trust as provided herein, the Trustee shall cause to be transferred to the purchaser the Units purchased and shall issue to the purchaser Certificates representing such Units. Such transfer and issuance shall be effected notwithstanding the fact that the Certificates representing the Units purchased have not been presented to the Trustee for cancellation, and from and after the date of such transfer such Certificates shall only represent the right to receive the funds held in trust for the benefit of such Ineligible Holder.

(d) The Trustee may cause the Trust to borrow any amount required to redeem Units in accordance with the procedures described in paragraph (b) above, or if the Trustee is unable to effect such borrowing the Trustee may cause the Trust to sell a portion of the Trust Estate for cash in order to obtain funds to effect such redemption; provided that the Trustee shall effect such borrowing only upon the terms and conditions specified in Section 6.06 hereof and shall effect such sale only under the conditions specified in Section 6.02 hereof.

Section 6.13 - Prohibited Transactions. Notwithstanding any power,

right, duty or obligation of the Trustee under this Agreement, the Trustee shall not cause or permit the Trust to participate in any transaction which would constitute a non-exempt "prohibited transaction" within the meaning of section 406 of ERISA or section 4975 of the Code. During any period prior to the Opinion Date which is not an Insignificant Investor Period, (a) the Company shall provide to the Trustee on a timely basis any and all information reasonably requested by the Trustee concerning the relationship of the Company and its Affiliates to certain Unit Holders specified by the Trustee and any information listing parties-in-interest furnished by Unit Holders, (b) the Trustee shall review all such information provided by the Company as well as any relevant information the Trustee may receive from a Unit Holder concerning its status as an ERISA-covered entity and the identification of parties-in-interest under ERISA with respect to such Unit Holder, and (c) the Trustee shall make reasonable inquiry of each Person desiring to enter into a transaction with the Trust as to whether such Person is a party-in-interest under ERISA with respect to ERISA-covered Unit Holders.

ARTICLE VII

Rights and Liabilities of Trustee

Section 7.01 - General Liability of Trustee. The Trustee is empowered to act in its discretion and shall not be personally or individually liable for any act or omission except in the case of negligence, bad faith or fraud. No action taken or suffered in good faith by the Trustee in reliance upon and in accordance with the written opinion of any counsel or the written advice of any other expert shall in any event constitute negligence, bad faith or fraud within the purview of this Agreement.

The Trustee shall not be answerable for the negligence of any experts, provided that the Trustee has selected such experts with due care in good faith.

It is acknowledged that the Trustee has taken the Trust Estate as is and without examination. The Trustee shall have no responsibility for any statements made or omitted in any disclosure documents relating to the Units or the Trust Estate and, except as may be required by law, no duty to verify the accuracy or completeness of the same.

The Bank of New York and the Trustee will have no duties whatsoever except such duties as are set forth in this Agreement, and no implied covenant or obligation shall be read into this Agreement against the Trustee.

Section 7.02 - Indemnification of Trustee.

(a) The Bank of New York and the Trustee (including its agents and employees) shall be indemnified by, and receive reimbursement from (i) the Company (1) during any period prior to the Opinion Date which is not an Insignificant Investor Period, (2) whenever the assets of the Trust are insufficient or not permitted by applicable law to provide such indemnity and (3) after the termination of the Trust to the extent that the Trustee did not have actual knowledge, or should not have reasonably known, of a potential claim against the Trustee for which a reserve could have been established and used to satisfy such claim in accordance with Section 9.03 prior to the final distribution of assets of the Trust upon its termination or to the extent any such reserve was insufficient and (ii) the Trust Estate during any other period, against and from any and all liability, expense, claim, damage or loss (including reasonable legal fees and expenses) incurred by it, individually or as Trustee, in the administration of the Trust and the Trust Estate or any part or parts thereof, or in the doing of any act done or performed or omission occurring on account of its being Trustee or any consequence thereof, including without limitation, those resulting from any non-exempt prohibited transaction or its resignation as Trustee, except (1) such liability, expense, claim, damage or loss arising from the Trustee's negligence, bad faith or fraud and (2) any loss resulting from the Trustee's expenses (direct or indirect) in acting hereunder exceeding the compensation and reimbursement provided for pursuant to Sections 7.03, 7.04 and 7.05 hereof. From and after the Opinion Date and during any Insignificant Investor Period, the Trustee shall have a lien upon the Trust Estate to secure it for such indemnification and reimbursement and for compensation to be paid to it; provided, however, that any such lien on the Royalty Interest shall be deemed released upon a sale or other disposition of the same. Except as provided in Section 3.07 hereof,

neither the Trustee nor any agent or employee of the Trustee shall be entitled to any reimbursement or indemnification from any Unit Holder for any liability, expense, claim, damage or loss incurred by the Trustee or any such agent or employee. Notwithstanding the foregoing, the Trustee shall not be entitled to indemnity from the Trust Estate with respect to matters for which it is entitled to indemnity pursuant to paragraph (b) of this Section 7.02.

(b) The Company will indemnify and hold the Trustee, individually and as Trustee, and the Trust harmless from and against any losses, claims, damages or liabilities to which the Trustee, individually or as Trustee, or the Trust may become subject, under the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any offering circular, private placement memorandum or similar document or the registration statement or any prospectus relating to the registration of the Units under the Securities Act of 1933, as amended, or in any report or other document filed pursuant to the Securities Exchange Act of 1934, as amended, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Trustee, individually and as Trustee, or the Trust for any legal or other expenses reasonably incurred by the Trustee, individually and as Trustee, or the trust in connection with investigating or defending any such action or claim; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the registration statement or any prospectus or such amendment or supplement in reliance upon and in conformity with information furnished to the Company by the Trustee, individually or as Trustee. The foregoing indemnity and hold harmless agreement shall inure to the benefit of all officers, directors and controlling persons of the Trustee, individually and as Trustee.

(c) All indemnifications of The Bank of New York and the Trustee by the Company under this Agreement shall survive the termination of the Trust and the termination of this Agreement. Moreover, any provision in this Agreement that provides for the indemnification of The Bank of New York and the Trustee or that limits the liability of The Bank of New York and the Trustee shall also apply with respect to any Transfer Agent and Registrar.

Section 7.03 - Compensation. The Trustee shall receive from the Trust Estate compensation for its services as set forth in Exhibit C attached hereto and, to the extent provided in Sections 7.04 and 7.05 hereof, reimbursement of expenses incurred as Trustee of the Trust and as Transfer Agent and Registrar of the Certificates representing the Units. In the event that any Person serving as Trustee is not also serving as Transfer Agent and Registrar, the compensation payable pursuant to Exhibit C shall be allocated among such Persons as the Trustee shall determine.

Section 7.04 - Other Services and Expenses.- Charges for performing any services not contemplated or specifically covered in Exhibit C will be charged to the Trust on the basis of the Trustee's then prevailing rate for such services; provided, however, that during any period prior to the Opinion Date which is not an Insignificant Investor Period, any services rendered by the Trustee in enforcing the terms and conditions of the Conveyance or the Support Agreement shall not be deemed to be services not contemplated or specifically covered in Exhibit C; and provided further that services by the Trustee on behalf of the Trust in connection with the defense of any litigation against the Trust or the Trustee, in connection with any audit of the books and records of the Trust by the Internal Revenue Service, in connection with any investigation by the Securities and Exchange Commission or other governmental bodies involving the Trust and other matters which increase the obligations of the Trustee beyond those contemplated by this Agreement and are not the result of discretionary action on the part of the Trustee shall constitute services not contemplated or specifically covered in Exhibit C.

The initial organizational costs of the Trust, including the printing of the initial Certificates, the Trustee's acceptance fee, out of pocket expenses and the fees of legal counsel of the Trustee, will be paid by the Company. During any period prior to the opinion Date which is not an Insignificant

Investor Period, the Trustee shall cause the Trust to pay directly out of the Trust Estate all expenses, taxes and liabilities incurred and relating to the Trust, including but not limited to fees and expenses incurred for experts hired pursuant to Section 7.05 hereof; provided, however, that The Bank of New York may incur, and shall be reimbursed out of the Trust Estate for, the actual cost to The Bank of New York of all of its out-of-pocket costs and expenses for printing, microfiche, postage, delivery and pick-up, long distance telephone, travel and other similar costs and expenses which are incurred in connection with the performance of its duties as Trustee or Transfer Agent and Registrar. From and after the Opinion Date and during any Insignificant Investor Period, The Bank of New York may incur any out-of-pocket costs and expenses in the discharge of its duties as Trustee or Transfer Agent and Registrar (or may, but shall not be required to, cause the Trust to pay any or all of such expenses directly out of the Trust Estate), including but not limited to fees and expenses incurred for experts hired pursuant to Section 7.05 hereof; provided, however, that The Bank of New York shall be reimbursed out of the Trust Estate at actual cost to The Bank of New York.

Section 7.05 - Reliance on Experts. The Trustee shall consult with accountants, counsel and petroleum engineers as specifically provided herein and may otherwise consult with counsel (including its own counsel), accountants, geologists, engineers and other parties deemed by the Trustee to be qualified as experts on the matters submitted to them. The Trustee is authorized to rely on the advice of such experts as provided in Section 7.01 hereof and to make payments of all reasonable fees for services or expenses thus incurred out of the Trust Estate.

Section 7.06 - No Security Required. No bond or other security shall be required of the Trustee.

Section 7.07 - Transactions in Multiple Capacities. To the extent permitted by applicable law and except as otherwise provided herein, the Trustee shall not be prohibited in any way in exercising its powers or from dealing with The Bank of New York in any other capacity, fiduciary or otherwise.

ARTICLE VIII

Office of Trustee

Section 8.01 - Removal of Trustee. The Trustee may be removed as Trustee hereunder, with or without cause, by the affirmative vote at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof of Record Date Unit Holders holding Certificates representing a majority of the Units represented at the meeting. Subsequent to such vote, any Trustee being removed shall have only those duties and obligations such Trustee would have if such Trustee had commenced a resignation as described in Section 8.02 hereof.

Section 8.02 - Resignation of Trustee. (a) Any Trustee may at any time resign for any reason whatsoever, with or without cause, and without the necessity of any court proceeding. Any such resignation may be commenced by giving notice to the Company. Such notice to the Company shall be promptly confirmed in writing, and shall be followed by the giving of written notice to each of the Unit Holders at such Unit Holder's last address as shown by the records of the Trust at the time such notice is given by first-class mail. Any resigning Trustee shall account to its successor for the administration of the Trust as may be reasonably required by the successor Trustee. Any and all successors to any resigning Trustee shall be fully protected in relying upon such accounting. Any resignation shall be effective upon the appointment of and acceptance of the appointment by a successor Trustee.

(b) At no time subsequent to any Trustee's commencement of a resignation (as described above) shall such Trustee have any duties or obligations with respect to any filings under the Securities Act of 1933, as amended, or any successor statute or statutes or the rules and regulations thereunder, and subsequent to the commencement of a resignation, the resigning Trustee shall have only those other duties and obligations expressly set forth herein or contemplated hereby.

(c) No Trustee commencing a resignation shall have any liability for any consequences, expenses, damages, or effects of any kind whatsoever including, without limitation, any delay in or non-commencement of any SEC

registration, in whole or in part, arising out of or relating to its commencing a resignation or in invoking its rights and privileges with respect thereto as set forth above.

Section 8.03 - Appointment of Successor Trustee. If the Trustee has given notice of its intention to resign, a successor Trustee shall be appointed by the Company; provided, that if the Trustee has been removed by a vote of Unit Holders pursuant to Section 8.01 hereof, a successor Trustee may be appointed by the Unit Holders at such meeting. Notice of the appointment of a successor Trustee shall be given by the resigning Trustee within ten days of receipt of notice of such appointment to each Unit Holder as of the date of the appointment of the successor Trustee at each Unit Holder's last address as shown by the records of the Trustee.

In the event that a successor Trustee has not been appointed within 60 days after the commencement of a resignation or occurrence of a vacancy, a successor Trustee may be appointed by any state court of Delaware, upon the application of any Unit Holder. In the event any such application is filed, any such court may appoint a temporary successor Trustee at any time after such application is filed with it which shall, pending the final appointment of a successor Trustee, have such powers and duties as the court appointing such temporary successor Trustee shall provide in its order of appointment, consistent with the provisions of this Agreement. In the event such court shall deem it necessary, the court may appoint such temporary successor Trustee or successor Trustee on such terms as to compensation as it shall deem necessary and reasonable notwithstanding any provision herein to the contrary. In no event shall any Trustee which has commenced a resignation as described in preceding Section 8.02 have any duty or obligation to appoint or apply for the appointment of any successor Trustee or be eligible to be named as a successor Trustee.

A Trustee appointed under the provisions of this Section 8.03 shall be a corporation organized and doing business under the laws of the United States, any state thereof or the District of Columbia authorized under such laws to exercise trust powers or a national banking association domiciled in the United States, in either case which has a capital, surplus and undivided profits (as of the end of its last fiscal year prior to its appointment) of at least \$50,000,000 and subject to supervision or examination by federal or state authorities. Unless the Trust already has a Trustee that is a resident of or has a principal office in the State of Delaware, then any Trustee appointed under this Section 8.03 shall be such a resident or have such a principal office.

Section 8.04 - Rights of Successor Trustee. Immediately upon the appointment of any successor Trustee (including a temporary successor Trustee), all rights, titles, duties, powers and authority of the resigning Trustee hereunder shall be vested in and undertaken by the successor Trustee which shall be entitled to receive from the Trustee which it succeeds in addition to the accounting referred to in Section 8.02 hereof, all of the Trust Estate held by it hereunder and all records and files in connection therewith. No successor Trustee shall be obligated to examine or seek alteration of any accounting of any preceding Trustee, nor shall any successor Trustee be liable personally for failing to do so or for any act or omission of any preceding Trustee. The preceding sentence shall not prevent any successor Trustee or anyone else from taking any action otherwise permissible in connection with any such accounting.

Section 8.05. - Merger or Consolidation of Trustee. Neither a change of name of the Trustee, any merger or consolidation of the Trustee with or into another bank or trust company nor the transfer of its trust operations to a separate corporation shall affect the Trustee's right, obligation or capacity to act hereunder. Any such successor shall continue as the Trustee hereunder.

Section 8.06 - Co-Trustee.

(a) The Co-Trustee has been appointed as trustee and joined as a party hereunder in order to satisfy the requirements of Section 3807 of the Delaware Trust Act. In the event of the resignation or removal of the Co-Trustee, there shall be appointed a successor Co-Trustee hereunder who shall meet the requirements of Section 3807 of the Delaware Trust Act unless at the time of such resignation or removal at least one other Trustee acting hereunder satisfies such requirements. Any successor Co-Trustee shall be appointed in the manner set forth in Section 8.03 hereof.

(b) Notwithstanding any other term or provision hereof to the contrary, The

Bank of New York, in its capacity as Trustee, alone may exercise the rights and powers granted to the Trustee herein and shall be solely charged with the performance of the duties herein declared on the part of the Trustee to be had and exercised or to be performed; provided, however, that if The Bank of New York, in its capacity as Trustee, deems it necessary or desirable for the Co-Trustee to act in a particular matter, the Co-Trustee shall have and exercise the rights and powers granted herein and shall be charged with the performance of the duties herein declared on the part of the Trustee to be had and exercised or to be performed, but only in such particular matter, and the foregoing shall not relieve The Bank of New York, in its capacity as Trustee, from any liability or obligation of the Trustee to any Unit Holder.

(c) The Bank of New York, in its capacity as Trustee, alone may execute and deliver, on behalf of the Trust, any writing, document or instrument which the Trustee is required to execute and deliver, including, without limitation, the Conveyance, the Certificates and any writing, document or instrument of a purely ministerial nature.

ARTICLE IX

Term of Trust and Final Distribution

Section 9.01. - Termination. The Trust shall terminate upon the first to occur of the following events or times:

(a) on or prior to December 31, 2010, a decision to terminate the Trust by the affirmative vote at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof of the Record Date Unit Holders holding Certificates representing 70 percent of the Units outstanding on the Voting Record Date; or

(b) after December 31, 2010 either

(i) at such time as the sum of the net revenues from the Royalty Interest for two successive years commencing with any year after 2010 are less than \$1,000,000 per year, unless the net revenues during such period have been materially and adversely impacted by an event constituting "Force Majeure" as defined below; or

(ii) a decision to terminate the Trust by the affirmative vote at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof of the Record Date Unit Holders holding Certificates representing 60 percent of the Units outstanding on the Voting Record Date.

The term "Force Majeure" shall mean, without limitation, the following:

(i) acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or of the State of Alaska or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; civil disturbances; riots; epidemics; sabotage; war, whether or not declared; landslides; lightning; earthquakes; fires; hurricanes; winds; tornados; storms; droughts; floods; arrests; restraint of government and people; explosions; breakage, malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of utilities; shortages of labor, materials, supplies or transportation; or

(ii) any other cause, circumstance or event (other than depletion of the petroleum reservoir in which the Trust has an interest) not reasonably within the control of the Company.

Section 9.02. - Disposition of Assets Upon Termination. Subject to the proviso set forth below, upon termination of the Trust, the Trustee shall sell for cash (unless by the affirmative vote of the Record Date Unit Holders holding Certificates representing 70 percent of the Units outstanding on the Voting Record Date if the decision to terminate the Trust was made on or prior to December 31, 2010, or 60 percent of the Units outstanding on the Voting Record Date if the decision to terminate the Trust was made thereafter, the Unit Holders approve the sale for a specified non-cash consideration, in which event the Trustee may, but shall not be required to, attempt to consummate such non-cash sale, but only if the Trustee shall have received a ruling from the Internal Revenue Service or an unqualified written opinion of counsel to

the Trust to the effect that such non-cash sale will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes) in one or more sales all the assets other than cash then held in the Trust Estate; provided however that as soon as practical following termination of the Trust the Trustee shall obtain an opinion of an investment banking firm, commercial banking firm or other Person qualified to render such opinion and selected by the Trustee as to the fair market value of the Trust Estate on the day of termination of the Trust; and provided further, that upon receipt of such opinion the Trustee shall notify the Company thereof, and the Company shall have the right, exercisable by notice to the Trustee within thirty days of receipt of such notice, to purchase the assets of the Trust at a price equal to the greater of (i) the fair market value of the Trust Estate as set forth in such opinion or (ii) the number of then outstanding Trust Units times the following per Unit amount:

(A) if the Units are then listed on a stock exchange, the price will equal the closing price of the Units on such stock exchange (or, if the Units are then listed on more than one stock exchange, on the largest such stock exchange in terms of the volume of Units traded thereon during the preceding twelve months, or for the period the Units have been traded on such stock exchange if less than twelve months) on the day of termination of the Trust if any Units were sold on such stock exchange on such day or, if not, on the last day preceding the day of termination of the Trust on which any Units were sold on such stock exchange, or

(B) if the Units are not then listed on any stock exchange but are traded in the over-the-counter market, the price will equal the closing bid price on the day of termination of the Trust as quoted by the National Market System of the National Association of Securities Dealers Automated Quotation System if the Units are so quoted or, if not, the mean between the closing bid and asked prices for the Units in the over-the-counter market on the day of termination of the Trust, if quotations for such prices on such day are available or, if not, on the last day preceding the day of termination of the Trust for which such quotations are available.

If the Units are neither listed nor traded in the over-the-counter market, the price shall equal the fair market value of the Trust Estate as set forth in such opinion.

In rendering such opinion, such firm or other Person shall take into account the cash owned by the Trust, the liabilities of the Trust, the costs incident to the sale of the Royalty Interest, the other costs of termination of the Trust and such other factors as such firm or other Person rendering such opinion shall deem relevant.

In the event that the Company does not exercise its option, the Trustee shall effect any such sale (a) pursuant to procedures or material terms and conditions approved by the affirmative vote of the Record Date Unit Holders holding Certificates representing 70 percent of the Units outstanding on the Voting Record Date if such sale is effected on or prior to December 31, 2010, or 60 percent of Units outstanding on the Voting Record Date if such sale is effected thereafter, in each case at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof (provided that if the procedures, terms or conditions of such sale adversely affect The Bank of New York's own rights, duties or immunities under this Agreement or otherwise, the Trustee may in its discretion, but shall not be obligated to, effect such sale pursuant to such procedures or terms or conditions) or (b) without a vote of the Unit Holders if (i) the Trustee determines that it is not practicable to submit such procedures or terms and conditions to a vote of the Unit Holders pursuant to clause (a) above and (ii) such sale is effected at a price which is at least equal to the fair market value of the Trust Estate as set forth in such opinion and pursuant to terms and conditions which, in the opinion of such firm or other Person rendering such opinion on the fair market value of the Trust Estate are commercially reasonable when compared to alternatives available to the Trust.

Section 9.03. - Distribution of Assets upon Termination. The Trustee shall as promptly as practicable send notice by first class mail of the date (which shall be not more than 10 Business Days after the date such notice is sent) on which it will distribute the proceeds of any such sale, and on such date shall distribute such proceeds and any other cash in the Trust Estate in proportion to the Units owned by each such Unit Holder upon surrender of the Certificate evidencing such Units, after paying, satisfying and discharging

all of the existing liabilities of the Trust including fees of the Trustee, or, if necessary, setting up reserves in such amounts as the Trustee in its discretion deems appropriate to provide for payment of contingent liabilities. Any such reserve shall be established in accordance with the procedures specified in Section 6.07 hereof. From and after the date of distribution set forth in such notice to Unit Holders, any amounts held by the Trustee pending distribution shall be held uninvested in a non-interest bearing account.

Upon making final distribution to the Unit Holders, the Trustee shall be under no further liability except as provided in Section 7.01 hereof. For the purposes of liquidating and winding up the affairs of the Trust at its termination, the Trustee shall continue to act as Trustee and may exercise each power until its duties have been fully performed and the Trust Estate has been finally distributed.

ARTICLE X

Irrevocability and Amendability

Section 10.01 - Irrevocability. This Agreement and Trust are intended to be and are irrevocable. No Person shall have the right or power to terminate, revoke, alter, amend or change this Agreement or any provisions hereof except as expressly provided in ARTICLE IX hereof or in this ARTICLE X.

Section 10.02 - Limited Amendability. Any provision of this Agreement (other than this Section 10.02) may be amended by the vote at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof of the Record Date Unit Holders holding Certificates representing a majority of the Units outstanding on the Voting Record Date, but no such amendment shall be effective unless and until consented to in writing by the Trustee (provided, however, that the Trustee will so consent unless such amendment affects The Bank of New York's own rights, duties or immunities under this Agreement or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, agree to such amendment), and in no event may an amendment be made which would:

- (a) alter the rights of the Unit Holders as against each other;
- (b) reduce or delay the distributions to the Unit Holders provided for in Sections 2.04, 4.02, 6.02 and 9.02 hereof;
- (c) permit the Trustee to distribute the Royalty Interest in kind either during the continuation of the Trust or during the period of liquidation and winding up under Section 9.02 hereof;
- (d) provide the Trustee with the power to engage in business or investment activities (this prohibition is not intended to limit the authority of the Trustee specifically provided in this Agreement);
- (e) adversely affect the characterization of the Trust as a business trust under the Delaware Trust Act or as a grantor trust for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes;
- (f) alter the voting requirements set forth in Sections 6.02, 8.01, 9.01 and 10.02 hereof;
- (g) alter the number of Units in the Trust; or
- (h) alter the nature of or the amount or time of receipt of payments under the Royalty Interest;

unless such amendment is approved (1) by the vote at a meeting duly called and held in accordance with the provisions of ARTICLE V hereof of the Record Date Unit Holders holding Certificates representing at least 80 percent of the Units outstanding on the Voting Record Date in the case of subsections (b) through (h) inclusive above and 100 percent of such Units in the case of subsection (a) above, and (2) by the Trustee (provided, however, that the Trustee will so consent unless such amendment affects The Bank of New York's own rights, duties or immunities under this Agreement or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, agree to such amendment).

Any amendment of Sections 4.05 or Section 7.02(b) shall, in addition to the above requirements, also require the consent of the Company.

Section 10.03 - Corrective Amendments. Notwithstanding Section 10.02 hereof, SOC, the Company and the Trustee (without the consent of the Unit Holders) may from time to time and at any time enter into an agreement amending the terms of this Agreement or any other agreement relating to the establishment or administration of the Trust to cure any ambiguity or to correct or supplement any provision contained herein or therein which may be defective or inconsistent with any other provision contained herein or therein, to make any other provision with respect to matters arising hereunder or thereunder that do not adversely affect the Unit Holders or which may be required by law in connection with the registration of the Units for resale.

Section 10.04 - Tax Rulings and Opinions. No amendment to this Agreement permitted by Sections 10.02 or 10.03 hereof shall be effective until the Trustee shall have received a ruling from the Internal Revenue Service or an unqualified written opinion of counsel to the Trust to the effect that such amendment will not adversely affect the classification of the Trust as a "grantor trust" for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes.

ARTICLE XI

Failure to Pay Amounts Due Trustee

If, for any reason the royalty payable with respect to the Royalty Interest or any amount payable by the Company hereunder is not paid to the Trustee as provided in the Conveyance or hereunder, the Trustee shall as soon as practicable notify BP by facsimile transmission or telex. The Trustee shall not exercise any remedies it may have against the Company for failure to pay any amounts unless BP fails to cause to be paid such amounts pursuant to its obligations under the Support Agreement within 30 days of notice to BP as set forth in the preceding sentence. Notice to the Company or BP shall be made to the notice addresses specified in Section 12.06 hereof.

ARTICLE XII

Miscellaneous

Section 12.01 - Inspection of Records. Each Unit Holder and his duly authorized agents, attorneys and accountants shall have the right upon request during reasonable business hours at his own cost and expense to examine and inspect the books and records of the Trustee relating to the Trust, including lists of Unit Holders, for any proper purpose, except information which the Conveyance requires the Trustee to keep confidential.

The Trustee, or its authorized representative, shall have the right during reasonable business hours at the cost and expense of the Trust to inspect the Company's books and records relating to the properties burdened by the Royalty Interest and to discuss with representatives of the Company the affairs, finances and accounts of the Company relating to the properties burdened by the Royalty Interest.

Section 12.02 - Filing of this Agreement. Except as otherwise required by law, neither this Agreement nor any executed copy hereof need be filed in any jurisdiction in which any of the properties comprising the Trust Estate is located, but the same may be filed for record in any jurisdiction by the Trustee. In order to avoid the necessity of filing this Agreement for record, the Trustee agrees that for the purpose of vesting the record title in any successor Trustee, the retiring Trustee will, upon appointment of any successor Trustee, execute and deliver to such successor Trustee appropriate assignments or conveyances.

Section 12.03 - Disability of Unit Holder. Except as otherwise provided in Section 4.02 hereof, any payment or distribution to a Unit Holder may be made by check of the Trustee drawn to the order of the Unit Holder, regardless of whether or not the Unit Holder is a minor or under other legal disability, without the Trustee having further responsibility with respect to such payment or distribution. This Section 12.03 shall not be deemed to prevent the Trustee from making any payment or distribution by any other method that is

appropriate under law.

Section 12.04 - Savings clause. If any provision of this Agreement should be held illegal or invalid, such invalidity or illegality shall not affect the remaining provisions of this Agreement, or any other property interests, and each provision of this Agreement shall exist separately and independently, and shall be applied to property interests separately and independently, of every other provision, and this Agreement shall be construed as if such illegal or invalid provision had never existed.

Section 12.05 - Notices. Any notice or demand which by any provision of this Agreement is required or permitted to be given or served upon the Trustee by any Unit Holder may be given or served by being deposited, postage prepaid and by registered or certified mail, in a post office or letter box addressed (until another address is designated by notice given by the Trustee to the Unit Holders and the Company) to the Trustee at 21 West Street, 12th Floor, New York, NY 10286, Attention: Corporate Trust, Trustee Administration. Any notice or other communication by the Trustee to any Unit Holders shall be deemed to have been sufficiently given, for all purposes, when deposited, postage prepaid, in a post office or letter box addressed to said holder at his last address as shown by the records of the Trustee.

Section 12.06 - Notice and Reports to the Company, SOC or BP. Whenever any notice, communication or report is given by the Trustee to Unit Holders pursuant to the provisions of this Agreement or is otherwise required to be provided to Unit Holders pursuant to the provisions of this Agreement or is required to be provided to the Company, SOC or BP, the Trustee shall provide, by in-hand delivery or by certified or registered mail, such notice, communication or report to the Company at the following address:

BP Exploration (Alaska) Inc.
c/o BP America Inc.
200 Public Square
Cleveland, OH 44114-2375
Attention: Treasurer

or to SOC at the following address:

The Standard Oil Company
c/o BP America Inc.
200 Public Square
Cleveland, OH 44114-2375
Attn: Treasurer

or to BP at the following address:

The British Petroleum Company p.l.c.
Brittanic House, Moor Lane
London EC24 9BU, England
Attention: Secretary
FAX: 011-44-879-2341

or at such other address as the Company, SOC or BP, as the case may be, may from time to time advise the Trustee in writing.

Section 12.07 - Governing Law. The Trust hereby created is a Delaware business trust, and the laws of Delaware shall control with respect to the construction, administration and validity of the Trust. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware without regard to conflicts of law rules.

Section 12.08 - Counterparts. This Agreement may be executed in a number of counterparts, each of which shall constitute an original, but such counterparts shall together constitute but one and the same instrument.

Section 12.09 - Headings. The headings of the Sections and Articles of this Agreement are inserted for convenience only and shall not constitute a part hereof.

Section 12.10. - Independent conduct. SOC, the Company, The Bank of New York and the Co-Trustee on behalf of all future Unit Holders hereby reserve and retain the right to engage in all businesses and activities of any kind whatsoever (irrespective of whether the same may be in competition with the Trust), and to acquire and own all assets however acquired and whenever situated and to receive compensation or profit thereof, for their own

respective accounts and without in any manner being obligated to disclose or offer such businesses, activities, assets, compensation or profit to each other or to the Trust.

Section 12.11 - Determination by the Trustee. In the event that the Trustee is required to take action or permitted not to take action under Sections 6.02(a)(ii), 9.02(b) and 10.02 (except for any amendment to Sections 7.03, 7.04 or the last sentence of Section 7.05 hereof) which is conditioned upon a determination by the Trustee that the action to be taken or omitted does not or will not adversely affect The Bank of New York's rights, duties or immunities under this Agreement or otherwise, the Trustee shall not, in making such determination, take into consideration the loss of Trustee's fees or the loss of other financial benefits (other than the right to reimbursement of expenses or indemnities against liabilities) which may result from any termination of the Trust or other event which would cause The Bank of New York to cease to serve as Trustee hereunder as a result of such action. The loss of such fees or such other financial benefits shall not be deemed to constitute an adverse impact on The Bank of New York's own rights, duties or immunities under this Agreement or otherwise.

IN WITNESS WHEREOF, SOC has caused this Agreement to be executed by its duly authorized Chairman and Chief Executive officer and its seal to be hereunto affixed and attested by its duly authorized Secretary and the Company has caused this Agreement to be executed by its duly authorized Treasurer and its seal to be hereunto affixed and attested by its duly authorized Secretary and the Trustee has caused this Agreement to be executed by its duly authorized Assistant Vice President and its seal to be hereunto affixed and attested by its duly authorized Assistant Vice President and the Co-Trustee has executed this Agreement as of the 28th day of February, 1989.

ATTEST: THE STANDARD OIL COMPANY

/s/ J. M. Casarik By: /s/ James H. Ross

Secretary

ATTEST: BP EXPLORATION (ALASKA) INC.

/s/ J. M. Casarik By: /s/ E. Whitehead

Secretary

ATTEST: THE BANK OF NEW YORK, Trustee

/s/ David A. Sampson By: /s/ W. N. Gitlin

/s/ Eric A. Mazie /s/ F. James Hutchinson

Witness F. James Hutchinson, Co-Trustee

STATE OF OHIO)
) SS
COUNTY OF CUYAHOGA)

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared J. H. Ross, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged before me that the same was the act of The Standard Oil Company, an Ohio corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 28th day of February, 1989.

COUNTY OF NEW CASTLE)

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared James Hutchinson, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged before me that he is a resident of the State of Delaware and that he executed the same as his free and voluntary act for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 17th day February, 1989.

[SEAL]

/s/ Lisa M. Harrison
Notary Public

My commission expires:

MY COMMISSION EXPIRES
AUGUST 8, 1990

OVERRIDING ROYALTY CONVEYANCE

Dated February 27, 1989

Between

BP EXPLORATION (ALASKA) INC.
("Grantor")

and

THE STANDARD OIL COMPANY
("Grantee")

RECORD THIS INSTRUMENT IN THE BARROW RECORDING DISTRICT.

BP EXPLORATION (ALASKA) INC. (a) was formerly known as (1) STANDARD ALASKA PRODUCTION COMPANY, (2) SOHIO ALASKA PETROLEUM COMPANY, (3) SOHIO NATURAL RESOURCES COMPANY, and (4) SOHIO PETROLEUM COMPANY and (b) is successor-in-interest by merger to (1) BP ALASKA EXPLORATION INC. and (2) BP OIL CORPORATION (which was formerly known as BP EXPLORATION U.S.A. INC.); please index all eight of these names in the Grantor Index. THE STANDARD OIL COMPANY is known in Alaska as SOCO INC.; please index both of these names in the Grantee Index.

THE LANDS AFFECTED BY THIS INSTRUMENT ARE DESCRIBED IN EXHIBIT A ATTACHED HERETO.

ADDRESSES OF THE PARTIES TO THIS INSTRUMENT ARE SET FORTH IN SECTION 10.4 OF THIS INSTRUMENT.

RETURN THIS INSTRUMENT TO: GUESS & RUDD
510 L Street, Suite 700
Anchorage, Alaska 99501
Attention: Joseph J. Perkins, Jr.

OVERRIDING ROYALTY CONVEYANCE

THIS INSTRUMENT OF CONVEYANCE, dated the 27th day of February, 1989, between BP Exploration (Alaska) Inc., a Delaware corporation (Grantor), and The Standard Oil Company, an Ohio corporation known as SOCO Inc. (Grantee).

WITNESSETH:

WHEREAS, Grantor desires to grant to Grantee an overriding royalty interest (as hereinafter more fully defined, called the "Royalty Interest") from and out of the Subject Interests and to transfer and convey the Royalty Interest unto Grantee as of the Effective Date herein provided, to the end and effect that the Royalty Interest shall burden and apply to the Subject Interests as of such Effective Date; and

WHEREAS, Grantee desires to accept such Royalty Interest;

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements herein contained, the parties agree as follows:

ARTICLE ONE

DEFINITIONS AND REFERENCES

Average Per Barrel Royalty for any calendar quarter shall be the average

of the Per Barrel Royalty for each of the days in such calendar quarter and in the three preceding calendar quarters. With respect to the first three calendar quarters after the Effective Date, the Average Per Barrel Royalty shall be calculated for any preceding quarter as if the Royalty interest had been conveyed to Grantee prior to the beginning of the earliest preceding calendar quarter necessary to obtain an average of the present calendar quarter and the three preceding calendar quarters, using Chargeable Costs equal to \$4.50 per Barrel and a Cost Adjustment Factor of 1.0 for calendar quarters prior to the Effective Date.

Barrel shall mean 42 United States gallons corrected to 60 degrees Fahrenheit temperature in accordance with ASTM-IP Petroleum Measurements Tables, American Edition, ASTM Designation D-1250, and with deductions for full basic sediment and water content as determined by recognized API standards.

BP shall mean The British Petroleum Company, p.l.c., an English company whose principal office is at Britannic House, Moor Lane, London EC2Y 9BU England.

Business Day shall mean any day that is not a Saturday, Sunday, a holiday determined by the New York Stock Exchange as "affecting 'ex' dates" or any other day on which banking institutions in New York, New York, or in any other city where the principal corporate trust office of the Trustee may be located, are closed as authorized or required by law.

Chargeable Costs shall have the meaning stated in Section 4.4.

Consumer Price Index shall have the meaning stated in Section 4.5.

Conveyance shall mean this overriding royalty conveyance.

Cost Adjustment Factor shall have the meaning stated in Section 4.5.

Current Reserves shall mean the Proved Reserves as of December 31, 1987, which is 2,035.6 million Stock Tank Barrels.

Effective Date shall mean 12:01 o'clock A.M. Alaska Time Zone on February 28, 1989. The calendar quarter in which the Effective Date occurs shall be deemed the first calendar quarter.

Equivalent Financial Standing shall mean a Person having a rating assigned to outstanding unsecured, unsupported long term debt from Moody's Investors Service of at least A3 or from Standard & Poor's Corporation of at least A- or an equivalent rating from at least one nationally-recognized statistical rating agency, after giving effect to the sale or transfer to such Person of all or substantially all of the Subject Interests and the assumption by such Person of all of Grantor's obligations under this Conveyance.

Gas Cap Area Participation shall have the meaning stated in the Prudhoe Bay Unit Operating Agreement.

Gas Cap Participating Area shall have the meaning stated in the Prudhoe Bay Unit Agreement.

Grantee shall mean The Standard Oil Company, an Ohio corporation, while it owns all or any part of or Interest in the Royalty Interest and any other Person or Persons who acquire legal title to all or any part of or interest in the Royalty Interest. The Standard Oil Company is known in Alaska as SOCO INC.

Grantor shall mean BP Exploration (Alaska) Inc., a Delaware corporation while it owns all or any part of or interest in the Subject Interests and any other Person or Persons who acquire all or any part of or interest in the Subject Interests. BP Exploration (Alaska) Inc. (a) was formerly known as (i) Standard Alaska Production Company, (ii) Sohio Alaska Petroleum Company, (iii) Sohio Natural Resources Company and (iv) Sohio Petroleum Company and (b) is successor-in-interest by merger to (i) BP Alaska Exploration Inc. and (ii) BP Oil Corporation (which was formerly known as BP Exploration U.S.A. Inc.).

Independent Accountants shall mean such firm of independent certified public accountants as may be designated by Grantee and approved by Grantor in the exercise of its reasonable business judgment, except that Grantee may not designate the firm of independent certified public accountants then utilized by Grantor.

Independent Petroleum Engineers shall mean Miller and Lents, Ltd. or such other firm of independent petroleum engineers as may be designated by Grantee and approved by Grantor in the exercise of its reasonable business judgment.

Interest Rate shall mean a varying rate per annum equal to the interest rate publicly announced in New York City by The Bank of New York from time to time as its prime commercial lending rate.

Lands shall mean the lands described in Exhibit A.

Lease shall mean and include an oil and gas lease described in Exhibit A issued by the State of Alaska and any new oil and gas leases which may be acquired by or for the benefit of Grantor on any Lands within one year after the expiration of the applicable oil and gas lease or leases described in Exhibit A covering such Lands or any subsequent lease covering such Lands and in each case shall include, but not by way of limitation, the entire leasehold estate, working interest and operating rights and all and any other interests of Grantor, together with all rights, privileges and appurtenances related thereto and all and any extensions or renewals thereof.

Lessor's Royalty shall mean the royalty reserved to the State of Alaska as lessor pursuant to each Lease.

Lower Lower Net Profits Royalty Interest shall mean that portion of the Net Profits Royalty Interest conveyed to The Standard Oil Company by that certain Instrument of Conveyance and Assignment by and between BP Alaska Inc. and The Standard Oil Company dated June 18, 1987, and subsequently conveyed to BP Exploration (Alaska) Inc. by that certain Lower Lower NPRI Conveyance between The Standard Oil Company and BP Exploration (Alaska) Inc. dated February 27, 1989, and merged into the leasehold estates of BP Exploration (Alaska) Inc. in the leases described therein.

Minimum Per Barrel Royalty shall be \$8.92 per Barrel, as more fully described in Section 4.7.

Minimum Royalty Period shall mean the period ending September 30, 1991.

Net Profits Royalty Interest shall mean the overriding royalty interest described in Section 2.1 of that certain instrument titled Conveyances Between BP Alaska Inc. and BP Oil Corporation, dated August 1, 1969, as amended, which overriding royalty interest comprises the Upper Net Profits Royalty Interest owned by BP Alaska Inc. on the Effective Date, the Upper Lower Net Profits Royalty Interest owned by The Standard Oil Company on the Effective Date, and the Lower Lower Net Profits Royalty Interest merged into certain leasehold estates of BP Exploration (Alaska) Inc.

Oil shall mean (i) for so long as the Prudhoe Bay Unit Agreement and the Prudhoe Bay Unit Operating Agreement are in effect, crude oil and condensate that are produced from the Prudhoe Bay (Permo-Triassic) Reservoir and saved and allocated to the Subject Interests as Separator Liquid Production (as defined in the Prudhoe Bay Unit Operating Agreement) from the Oil Rim Participating Area and the Gas Cap Participating Area of the Prudhoe Bay Unit and taken in kind or otherwise disposed of by Grantor in accordance with the Prudhoe Bay Unit Agreement and the Prudhoe Bay Unit Operating Agreement, and (ii) at all times after the expiration or termination of the Prudhoe Bay Unit Agreement or the Prudhoe Bay Unit Operating Agreement, crude oil and condensate that are produced from the Prudhoe Bay (Permo-Triassic) Reservoir and saved and allocated to or otherwise attributable to the Subject Interests. All other gaseous and liquid hydrocarbons and other marketable substances produced in association with such crude oil and condensate that are recoverable from such formations or from other reservoirs in the Prudhoe Bay Unit and allocated to or otherwise attributable to the Subject Interests, including natural gas liquids, shall be excluded.

Oil Rim Area Participation shall have the meaning stated in the Prudhoe Bay Unit Operating Agreement.

Oil Rim Participating Area shall have the meaning stated in the Prudhoe Bay Unit Agreement.

Per Barrel Royalty shall have the meaning stated in Section 4.2.

Person shall mean any individual, corporation, partnership, trust, estate or other entity, organization or association.

Production Taxes shall mean the sum of any severance taxes, excise taxes (including windfall profit tax), sales taxes, value added taxes or other similar or direct taxes imposed upon the reserves or production, delivery or sale of Royalty Production, as specified and calculated in Section 4.6.

Proved Reserves shall mean Grantor's estimate (to the extent that such estimate has been determined to be reasonable by the Independent Petroleum Engineers pursuant to Section 4.8 (d), unless Grantee has waived in writing its right pursuant to Section 4.8 (d) to cause the Independent Petroleum Engineers to determine whether Grantor's estimate of Proved Reserves is reasonable) of the quantities of crude oil and condensate that (i) geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions (i.e. prices and costs as of the date the estimate is made; prices shall include consideration of changes in existing prices provided only by contractual arrangements, but not price escalations based on future conditions) from the Prudhoe Bay (Permo-Triassic) Reservoir in the Prudhoe Bay Unit and (ii) will be allocated to the Subject Interests as Separator Liquid Production (as defined in the Prudhoe Bay Unit Operating Agreement) from the Oil Rim Participating Area and the Gas Cap Participating Area of the Prudhoe Bay Unit pursuant to the terms and provisions of the Prudhoe Bay Unit Agreement and the Prudhoe Bay Unit Operating Agreement. In estimating the Proved Reserves, Grantor will be guided by the following principles:

(i) Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following:

(a) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves";

(b) crude oil and condensate the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;

(c) crude oil and condensate that may occur in undrilled prospects;

(d) crude oil and condensate that may be recovered from oil shales, coal, gilsonite and other such sources.

Prudent Standard shall have the meaning stated in Section 7.1.

Prudhoe Bay (Permo-Triassic) Reservoir shall have the meaning stated in the Prudhoe Bay Unit Agreement.

Prudhoe Bay Unit is the oil and gas unit situated on the North Slope of Alaska in which the Subject Interests have been heretofore unitized for the production of oil and gas.

Prudhoe Bay Unit Agreement shall mean the agreement dated April 1, 1977, as amended, among the State of Alaska and the Prudhoe Bay Unit Working Interest Owners (as defined in said agreement) establishing the Prudhoe Bay Unit.

Prudhoe Bay Unit Operating Agreement shall mean the agreement dated April 1, 1977, as amended, among the Prudhoe Bay Unit Working Interest Owners (as defined in said agreement) governing Prudhoe Bay Unit operations.

Quarterly Record Date shall mean the fifteenth day of each January, April, July and October; provided, however, that if such day is not a Business

Day then the Quarterly Record Date shall be the next Business Day after such day and provided further that if Grantor is notified by Grantee that it has determined that a different date is required to comply with applicable law or the rules and regulations of any stock exchange on which the units of beneficial interest of the Trust are listed, it means such different date. The first Quarterly Record Date shall be April 17, 1989.

Redetermination Settlement Agreement shall mean that certain agreement titled Redetermination Settlement Agreement among ARCO Alaska, Inc., Exxon Corporation, Sohio Alaska Petroleum Company and BP Alaska Exploration Inc., dated June 30, 1982.

Royalty Interest shall mean the overriding royalty interest described in Section 2.1.

Royalty Production for each day in a calendar quarter shall be 16.4246% of the lesser of (1) the first 90,000 Barrels of Grantor's actual average daily production of Oil for such quarter and (2) Grantor's actual average daily production of Oil for such quarter. Grantor's actual average daily production of Oil for any calendar quarter shall be the total production of Oil for such quarter, net of Lessor's Royalty, divided by the number of days in such quarter.

Royalty Statement means the statement prepared by Grantor for delivery to Grantee pursuant to Section 4.8(f).

Stock Tank Barrel means a Barrel of stabilized Oil at a temperature of 60 degrees Fahrenheit and pressure of 14.7 psia.

Subject Interests shall mean each kind and character of right, title, claim or interest owned by Grantor in the Leases insofar as the Leases affect the Lands, as such Subject Interests are now affected by the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement, the Redetermination Settlement Agreement and the Net Profits Royalty interest (excluding the Lower Lower Net Profits Royalty interest), and as such Subject Interests are now or may later be affected by applicable law, judicial decree, arbitration, redetermination or actions of governmental agencies having jurisdiction in the matter.

Trust shall mean the BP Prudhoe Bay Royalty Trust, a business trust under the Delaware Trust Act administered under the terms of the BP Prudhoe Bay Royalty Trust Agreement among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee, dated February 28, 1989.

Trustee shall mean, at the time of determination, the Trustee of the Trust other than the Co-Trustee thereunder or any ancillary trustee.

Upper Lower Net Profits Royalty Interest shall mean that portion of the Net Profits Royalty Interest conveyed to The Standard Oil Company by that certain Instrument of Conveyance and Assignment by and between BP Alaska Inc. and The Standard Oil Company dated June 18, 1987, but not subsequently conveyed to BP Exploration (Alaska) Inc. by that certain Lower Lower NPRI Conveyance between The Standard Oil Company and BP Exploration (Alaska) Inc. dated February 27, 1989.

Upper Net Profits Royalty Interest shall mean that portion of the Net Profits Royalty Interest not conveyed to The Standard Oil Company by that certain Instrument of Conveyance and Assignment by and between BP Alaska Inc. and The Standard Oil Company dated June 18, 1987.

WTI Price shall have the meaning stated in Section 4.3.

All references to Articles, Sections or other subdivisions refer to the corresponding Articles, Sections and other subdivisions of this Conveyance, and the words this Conveyance, herein, hereof, hereby, hereunder and words of similar import refer to this Conveyance as a whole and not to any particular Article, Section or other subdivision hereof.

ARTICLE TWO

OVERRIDING ROYALTY CONVEYANCE

Section 2.1 Conveyance. Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration to it paid by

Grantee, the receipt and sufficiency of which are hereby acknowledged, has bargained, sold, granted, conveyed, transferred, assigned, set over and delivered, and by these presents does hereby bargain, sell, grant, convey, transfer, assign, set over and deliver unto Grantee an overriding royalty interest (the Royalty Interest) consisting of the right to receive a Per Barrel Royalty for each Barrel of Royalty Production, if, as and when there is Royalty Production, as more fully provided herein. Grantee shall have no right to take Oil in kind.

TO HAVE AND TO HOLD the Royalty Interest unto Grantee, its successors and assigns, for the term set forth in Section 10.2; subject, however, to the terms and provisions of this Conveyance.

ARTICLE THREE

PAYMENT

Section 3.1 Payment. The aggregate payments from Grantor to Grantee under the Royalty Interest for any calendar quarter will equal, except for the first calendar quarter as set forth in Section 4.1, the sum of the product for each day of such calendar quarter of (1) the Royalty Production and (2) the Per Barrel Royalty; provided that the total payment under the Royalty Interest for any calendar quarter (including any quarter during the Minimum Royalty Period) shall not be (1) less than zero or (2) more than the aggregate value of the total production of Oil for such calendar quarter, net of Lessor's Royalty and less the value of any applicable payments made to the owners of the Net Profits Royalty Interest (excluding the Lower Lower Net Profits Royalty Interest).

Grantor hereby agrees to pay to Grantee on the Quarterly Record Date following the end of each calendar quarter all payments that are then due to Grantee under the Royalty Interest in respect of such calendar quarter (including, without limitation, all payments, if any, that are due pursuant to the Minimum Per Barrel Royalty provisions of Section 4.7). Grantor will make all payments due to Grantee by wire transfer (or such other manner as Grantor and Grantee may agree) to an account designated by Grantee in finally collected same day funds.

Section 3.2 Overpayment. If at any time Grantor inadvertently pays Grantee more than the amount due, Grantee shall not be obligated to return any such overpayment, but the amount or amounts otherwise payable to Grantee for any subsequent period or periods shall be reduced by such overpayment, plus an amount equal to the product of (i) the amount of such overpayment, (ii) the Interest Rate, and (iii) a fraction, the numerator of which is the number of days from the date of the overpayment to the date of the payment subject to reduction as a result of such overpayment, and the denominator of which is 360 days.

Section 3.3 Underpayment. If at any time Grantor inadvertently pays Grantee less than the amount due, Grantor shall pay to Grantee, in accordance with the provisions of the next succeeding sentence, the amount of such underpayment, together with interest thereon in an amount equal to the product of (i) the amount of such underpayment, (ii) the Interest Rate, and (iii) a fraction, the numerator of which is the number of days from the date of the underpayment to the date of the payment subject to increase as a result of such underpayment, and the denominator of which is 360 days. Grantor will make all payments due to Grantee pursuant to this Section 3.3 on the Quarterly Record Date next following the calendar quarter in which the underpayment in question is discovered by wire transfer (or such other manner as Grantor and Grantee may agree) to an account designated by Grantee in finally collected same day funds. Should Grantor knowingly fail to pay to Grantee when due the entire amount owing pursuant to Section 3.1. Grantor shall pay to Grantee interest as provided in this Section 3.3 and, in addition to and not in lieu of such interest, all damages to which Grantee shall be entitled as a result of such knowing failure to pay.

ARTICLE FOUR

COMPUTATION OF ROYALTY

Section 4.1 Calculation of Royalty Amount. The Royalty Interest entitles Grantee to receive, for the first calendar quarter ending March 31, 1989, the sum of the product for each day in such quarter from the Effective Date to the end of such quarter of, and for each calendar quarter thereafter the sum of the product for each day in such quarter of, (1) the Royalty Production and

(2) the Per Barrel Royalty, subject to the Minimum Per Barrel Royalty provisions of Section 4.7; provided, that the payment under the Royalty Interest for any calendar quarter (including any quarter during the Minimum Royalty Period) shall not be (1) less than zero or (2) more than the aggregate value of the total production of Oil for such calendar quarter, net of Lessor's Royalty and less the value of any applicable payments made to the owners of the Net Profits Royalty Interest (excluding the Lower Lower Net Profits Royalty Interest).

Section 4.2 Per Barrel Royalty. The Per Barrel Royalty in effect for any day shall equal the WTI Price for such day less the sum of (1) the product of the Chargeable Costs and the Cost Adjustment Factor and (2) Production Taxes.

Section 4.3 WTI Price. WTI Price for any trading day shall mean (1) the latest price (expressed in dollars per Barrel) for West Texas intermediate crude oil of standard quality having a specific gravity of 40 degrees API for delivery at Cushing, Oklahoma (West Texas Crude), quoted for such trading day by the Dow Jones International Petroleum Report (which is published in The Wall Street Journal) or if the Dow Jones International Petroleum Report does not publish such quotes, then such price as quoted by Reuters, or if Reuters does not publish such quotes, then such price as quoted in Platt's Oilgram Price Report, or (2) if for any reason such publications do not publish such price, then the WTI Price will mean, until (1) shall again be applicable, the simple average of the daily mean prices expressed in dollars per Barrel) quoted for West Texas Crude by one major oil company, one petroleum broker and one petroleum trading company, in each case unaffiliated with Grantor. Such major oil company, petroleum broker and petroleum trading company shall have substantial United States operations and will be designated by Grantor from time to time in an officer's certificate delivered to Grantee. In the event that prices for West Texas Crude shall not be quoted so as to permit the calculation of WTI Price, West Texas Crude, for the purpose of calculating the WTI Price first for (1) and then (2) above, shall mean such other light sweet domestic crude oil of standard quality as shall be designated by Grantor in an officer's certificate delivered to Grantee and approved by Grantee in the exercise of its reasonable business judgment with appropriate allowance for transportation costs to the Gulf Coast (or other appropriate location) to equilibrate such price to the WTI Price as contemplated hereunder. The WTI Price for any day which is not a trading day shall be the WTI Price for the next preceding day which is a trading day.

Section 4.4 Chargeable Costs. The Chargeable Costs per Barrel of Royalty Production shall be the amount set forth in the following table opposite the calendar year stated:

For the Year Ending December 31	Chargeable Costs Per Barrel
1989	4.50
1990	4.50
1991	4.50
1992	6.00
1993	6.75
1994	8.00
1995	8.25
1996	8.50
1997	8.85
1998	9.30
1999	9.80
2000	10.00
2001	10.75
2002	11.25
2003	11.75
2004	12.00
2005	12.25
2006	12.50
2007	12.75
2008	13.00
2009	13.25
2010	14.50
2011	16.60

2012	16.70
2013	16.80
2014	16.90
2015	17.00
2016	17.10
2017	17.20
2018	20.00
2019	23.75
2020	26.50
thereafter	increasing by \$2.75 each year

Chargeable Costs shall be subject to a maximum reduction of \$1.20 per year in years subsequent to 1995 in the following circumstances, irrespective of whether the number of Proved Reserves added during any applicable period is a positive number, a negative number, or zero:

(a) If, by December 31, 1995, 100,000,000 or more Stock Tank Barrels (STB) of Proved Reserves have not been added to Current Reserves (before taking into account any production therefrom) then for each year 1996 through 2000, inclusive, Chargeable Costs as set forth in the table above shall be reduced, as of January 1 in each such year, by an amount equal to the lesser of (A) \$1.20 or (B) the product of \$1.20 and a fraction, the numerator of which shall be the difference between 100,000,000 STB of Proved Reserves and the actual number of STB of Proved Reserves so added to Current Reserves from January 1, 1988 through December 31, 1995, and the denominator of which shall be 100,000,000 STB of Proved Reserves.

(b) If, between January 1, 1996 and December 31, 2000, an additional 200,000,000 STB of Proved Reserves (that is, 200,000,000 STB of Proved Reserves in addition to the 100,000,000 STB of Proved Reserves that are referred to in Section 4.4 (a)) have not been added to Current Reserves (before taking into account any production therefrom) then for each year from 2001 through 2005, inclusive, Chargeable Costs as set forth in the table above shall be reduced, as of January 1 in each such year, by an amount equal to the lesser of (A) \$1.20 or (B) the product of \$1.20 and a fraction, the numerator of which shall be the difference between (1) 200,000,000 STB of Proved Reserves and (2) the sum of (i) the actual number of STB of Proved Reserves so added to Current Reserves from January 1, 1996 through December 31, 2000 plus (ii) the excess, if any, of the number of STB of Proved Reserves so added to Current Reserves from January 1, 1988 through December 31, 1995 over 100,000,000 STB of Proved Reserves (provided that the sum of (i) and (ii) shall not exceed 200,000,000 STB of Proved Reserves), and the denominator of which shall be 200,000,000 STB of Proved Reserves.

(c) The tests set forth in (i) and (ii) below shall be utilized to calculate the reduction, if any, in Chargeable Costs for the year 2006 and each year thereafter. If the calculations under both such tests produce a reduction in Chargeable Costs, the greater of such reductions shall apply. If the calculation under one of such tests produces a reduction in Chargeable Costs but the calculation under the other test does not, the calculation that produces the reduction shall apply. In applying the tests below, it is the intention of Grantor and Grantee that test (i) allow as a credit toward the 400,000,000 STB of Proved Reserves that must be added to Current Reserves during the period set forth in such test an amount equal to the excess, if any, of the number of STB of Proved Reserves added to Current Reserves prior to December 31, 2000 over 300,000,000 STB of Proved Reserves, while test (ii) sets a level of only 100,000,000 STB of Proved Reserves that must be added to Current Reserves during the period set forth in such test, but does not allow a credit for additions of STB of Proved Reserves accrued prior to December 31, 2000.

(i) If, between January 1, 2001 and December 31, 2005, an additional 400,000,000 STB of Proved Reserves (that is, 400,000,000 STB of Proved Reserves in addition to the 100,000,000 STB of Proved Reserves that are referred to in Section 4.4(a) and the 200,000,000 STB of Proved Reserves that are referred to in Section 4.4(b)) have not been added to Current Reserves (before taking into account any production therefrom), then for the year 2006 and each year thereafter Chargeable Costs as set forth in the table above shall be reduced, as of January 1 of each such year, by an amount equal to the lesser of (A) \$1.20 or (B) the product of \$1.20 and a fraction, the numerator of which shall be the difference between (1) 400,000,000 STB of Proved Reserves and (2) the sum of (i) the actual number of STB of Proved Reserves so added to Current Reserves from January 1, 2001 through December 31, 2010 plus

(ii) the excess, if any, of the number of STB of Proved Reserves so added to Current Reserves from January 1, 1988 through December 31, 2000 over 300,000,000 STB of Proved Reserves (provided that the sum of (i) and (ii) shall not exceed 400,000,000 STB of Proved Reserves) and the denominator of which shall be 400,000,000 STB of Proved Reserves.

(ii) If between January 1, 2001 and December 31, 2005, an additional 100,000,000 STB of Proved Reserves (that is, 100,000,000 STB of Proved Reserves in addition to any and all STB of Proved Reserves that are added to Current Reserves prior to January 1, 2001) have not been added to Current Reserves (before taking into account any production therefrom), then for the year 2006 and each year thereafter Chargeable Costs as set forth in the table above shall be reduced, as of January 1 of each such year, by an amount equal to the lesser of (A) \$1.20 or (B) the product of \$1.20 and a fraction, the numerator of which shall be the difference between 100,000,000 STB of Proved Reserves and the number of STB of Proved Reserves added to Current Reserves from January 1, 2001 through December 31, 2005 and the denominator of which shall be 100,000,000 STB of Proved Reserves.

Grantor shall report to Grantee the amount of Proved Reserves added in any year, taking into account the reductions, if any, to Proved Reserves resulting from modifications of Grantor's estimates which were made of Proved Reserves for prior years, it being agreed that only the net amount of Proved Reserves (that is, additions net of reductions resulting from modifications of previous estimates of Proved Reserves) shall be utilized in determining whether the requisite number of STB of Proved Reserves have been added pursuant to the provisions of this Section 4.4.

Section 4.5 Cost Adjustment Factor. The Cost Adjustment Factor shall mean the ratio of (1) the Consumer Price Index published for the most recently past February, May, August or November, as the case may be, to (2) the Consumer Price Index published most recently prior to the Effective Date, provided, however, that (a) If for any calendar quarter the average WTI Price was \$18.00 or less, then in such event the Cost Adjustment Factor for such quarter shall be the Cost Adjustment Factor for the immediately preceding quarter, and (b) the Cost Adjustment Factor for any calendar quarter in which the average WTI Price exceeds \$18.00, after a calendar quarter during which the average WTI Price is equal to or less than \$18.00, and for each following calendar quarter in which the average WTI Price is greater than \$18.00, shall be the product of (x) the Cost Adjustment Factor for the most recently past calendar quarter in which the average WTI Price is equal to or less than \$18.00 and (y) a fraction, the numerator of which shall be the Consumer Price Index published for the most recently past February, May, August or November, as the case may be, and the denominator of which shall be the Consumer Price Index published for the most recently past February, May, August or November during a quarter in which the average WTI Price was equal to or less than \$18.00. The Consumer Price Index shall mean the U.S. Consumer Price Index, all items and all urban consumers, U.S. city average, 1982-84 equals 100, as first published, without seasonal adjustment, by the Bureau of Labor Statistics, Department at Labor, without regard to subsequent revisions or corrections by such Bureau.

Section 4.6 Production Taxes. Production Taxes in existence on the Effective Date or subsequently imposed shall be computed at defined statutory rates. In the case of taxes based upon wellhead or field value, WTI Price less the product of \$4.50 times the Cost Adjustment Factor shall be deemed to be the wellhead or field value. At the Effective Date the Production Taxes payable with respect to the Royalty Production are the Alaska Oil and Gas Properties Production Tax ("Alaska Production Tax") and the Alaska Oil and Gas Conservation Tax ("Alaska Conservation Tax"). For the purposes of the Royalty Interest, the Alaska Production Tax shall be computed without regard to the "economic limit factor" as the greater of the "percentage of value amount" (based on the statutory rate and the wellhead value as defined above) and the "cents per barrel amount" as such terms are used with respect to such tax. Grantor hereby agrees to pay to the appropriate taxing authorities when due all Production Taxes in respect of the Royalty Interest, except those Production Taxes which Grantor is contesting in good faith and which Grantor is not required to then pay by law. As of the Effective Date, the statutory rate for the purpose of calculating the "percentage of value amount" is 15% with respect to the Alaska Production Tax and four mills per Barrel of Oil production with respect to the Alaska Conservation Tax.

Section 4.7 Minimum Royalty. If, with respect to any calendar quarter during the Minimum Royalty Period, the Average Per Barrel Royalty is less than \$8.92 per Barrel, Grantor will make an additional payment to Grantee at the

time specified in Section 3.1 equal to the sum of the product for each day of such calendar quarter of (1) the difference between the Minimum Per Barrel Royalty and the Average Per Barrel Royalty and (2) the Royalty Production; provided, that the total payments under the Royalty Interest for any calendar quarter (including any payments under this Section 4.7) shall not exceed the aggregate value of the total production of Oil for such calendar quarter, net of Lessor's Royalty and less the value of any applicable payments made to the owners of the Net Profits Royalty Interest (excluding the Lower Lower Net Profits Royalty Interest).

Section 4.8 Information and Reports. Grantor shall:

(a) provide Grantee with such information concerning the Royalty Interest as Grantee may need and to which Grantor has access to permit Grantee (i) to comply with any reporting or disclosure obligations of Grantee pursuant to applicable law and the requirements of any stock exchange in which the securities of Grantee are listed, (ii) to prepare Alaska, federal and other income tax returns and (iii) to prepare reports required to be forwarded by Grantee to its security holders;

(b) provide Grantee and the Independent Accountants (the expenses of such Independent Accountants to be borne by Grantee) with access, at the office of Grantor during reasonable business hours, to inspect Grantor's books and records, which books and records shall be true and correct in all material respects and sufficient to enable the Independent Accountants to verify the correctness of the amounts paid and payable to Grantee as the owner of the Royalty Interest and to discuss with representatives of Grantor the affairs, finances and accounts of Grantor relating to the Leases and the Subject Interests; provided that Grantee and the Independent Accountants shall keep the information therein confidential except for information which Grantee is required by law to disclose;

(c) furnish to Grantee on or before February 28 of each year a report containing all information of a nature, of a standard and in a form consistent with the requirements of the Securities and Exchange Commission respecting the inclusion of reserve and reserve valuation information in filings under the Securities Act of 1933 and the Securities Exchange Act of 1934 and with applicable accounting rules. Such report shall set forth, among other things, Grantor's estimates of future net cash flows from Proved Reserves attributable to the Royalty Interest, the discounted present value thereof, the assumptions utilized in arriving at the estimates contained therein, and the estimate of the quantities of Proved Reserves (including reductions of Proved Reserves as a result of modification of Grantor's estimates of Proved Reserves from prior years) added to Current Reserves during the preceding year. Current Reserves shall not be reduced by production of Oil since December 31, 1987;

(d) unless such right is waived in writing by Grantee, provide to the Independent Petroleum Engineers (the expenses of such Independent Petroleum Engineers to be borne by Grantee) all access and information which the Independent Petroleum Engineers deem necessary to determine whether the methods and procedures employed by Grantor to accumulate and evaluate the necessary information and to estimate and document the Proved Reserves and annual production rate forecasts and to prepare the report referred to in Section 4.8 (c) are effective and in accordance with generally accepted geological and engineering practices in the petroleum industry and whether Grantor's estimate of the quantities of Proved Reserves set forth in such report are, in the aggregate, reasonable, and if not, to determine and specify that portion of Grantor's estimate of Proved Reserves that, in the opinion of the Independent Petroleum Engineers, is reasonable, it being agreed that in the event of a material disagreement with respect to the correct quantities of Proved Reserves, the opinion of the Independent Petroleum Engineers shall govern for all purposes of this Conveyance; in carrying out their investigation the Independent Petroleum Engineers may review, among other things they deem relevant, (i) Grantor's procedures for estimating and documenting Proved Reserves, (ii) Grantor's estimates of in-place reservoir volumes, (iii) Grantor's estimates of recovery factors and production profiles for the various areas, pay zones, projects and recovery processes that are included in Grantor's estimate of Proved Reserves, (iv) Grantor's production strategy and procedures for implementing that strategy, (v) the sufficiency of data available for making estimates of Proved Reserves and production profiles, and (vi) pertinent provisions of the Prudhoe Bay Unit Agreement and the Prudhoe Bay Unit Operating Agreement; provided, that, the Independent Petroleum Engineers shall keep the information so provided confidential except for information which is required by law to be disclosed;

(e) provide Grantee on a date no later than twelve calendar days prior to each Quarterly Record Date (unless otherwise agreed by Grantee) information as to the amount to be paid to Grantee on the next Quarterly Record Date.

(f) provide to Grantee, and to Grantee's designee, a Royalty Statement within five working days after the end of each calendar quarter which shall consist of a computation, supported by data required to perform the computations hereunder, of the amount to be paid to Grantee at the next Quarterly Record Date;

(g) provide Grantee with such other information as Grantee may reasonably request from time to time and to which Grantor has access.

All costs and (expenses incurred by Grantor in providing reports and information under this Conveyance shall be borne by Grantor.

Section 4.9 Indemnification. Grantor hereby agrees to indemnify and save harmless Grantee from and against any expense (including, without limitation, the expense of suit and attorneys' fees), claim, damage, loss or liability incurred by Grantee as a result of or arising out of the information provided to Grantee by Grantor pursuant to Section 4.8 being untimely provided or incorrect or untrue or misleading in any material respect.

ARTICLE FIVE

NON-LIABILITY OF GRANTEE

Section 5.1 Non-Expense Bearing Interest; Non-Liability of Grantee; Indemnification. It is the express intent of Grantor and Grantee that the Royalty Interest shall constitute (and this Conveyance shall conclusively be construed for all purposes as creating) a non-expense bearing interest for all purposes. Grantor and Grantee acknowledge that, pursuant to the terms of the Prudhoe Bay Unit Operating Agreement, if Grantor fails to pay any costs or expenses chargeable to Grantor under the Prudhoe Bay Unit Operating Agreement and the production of Oil is insufficient to pay such costs and expenses, then the Royalty Interest is chargeable with a pro rate portion of such cost and expenses and is subject to the enforcement against it of liens granted to the unit operators of the Prudhoe Bay Unit. However, as more fully set forth in Section 7.2, Grantor has agreed to pay timely all costs and expenses chargeable to it pursuant to the Prudhoe Bay Unit Operating Agreement and to insure that no such costs and expenses will be chargeable against the Royalty Interest. Grantor and Grantee acknowledge that in no event shall Grantee ever be liable or responsible in any way for any expense, claim, damage, loss, obligation or liability incurred by Grantor or Grantee or others attributable to the Subject Interests or to Oil produced therefrom (including, without limitation, those incurred in connection with or attributable to the developing, exploring, drilling, equipping, testing, operating, reworking, maintaining, plugging or abandoning of any well or the storing, handling, treating or marketing of the production therefrom), and Grantor hereby agrees to indemnify and save harmless Grantee from and against any such expense (including, without limitation, the expense of suit and attorneys' fees), claim, damage, loss, obligation and liability, irrespective of whether same arises pursuant to the provisions of the Prudhoe Bay Unit Operating Agreement or otherwise.

ARTICLE SIX

UNITIZATION

Section 6.1 Prudhoe Bay Unit. The Subject Interests have been heretofore unitized for the production of oil and gas in the Prudhoe Bay Unit. The Subject Interests are and shall be subject to the terms and provisions of the Prudhoe Bay Unit Agreement and the Prudhoe Bay Unit Operating Agreement, the Leases, and any other type of contract, conveyance, or Instrument, recorded or unrecorded, relating to the Subject Interests or Grantor's interest therein in effect at the Effective Date.

Section 6.2 Right to Amend. Grantor shall have the right and power to alter, change, amend or terminate the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement, the Leases, and any other type of contract, conveyance, or instrument, recorded or unrecorded, as heretofore or hereafter entered into, as to all or any part of the Subject Interests, upon such terms and provisions as Grantor shall in its sole discretion determine, but, if Grantor exercises such right and power in breach of the Prudent Standard, it will, and hereby agrees to, indemnify and save harmless Grantee from and

against any and all expense (including, without limitation, the expense of suit and attorneys' fees), claim, damage, loss, obligation and liability incurred by Grantee as a result of or arising out of Grantor's exercise of the aforesaid right and power in breach of the Prudent Standard. If and whenever, through the exercise of such right and power, or pursuant to any law hereafter enacted or any rule, regulation or order of any governmental body or official hereafter promulgated, any of the Subject Interests are altered, changed, amended or terminated in any manner, the Royalty Interest insofar as it affects such Subject Interests shall also be altered, changed, amended or terminated, and in any such event such Royalty Interest, insofar as it is affected such Subject Interests, shall apply to and affect only the Royalty Production which is allocated to such Subject Interests, but no such alteration, change, amendment or termination shall affect the definition of Royalty Production as set forth in Article One or the method of making payments under the Royalty Interest as set forth in Article Three or the method of computing the payments under the Royalty Interest as set forth in Article Four. Grantee hereby agrees that it will never challenge the right and power of the Grantor to so alter, change, amend or terminate the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement, the Leases and any other type of contract conveyance or instrument, recorded or unrecorded, as heretofore or hereafter entered into, as to all or any part of the Subject Interests, upon such terms and provisions as Grantor shall in its sole discretion determine, but nothing in this Section 6.2 shall be construed to release Grantor from its indemnity obligation to Grantee as set forth in the first sentence of this Section 6.2 and in other provisions of this Conveyance or to deny Grantee any of the benefits to which it is entitled under this Conveyance or at law or in equity.

ARTICLE SEVEN

OPERATION OF SUBJECT INTERESTS

Section 7.1 Prudent Operator Standard. Grantor agrees, to the extent it has the legal right to do so under the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement, the Leases and applicable law affecting or pertaining to the Subject Interests, that it will conduct and carry on the development, exploration, production, maintenance and operation of the Subject Interests with reasonable and prudent business judgment, in accordance with the provisions of this Article Seven and good oil and gas field practices, as a reasonable and prudent operator, and without regard to the existence of the Royalty Interest or any other royalty, overriding royalty, or other interest created subsequent to the Effective Date (the "Prudent Standard"). However, nothing contained in this Section 7.1 shall be deemed to prevent or restrict Grantor from electing not to participate in any operation which is to be conducted under the terms of either the Prudhoe Bay Unit Agreement or the Prudhoe Bay Unit Operating Agreement if such election is made by Grantor in accordance with the Prudent Standard. Grantor shall not be obligated to continue to produce Oil from the Subject Interests in the Prudhoe Bay Unit or to maintain such production at any particular level so long as Grantor acts in accordance with Prudent Standard. Notwithstanding anything elsewhere herein to the contrary, Grantor shall never be liable to Grantee for the manner in which Grantor performs its duties hereunder as long as Grantor has acted in accordance with the Prudent Standard. Grantee shall have no right to operate or direct operations of the Subject Interests.

Section 7.2 Assurances. (1) Grantor agrees, to the extent it has the legal right to do so under the terms of the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement, the Leases and applicable law affecting or pertaining to the Subject Interests, that it will perform all material obligations to be performed by it (including without limitations making timely payment of all costs and expenses chargeable to it pursuant to any applicable agreement to insure that the Royalty Interest is not charged with any portion of any such costs or expenses and that no lien or security Interest is enforced against the Royalty Interest by virtue of any matter arising by through or under Grantor) under all material contracts and agreements applicable to the Subject Interests and the production and transportation to market of Oil (including, without limitation, the Prudhoe Bay Unit Agreement and the Prudhoe Bay Unit Operating Agreement) and will use its best efforts (by taking such action as is available to it by contract, at law, or in equity) to enforce the performance under such contracts and agreements of the other parties thereto.

(ii) The provisions set forth in this Conveyance that require Grantor to perform certain duties or take certain actions (but subject to the express and implied limitations in this Conveyance) that can only be performed or taken by

the operator of the Prudhoe Bay Unit, acting under the direction and supervision of the working interest owners of the Prudhoe Bay Unit, or the operators of facilities or pipelines separate from the Prudhoe Bay Unit, shall be construed to require Grantor to use its best efforts (by taking such action as is available to it by contract (including, without limitation, exercising its right to vote and to initiate proposals), at law or in equity) to cause the operator to perform the duty or to take the action in question. Without limitation of the generality of the foregoing, if the operator elects, pursuant to the applicable operating agreement, to become a nonconsenting party with respect to such duty or action, and if Grantor may cause such duty or action to be performed or taken by becoming a consenting party under the applicable operating agreement, then Grantor shall so elect to become a consenting party unless a reasonable and prudent operator, acting in accordance with good oil and gas field practices and without regard to the existence of the Royalty Interest or any other royalty, overriding royalty or other interest created subsequent to the Effective Date, would refuse to undertake the performance of the duty or the taking of the action in question.

Section 7.3 Abandonment of Properties. Nothing herein contained shall obligate Grantor to continue to operate any well or maintain in force or attempt to maintain in force any of the Subject Interests when, in Grantor's opinion, formed in accordance with the Prudent Standard, such well or Subject Interest ceases to produce or is not capable of producing oil or gas in paying quantities. The expiration of a Subject Interest in accordance with the terms and conditions applicable thereto shall not be considered to be a voluntary surrender or abandonment thereof.

Section 7.4 Non-Operating Interest In Minerals. It is the express intent of Grantor and Grantee that the Royalty Interest shall constitute (and this Conveyance shall conclusively be construed for all purposes as creating) a non-operating interest in minerals for all purposes. Without limitation of the generality of the immediately preceding sentence, Grantor and Grantee acknowledge that Grantee has no right or power to participate in the selection of a drilling contractor, to propose the drilling of a well, to determine the timing or sequence of drilling operations, to commence or shut down production, to take over operations or to share in any operating decision whatsoever (including, without limitation, the alteration, change, amendment of termination of the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement, the Leases or any other type of contract, conveyance, or instrument, recorded or unrecorded, as heretofore or hereafter entered into, as to all or any part of the Subject Interests hereunder). Grantor and Grantee hereby expressly negate any intent to create (and this Conveyance shall never be construed as creating) a mining or other partnership or joint venture.

ARTICLE EIGHT

GOVERNMENT REGULATION

Section 8.1 Government Regulations. All obligations of Grantor hereunder shall be subject to all applicable laws, regulations and rules of the State of Alaska and the United States of America and all other governmental agencies or authorities having jurisdiction in the matter (except those being contested in good faith). Grantor shall be entitled to use its reasonable discretion in making filings, for itself and on behalf of Grantee, with any governmental body, agency, board or commission having jurisdiction, affecting the Subject Interests or the Royalty Interest, provided that any such filings shall be limited to notice required in connection with the grant or transfer of the Royalty Interest.

Section 8.2 Government Approval. This Conveyance shall not be effective until approved by the Commissioner of the Department of Natural Resources, State of Alaska, or his designee.

ARTICLE NINE

ASSIGNMENTS

Section 9.1 Assignment by Grantor. Grantor shall have the right to assign, sell, transfer, convey, mortgage or pledge the Subject Interests, or any part thereof, provided that same is expressly made subject to the Royalty Interest and the terms and provisions of this Conveyance and that a certified copy of the recorded instrument accomplishing same is promptly furnished to Grantee by Grantor. From and after the effective date of any such assignment, sale, transfer or Conveyance by Grantor, the grantee thereunder shall succeed

to all the requirements upon and responsibilities of Grantor hereunder as to the interests so acquired by such grantee, and, from and after said effective date, Grantor shall be relieved of such requirements and responsibilities, excepting only for those accrued or due for performance prior to such effective date and except as otherwise provided in Section 9.2. The kind of notice provided herein shall be exclusive, and no other kind, whether actual or constructive, shall be binding on Grantee.

Section 9.2 Effect of Assignment by Grantor. Notwithstanding any provision of this Conveyance to the contrary, no assignment, sale, transfer, conveyance, mortgage or pledge of the Subject Interests, or any part thereof, shall adversely affect any of Grantee's rights hereunder, including, without limitation, the amount, computation or method of payment of the Royalty Interest, it being the intent of Grantor and Grantee that for the purpose of determining the Royalty Interest payable to Grantee no disposition will be deemed to have been effected during the term of this Conveyance. Should Grantor dispose of its interest in the Subject Interests as to some of the Subject Interests, or as to some part thereof, then, effective as of the date of such disposition, BP Exploration (Alaska) Inc. shall automatically be designated by all owners of the Subject Interests as their agent, throughout the term of this Conveyance, (i) to make all designations that Grantor is entitled to make pursuant to Section 4.3, (ii) to obtain all information and take such other steps as may be necessary to permit the Independent Petroleum Engineers and the Independent Accountants and Grantor to perform their respective obligations and duties under this Conveyance (including, without limitation, the calculations to be made pursuant to Article Three and Article Four) and (iii) to make all payments and to deliver and receive all communications on behalf of Grantor, it being agreed that during such time, if any, that the Subject Interests are owned by more than one Person, Grantee shall never be obligated without its consent to receive payments from or to deliver or receive communications under this Conveyance from or to any Grantor other than BP Exploration (Alaska) Inc.; provided, however, that BP Exploration (Alaska) Inc. shall be released from its obligations under this Conveyance upon the sale or transfer by it of all or substantially all of the Subject Interests, if the transferee is of Equivalent Financial Standing and unconditionally agrees to assume and be bound by all of BP Exploration (Alaska) Inc.'s obligations under this Conveyance in a writing in form and substance reasonably satisfactory to Grantee.

Section 9.3 Assignment by Grantee. Grantee has the right to assign the Royalty Interest in whole or in part. No such assignment will affect the method of computing the Royalty Interest, and if more than one Person becomes entitled to participate in the Royalty Interest, Grantor may withhold from such other Person payments to which such Person would otherwise be entitled hereunder and the furnishing of any data or information which Grantor is required by the terms hereof to furnish Grantee until Grantor is furnished a recordable instrument executed by or binding upon all Persons interested in the Royalty Interest designating one Person who is to receive such payments, data and information.

Section 9.4 Change In Ownership. No change of ownership or right to receive payment of the Royalty Interest, or of any part thereof, however accomplished, shall be binding upon Grantor until notice thereof shall have been furnished by the Person claiming the benefit thereof, and then only with respect to payments thereafter made. Notice of sale or assignment shall consist of a certified copy of the recorded instrument accomplishing the same; notice of change of ownership or right to receive payment accomplished in any other manner (for example by reason of incapacity, death or dissolution) shall consist of certified copies of such documents and complete proceedings as are legally binding and conclusive of the rights of all parties. Until such notice shall have been furnished to Grantor as above provided, the payment or tender of all sums payable on the Royalty Interest may be made in the manner provided herein precisely as if no such change in interest or ownership or right to receive payment had occurred. The kind of notice herein provided shall be exclusive, and no other kind, whether actual or constructive, shall be binding on Grantor.

Section 9.5 Rights of Mortgagee or Trustee. If Grantee shall at any time execute a mortgage or deed of trust covering all or part of the Royalty Interest, subject to the notice provisions of Section 9.4, the mortgagee(s) or trustee(s) therein named or the holder of any obligation secured thereby shall be entitled, to the extent such mortgage or deed of trust so provides, to exercise all the rights, remedies, powers and privileges conferred upon Grantee by the terms of this Conveyance, but the provisions of this Section 9.5 shall in no way be deemed or construed to impose upon Grantor any

obligation or liability undertaken by Grantee under such mortgage or deed of trust or under the obligation secured thereby.

ARTICLE TEN

MISCELLANEOUS

Section 10.1 Proportionate Reduction. In the event of failure or deficiency in title of the State of Alaska to any of the Lands which affects any of the Subject Interests, or any modification of the Subject Interests as provided in Article Six, the portion of the Royalty Production from such affected or modified Subject Interests out of which the Royalty Interest attributable to such Subject Interests shall be payable shall be reduced in the same proportion that such Subject Interests are reduced, but such failure or deficiency in title shall not affect the definition of Royalty Production as set forth in Article One or the method of paying the Royalty Interest as set forth in Article Three or the method of computing the payments to be made under the Royalty Interest as set forth in Article Four.

Section 10.2 Term. Subject to the limitations stated herein, this Conveyance shall remain in force so long as any of the Subject Interests are in effect, provided, however, that all warranties and indemnities set forth in this Conveyance shall survive for the maximum period permitted by law.

Section 10.3 Further Assurances. Should any additional instrument of assignment or conveyance be required to describe more specifically any interests subject hereto or to vest in any Person to whom Grantee assigns the Royalty Interest in whole or in part the benefit of all covenants, representations, warranties and indemnities made by Grantor to or for the benefit of Grantee pursuant to this Conveyance, Grantor agrees to execute and deliver the same. Also, if any other or additional instruments are required in connection with the transfer of interests in the Leases to comply with applicable law, regulations, the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement or any other applicable agreements, Grantor will execute and deliver the same.

Section 10.4 Notices. Any notice, request, demand, report, statement or other instrument which may be required or permitted to be given to any party hereto or other Person succeeding to any interest of a party hereto shall be deemed sufficiently given if in writing and delivered to such party or Person or to an officer of such party or Person or deposited in the United States mail in a sealed envelope, first class mail, with postage prepaid, addressed to such party or Person at its or his address stated in this Conveyance, or at such other address as the party or Person to be addressed shall have designated by written notice to each such party or Person. Each party's proper address shall be deemed to be that set forth herein below until such party gives to the other party, in the manner above prescribed, notice of a new address, after which such new address shall be deemed the proper address until changed in like manner. Notice shall be deemed given when actually received by the party or Person to which such notice was intended.

Grantor: BP Exploration (Alaska) Inc.
P.O. Box 196612
900 East Benson Boulevard
Anchorage, Alaska 99519-6612

Grantee: The Standard Oil Company
200 Public Square
Cleveland, Ohio 44114-2375

Section 10.5 Covenants and Warranties with Respect to Participating Interest and Net Profits Royalty Interest. Grantor hereby covenants and warrants that its Oil Rim Area Participation as of the Effective Date is 50.6848339% and its Gas Cap Area Participation as of the Effective Date is 13.8398950%, that as of the Effective Date its Oil Rim Area Participation and its Gas Cap Area Participation is subject only to the Net Profits Royalty Interest (exclusive of the Lower Lower Net Profits Royalty Interest) and that such interests are subject to change or adjustment only as provided herein or as may be provided under the terms of the Prudhoe Bay Unit Operating Agreement and the Prudhoe Bay Unit Agreement, including, without limitation, any adjustments which might result from the final redetermination of hydrocarbon pore volume as provided in Article 37 of the Prudhoe Bay Unit Operating Agreement. Grantor further covenants that if the existence of the Net Profits Royalty Interest or the making of any payments under the Net Profits Royalty

Interest results in a decrease in any payment to Grantee under the Royalty Interest, Grantor shall and hereby agrees to pay Grantee, in addition to and independent of payments required to be made to Grantee under the Royalty Interest, the amount of any such decrease, together with interest thereon in an amount equal to the product of (i) the amount of such decrease, (ii) the Interest Rate, and (iii) a fraction, the numerator of which is the number of days from the date of such decrease until the date of payment to Grantee of the amount owing pursuant to this Section 10.5 and the denominator of which is 360 days, together with such other damages (but not including interest) to which Grantee may be entitled under this Conveyance, or at law or in equity, it being the express intent of Grantor and Grantee that Grantee is not to be prejudiced in any way by the existence of or the making of any payments under the Net Profits Royalty Interest.

Section 10.6 Other Covenants. Grantor hereby covenants and warrants that it is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, is qualified to transact business and is in good standing in the State of Alaska and is qualified with the Alaska Department of Natural Resources to hold interests in state oil and gas leases; that it has the legal right and authority to bargain, grant, sell, convey, transfer, assign, set over and deliver the Royalty Interest to Grantee and that it has the legal right and authority to execute, deliver and perform this Conveyance; that the execution, delivery and performance of this Conveyance by it (i) does not require the consent of any other Person except as set forth in Section 8.2; (ii) does not require any action by or filing with any governmental body, agency, or official that has not been accomplished, other than the filings which are required under the terms of the Leases and the terms of applicable statutes of the State of Alaska and the administrative regulations of the Alaska Department of Natural Resources, which filings will be promptly made upon execution of this Conveyance; and, (iii) will not violate or conflict with any law, statute, regulation, agreement, judgment, injunction, order, decree or other instrument to which Grantor is subject or is party or by which Grantor or the Leases or the Subject Interests are bound and that this Conveyance is a valid and binding agreement of Grantor, enforceable against Grantor in accordance with its terms. Grantor hereby binds itself and its successors and assigns to forever defend the title to the Royalty Interest unto Grantee and its successors and assigns against every Person claiming the same or any part thereof by, through or under Grantor, but not otherwise. This Conveyance is made with full substitution and subrogation of Grantee in and to all covenants, representations and warranties by others heretofore given or made in respect of the Leases or the Subject Interests.

Section 10.7 Binding Effect. This Conveyance and all of the rights and obligations hereunder (including, without limitation, those arising out of the covenants, representations, warranties and indemnities made by Grantor to or for benefit of Grantee pursuant to this Conveyance) shall bind and inure to the benefit of the successors and assigns of Grantor and Grantee.

Section 10.8 Headings for Convenience. The headings used in this Conveyance are inserted for convenience only and shall be disregarded in construing this Conveyance.

Section 10.9 Counterparts. This Conveyance may be executed in several original counterparts. Each such counterpart shall for all purposes be deemed an original, and all such counterparts shall constitute but one and the same Conveyance.

Section 10.10 Interest Affecting Real Property. The Royalty Interest created and transferred by this Conveyance is an interest affecting real property within the meaning of AS 40.17.110(b)(59). The parties intend that the covenants contained in this Conveyance run with and burden the Lands and the Subject Interests to the maximum extent possible under applicable law.

Section 10.11 Waiver; Estoppel. The failure of Grantor or Grantee to insist upon strict performance of any provision of this Conveyance shall not constitute a waiver of or estoppel against asserting the right to require such performance in the future, nor shall a waiver or estoppel in any one instance constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise.

Section 10.12 Right to Information. The Standard Oil Company shall remain entitled throughout the term of this Conveyance to receive from Grantor a copy of all information that is furnished to Grantee by Grantor, irrespective of the assignment by The Standard Oil Company of the Royalty Interest in whole to any other Person.

Section 10.13 Indemnification. Grantor hereby agrees to indemnify and save harmless Grantee from and against any expense (including, without limitation, the expense of suit and attorneys' fees), claim, damage, loss or liability incurred by Grantee as a result of or arising out of the breach by Grantor of any of its representations, warranties or covenants set forth in this Conveyance.

Section 10.14 Independent Payments. All payments to which Grantee is entitled by reason of the indemnities set forth in this Conveyance by Grantor to Grantee or by reason of any breach by Grantor of its representations, warranties or covenants shall be in addition to and independent of all payments required to be made to Grantee under the Royalty Interest.

Section 10.15 Governing Law. The validity, effect and construction of this Conveyance shall be governed by the laws of the State of Alaska.

Section 10.16 Amendment. This Conveyance may not be amended, altered or modified except pursuant to a written Instrument executed by Grantor and Grantee.

IN WITNESS WHEREOF, the parties hereto have caused this Conveyance to be duly executed as of the day and year first written.

GRANTOR:

[SEAL]

Attest: BP Exploration (Alaska) Inc.

/s/ John A. Reeder

Assistant Secretary

By /s/ G.N. Nelson

G.N. Nelson, President

GRANTEE:

[SEAL]

Attest: The Standard Oil Company

/s/ J.M. Cesarik

By /s/ James H. Ross

ACKNOWLEDGMENT

STATE OF ALASKA)
) ss
THIRD JUDICIAL DISTRICT)

Before me, a notary public, in and for the State of Alaska, personally appeared G.N. Nelson, known to me to be the person who, as President of BP Exploration (Alaska) Inc., the corporation which executed the foregoing instrument, signed the same, and acknowledged to me that he did so sign said instrument in the name and upon behalf of said corporation as such officer; that the same is his free act and deed as such officer, and the free and corporate act and deed of said corporation; that he was duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporation seal of said corporation. In testimony whereof, I have hereunto subscribed my name, and affixed my official seal, at Anchorage, Alaska, this 20th day of February, 1989.

[SEAL]

/s/ Keri L. Hopkins

Notary Public in and for Alaska

My Commission Expires: 1-14-93

STATE OF OHIO)
) ss
COUNTY OF CUYAHOGA)

		T11N-R13E, UM		29/178
77	ADL-28287	Secs. 27,28,33,34 T11N-R13E, UM	100%**	47/235
60	ADL-28305	Secs. 17,18,19,20 T11N-R14E, UM	100%**	47/223
74	ADL-28309	Secs. 27,28,33,34 T11N-R14E, UM	100%**	42/336
75	ADL-28310	Secs. 29,30,31,32 T11N-R14E, UM	100%**	47/241
90	ADL-28311	Secs. 1,2,11,12 T10N-R14E, UM	100%**	47/229
89	ADL-28312	Secs. 3,4,9,10 T10N-R14E, UM	100%**	52/104
101	ADL-28315	Secs. 13,14,23,24 T10N-R14E, UM	100%**	52/110
38	ADL-28320	Secs. 1,2,11,12 T11N-R15E, UM	100%**	47/199
100	ADL-28330	Secs. 17,18,19,20 T10N-R15E, UM	100%**	52/116
99	ADL-28331	Secs. 15,16,21,22 T10N-R15E, UM	100%**	52/122
110	ADL-28333	Secs. 25,26,35,36 T10N-R15E, UM	100%**	42/341
108	ADL-28335	Secs. 29,30,31,32 T10N-R15E, UM	100%**	52/128
66	ADL-28339	Secs. 17,18,19 T11N-R16E, UM	100%**	47/193
69	ADL-28343	Secs. 30,31,32 T11N-R16E, UM	100%**	42/356
111	ADL-28349	Secs. 29,30,31 T10N-R16E, UM	100%**	42/370
31	ADL-34630	Secs. 25,26,35,36 T12N-R15E, UM	100%**	47/205

<FN>

* All book and page references are to the lease records of the Noatak-Kobuk Recording District, except: (i) Lease ADL 25637 is recorded in the Miscellaneous Records of the Fairbanks Recording District; and (ii) Lease ADL 28286 is recorded both in the Lease Records of the Noatak-Kobuk Recording District (Book 52/page 98) and the Lease Records of the Fairbanks Recording District (Book 29/page 178).

** The interest of BP Exploration (Alaska) Inc. in these leases is subject to the Net Profits Royalty Interest (excluding the Lower Net Profits Royalty Interest).

TRUST CONVEYANCE

Dated February 28, 1989

Between

THE STANDARD OIL COMPANY
("Grantor")

and

BP PRUDHOE BAY ROYALTY TRUST
("Grantee")

RECORD THIS INSTRUMENT IN THE BARROW RECORDING DISTRICT.

THE STANDARD OIL COMPANY is known in Alaska as SOCO INC.; please index both of these names in the Grantor Index. BP PRUDHOE BAY ROYALTY TRUST should be indexed in the Grantee Index.

THE LANDS AFFECTED BY THIS INSTRUMENT ARE DESCRIBED IN EXHIBIT A ATTACHED HERETO.

ADDRESSES OF THE PARTIES TO THIS INSTRUMENT ARE SET FORTH IN SECTION 4.2 OF THIS INSTRUMENT.

RETURN THIS INSTRUMENT TO: GUESS & RUDD
510 L Street, Suite 700
Anchorage, Alaska 99501
Attn: Joseph J. Perkins, Jr.

TRUST CONVEYANCE

THIS CONVEYANCE, dated the 28th day of February, 1989, between The Standard Oil Company, an Ohio corporation known in Alaska as SOCO INC. (Grantor) and the BP Prudhoe Bay Royalty Trust, a business trust under the Delaware Trust Act administered under the terms of the BP Prudhoe Bay Royalty Trust Agreement among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-trustee (Grantee).

WITNESSETH:

WHEREAS, Grantor is the owner of a certain Royalty Interest covering certain lands and leases situated in the Prudhoe Bay area of the State of Alaska more fully described in Exhibit A to this Conveyance; and

WHEREAS, Grantor desires to transfer and convey the Royalty Interest unto Grantee as of the Effective Date herein provided; and

WHEREAS, Grantee desires to accept the Royalty Interest as of the Effective Date herein provided;

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements herein contained, the parties hereto agree as follows:

SECTION ONE

DEFINITIONS

For the purposes of this Conveyance, the following words, terms and phrases shall have the following meanings:

Conveyance shall mean this Trust Conveyance.

Effective Date shall mean 12:01 o'clock A.M. Alaska Time Zone on February 28, 1989.

Grantee shall mean the BP Prudhoe Bay Royalty Trust while it owns all or any part of or interest in the Royalty Interest and any other Person or Persons who acquire legal title to all or any part of or interest in the Royalty Interest.

Grantor shall mean The Standard Oil Company, an Ohio corporation known in Alaska as SOCO Inc.

Leases shall have the meaning stated in the Overriding Royalty Conveyance.

Overriding Royalty Conveyance Grantee shall have the same meaning as the definition of "Grantee" set forth in the Overriding Royalty Conveyance.

Overriding Royalty Conveyance Grantor shall have the same meaning as the definition of "Grantor" set forth in the Overriding Royalty Conveyance.

Overriding Royalty Conveyance shall mean that certain Overriding Royalty Conveyance dated February 27, 1989, executed and delivered by BP Exploration (Alaska) Inc., as Grantor, and The Standard Oil Company, as Grantee, covering certain lands and leases situated in the Prudhoe Bay area of the State of Alaska more particularly described in Exhibit A to the Overriding Royalty Conveyance. A copy of the Overriding Royalty Conveyance is attached hereto as Exhibit B. The Overriding Royalty Conveyance is recorded in Book 54, Pages 469-495, Barrow Recording District.

Person shall mean an individual, corporation, partnership, trust, estate or other entity, organization or association.

Royalty Interest shall mean the overriding royalty interest conveyed to Overriding Royalty Conveyance Grantee by the Overriding Royalty Conveyance.

Subject Interests shall have the meaning stated in the Overriding Royalty Conveyance.

SECTION TWO

CONVEYANCE

Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration to it paid by Grantee, the receipt and sufficiency of which are hereby acknowledged, by these presents does hereby bargain, sell, grant, convey, transfer, assign, set over and deliver unto Grantee, its successors and assigns the Royalty Interest and all rights and benefits to which Overriding Royalty Conveyance Grantee is entitled under or pursuant to the Overriding Royalty Conveyance (including, without limitation, the rights and benefits arising out of the covenants, representations, warranties and indemnities made by Overriding Royalty Conveyance Grantor to or for the benefit of Overriding Royalty Conveyance Grantee pursuant to the Overriding Royalty Conveyance), to have and to hold forever.

SECTION THREE

COVENANTS AND WARRANTIES

Grantor hereby covenants and warrants that it is a corporation duly organized, validly existing, and in good standing under the laws of the State of Ohio, is qualified to transact business and is in good standing in the State of Alaska, and is qualified with the Alaska Department of Natural Resources to hold interests in state oil and gas leases; that it has the legal right and authority to bargain, grant, sell, convey, transfer, assign, set over and deliver the Royalty Interest to Grantee and that it has legal right and authority to execute, deliver and perform this Conveyance; that the execution, delivery and performance of this Conveyance by it (i) does not require the consent of any other Person; (ii) does not require any action by or filing with any governmental body, agency, or official that has not been accomplished, other than the filings which may be required under the terms of the Leases and the terms of the applicable statutes of the State of Alaska and the administrative regulations of the Alaska Department of Natural Resources,

which filings will be promptly made by Grantor upon the execution of this Conveyance; and, (iii) will not violate or conflict with any law, statute, regulation, agreement, judgment, injunction, order, decree or other instrument to which Grantor is subject or is party or by which Grantor or the Leases or the Subject Interests are bound; and that this Conveyance is a valid and binding agreement of Grantor, enforceable against Grantor in accordance with its terms. Grantor hereby binds itself and its successors and assigns to forever defend the title to the Royalty Interest unto Grantee and its successors and assigns against every Person claiming the same or any part thereof by, through or under Grantor, but not otherwise. This Conveyance is made with full substitution and subrogation of Grantee in and to all covenants, representations and warranties by others heretofore given or made in respect of the Leases or the Subject Interests.

SECTION FOUR

MISCELLANEOUS

Section 4.1 Further Assurances. Should any additional instruments of assignment or conveyance be required to describe more specifically any interests subject hereto, or to vest in Grantee the benefit of all covenants, representations, warranties and indemnities by others heretofore given or made in respect of the Royalty Interest or the Leases or the Subject Interests (including, without limitation, those made by Overriding Royalty Conveyance Grantor to or for the benefit of Overriding Royalty Conveyance Grantee pursuant to the Overriding Royalty Conveyance), Grantor agrees to execute and deliver the same. Also, if any other or additional instruments are required in connection with the transfer of the Royalty Interest to comply with applicable law or regulations, Grantor will execute and deliver the same.

Section 4.2 Notices. Any notice, request, demand, report, statement or other instrument which may be required or permitted to be given to any party hereto or other Person succeeding to any interest of a party hereto shall be deemed sufficiently given if in writing and delivered to such party or Person or to an officer of such party or Person or deposited in the United States mail in a sealed envelope, first class mail, with postage prepaid, addressed to such party or Person at its or his address stated in this Conveyance, or at such other address as the party or Person to be addressed shall have designated by written notice to each other party or Person. Each party's proper address shall be deemed to be that set forth herein below until such party gives to the other party, in the manner above prescribed, notice of a new address, after which such address shall be deemed the proper address until changed in like manner. Notice shall be deemed given when actually received by the party or Person to which such notice was intended.

Grantor: The Standard Oil Company
200 Public Square
Cleveland, Ohio 44114-2375

Grantee: BP Prudhoe Bay Royalty Trust,
The Bank of New York, Trustee
21 West Street, 12th Floor
New York, New York 10286
Attention: Corporate Trust Department

Section 4.3 Binding Effect. This Conveyance and all of the rights and obligations hereunder shall bind and inure to the benefit of the successors and assigns of Grantor and Grantee.

Section 4.4 Headings for Convenience. The headings used in this Conveyance are inserted for convenience only and shall be disregarded in construing this Conveyance.

Section 4.5 Counterparts. This Conveyance may be executed in several original counterparts. Each such counterpart shall for all purposes be deemed an original, and all such counterparts shall constitute but one and the same Conveyance.

Section 4.6 Governing Law. The validity, effect and construction of this Conveyance shall be governed by the laws of the State of Alaska.

IN WITNESS WHEREOF, the parties hereto have caused this Conveyance to be duly executed as of the day and year first written.

GRANTOR:

Attest: The Standard Oil Company

/s/ J.M. Cesarik

J.M. Cesarik,
Corporate Secretary

By /s/ J.H. Ross

J.H. Ross, Chairman and
Chief Executive Officer

GRANTEE:

Attest: BP PRUDHOE BAY ROYALTY TRUST

/s/ David G. Sampson

David G. Sampson
Assistant Vice President

By /s/ W.N. Gitlin

Walter N. Gitlin
Assistant Vice President
The Bank of New York, Trustee

ACKNOWLEDGMENT

STATE OF OHIO)
) ss
COUNTY OF CUYAHOGA)

Before me, a notary public, in and for said county, personally appeared J.H. Ross and J.M. Cesarik, known to me to be the persons who, as Chairman and Chief Executive Officer and Corporate Secretary, respectively, of The Standard Oil Company, the corporation which executed the foregoing instrument, signed the same, and acknowledged to me that they did so sign said instrument in the name and upon behalf of said corporation as such officers, respectively; that the same is their free act and deed as such officers, respectively, and the free and corporate act and deed of said corporation; that they were duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporation seal of said corporation. In testimony whereof, I have hereunto subscribed my name, and affixed my official seal, at Cleveland, Ohio, this ___ day of _____, 1989.

[SEAL] /s/ JoAnn Motuza

Notary Public in and for Ohio

My Commission Expires:

JoANN MOTUZA
Notary Public, State of Ohio
Recorded in Cuyahoga County
My Comm. Expires 9-14-92

STATE OF NEW YORK)
) ss
COUNTY OF NEW YORK)

Before me, a notary public, in and for said county, personally appeared Walter N. Gitlin and David C. Sampson, known to me to be the persons who, as Assistant Vice Presidents of The Bank of New York, the corporation which executed the foregoing instrument, signed the same, and acknowledged to me that they did so sign said instrument in the name and upon behalf of said corporation as such officers; that the same is their free act and deed as such officers, and the free and corporate act and deed of said corporation; that they were duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporation seal of said corporation. In testimony whereof, I have hereunto subscribed my name, and affixed my official seal, at New York, New York this 23rd day of February, 1989.

/s/ Virginia Barazotti

Notary Public in and for New York

My Commission Expires:

VIRGINIA BARAZOTTI
Notary Public, State of New York
No. 42-4734842
Qualified in Queens County
Certificate filed in New York County
Commission Expires Nov. 30, 1989

EXHIBIT A

TRUST CONVEYANCE

STATE OF ALASKA

PBU Tract	Lease Serial No.	Lands Description	ORCG's Working Interest*	Recorded Book/ Page**
16	ADL-25637	Secs. 13,24 T12N-R10E, UM	50%	42/609
47	ADL-28260	Secs. 1,2,11,12 T11N-R13E, UM	100%***	52/40
25	ADL-28277	Secs. 26,35,36 T12N-R13E, UM	100%***	52/44
24	ADL-28278	Secs. 27,28,33,34 T12N-R13E, UM	100%***	52/50
23	ADL-28279	Secs. 29,30,31,32 T12N-R13E, UM	100%***	52/56
44	ADL-28280	Secs. 1,2,11,12 T11N-R13E, UM	100%***	52/62
45	ADL-28281	Secs. 3,4,9,10 T11N-R13E, UM	100%***	52/68
46	ADL-28282	Secs. 5,6,7,8 T11N-R13E, UM	100%***	52/74
57	ADL-28283	Secs. 17,18,19,20 T11N-R13E, UM	100%***	52/80
58	ADL-28284	Secs. 15,16,21,22 T11N-R13E, UM	100%***	52/86
59	ADL-28285	Secs. 13,14,23,24 T11N-R13E, UM	100%***	52/92
76	ADL-28286	Secs. 25,26,35,36 T11N-R13E, UM	100%***	52/98 29/178
77	ADL-28287	Secs. 27,28,33,34 T11N-R13E, UM	100%***	47/235
60	ADL-28305	Secs. 17,18,19,20 T11N-R14E, UM	100%***	47/223
74	ADL-28309	Secs. 27,28,33,34 T11N-R14E, UM	100%***	42/336
75	ADL-28310	Secs. 29,30,31,32 T11N-R14E, UM	100%***	47/241

90	ADL-28311	Secs. 1,2,11,12 T10N-R14E, UM	100%***	47/229
89	ADL-28312	Secs. 3,4,9,10 T10N-R14E, UM	100%***	52/104
101	ADL-28315	Secs. 13,14,23,24 T10N-R14E, UM	100%***	52/110
38	ADL-28320	Secs. 1,2,11,12 T11N-R15E, UM	100%***	47/199
100	ADL-28330	Secs. 17,18,19,20 T10N-R15E, UM	100%***	52/116
99	ADL-28331	Secs. 15,16,21,22 T10N-R15E, UM	100%***	52/122
110	ADL-28333	Secs. 25,26,35,36 T10N-R15E, UM	100%***	42/341
108	ADL-28335	Secs. 29,30,31,32 T10N-R15E, UM	100%***	52/128
66	ADL-28339	Secs. 17,18,19 T11N-R16E, UM	100%***	47/193
69	ADL-28343	Secs. 30,31,32 T11N-R16E, UM	100%***	42/356
111	ADL-28349	Secs. 29,30,31 T10N-R16E, UM	100%***	42/370
31	ADL-34630	Secs. 25,26,35,36 T12N-R15E, UM	100%***	47/205

<FN>

* "OCRG" means Overriding Royalty Conveyance Grantor.

** All book and page references are to the lease records of the Noatak-Kobuk Recording District, except: (i) Lease ADL 25637 is recorded in the Miscellaneous Records of the Fairbanks Recording District; and (ii) Lease ADL 28286 is recorded both in the Lease Records of the Noatak-Kobuk Recording District (Book 52/page 98) and the Lease Records of the Fairbanks Recording District (Book 29/page 178).

*** The interest of BP Exploration (Alaska) Inc. in these leases is subject to the "Net Profits Royalty Interest" (excluding the "Lower Net Profits Royalty Interest") (as said terms are defined in the Overriding Royalty Conveyance).

SUPPORT AGREEMENT

AMONG

THE BRITISH PETROLEUM COMPANY p.l.c.

AND

BP EXPLORATION (ALASKA) INC.

THE STANDARD OIL COMPANY

AND

BP PRUDHOE BAY ROYALTY TRUST

THIS SUPPORT AGREEMENT made as of February 28, 1989

AMONG THE BRITISH PETROLEUM COMPANY p.l.c. ("BP"), an English company whose principal office is at Britannic House, Moor Lane, London EC2Y 9BU England,

BP EXPLORATION (ALASKA) INC., a Delaware corporation having its principal office in Anchorage, Alaska (the "Company"),

THE STANDARD OIL COMPANY, an Ohio corporation having its principal office in Cleveland Ohio ("SOC"),

AND BP PRUDHOE BAY ROYALTY TRUST, a Delaware business trust (the "Trust"), having The Bank of New York, a New York corporation, authorized to do a banking business, as a Trustee (the "Trustee"), under the BP Prudhoe Bay Royalty Trust Agreement, dated February 28, 1989, by and among SOC, the Company, the Trustee and a co-trustee (the "Royalty Trust Agreement").

WHEREAS

1. The Company and SOC are indirect, wholly-owned subsidiaries of BP; and
2. SOC shall grant and convey to the Trust the Initial Royalty Interest in consideration of the issuance by the Trust, at SOC's direction, of Trust Units representing units of beneficial interest in the Trust; and
3. In order to induce the initial purchasers of Trust Units to purchase such Trust Units and in order to induce The Bank of New York and F. James Hutchinson to act as trustees under the Royalty Trust Agreement, BP shall provide financial support to the Company and SOC in meeting their respective payment obligations under the Initial Royalty Interest, any Additional Royalty Interests, the Royalty Trust Agreement and the Conveyance to the Trust, the Trustee, the Transfer Agent and the Registrar (in each case as defined in the Royalty Trust Agreement).
4. The Trust, in consideration of the conveyance of the Initial Royalty Interest to the Trust and the above-mentioned financial support of BP and SOC, shall issue 21,400,000 Trust Units in connection with the

establishment of the Trust pursuant to the Royalty Trust Agreement and accept the benefits of the financial support and guarantee which BP has agreed to make available on the terms hereinafter contained.

NOW THEREFORE IT IS HEREBY AGREED as follows:

1. DEFINITIONS

In this Agreement, unless the context otherwise requires, the following terms shall have the following meanings:

"Conveyance" means, collectively, the Overriding Royalty Conveyance dated February 27, 1989 between the Company and SOC conveying the Initial Royalty Interest to SOC, the Trust Conveyance dated the date hereof between SOC and the Trust conveying the Initial Royalty Interest to the Trust and any Additional Conveyance (as defined in the Royalty Trust Agreement).

"Equivalent Financial Standing" means a Person having a rating assigned to outstanding unsecured, unsupported long term debt from Moody's Investors Service of at least A3 or from Standard & Poor's Corporation of at least A- or an equivalent rating from at least one nationally-recognized statistical rating organization (after giving effect to the sale or transfer to such Person of all or substantial all of the Company's working interest in the PBU a the assumption by such Person of all of the Company's obligations under the Conveyance and of all of BP's obligations hereunder).

"PBU" means the Prudhoe Bay Unit, as defined in the Conveyance.

"Person" means any individual, corporation, partnership, trust, estate or other entity, organization or association.

"Royalty Interests" means the Initial Royalty Interest and any Additional Royalty Interests (in each case as defined in the Royalty Trust Agreement) conveyed to the Trust pursuant to the Initial Conveyance or any Additional Conveyance (in each case as defined in the Royalty Trust Agreement.)

2. SCOPE OF UNDERTAKING

- (a) Subject to the terms hereof BP shall, within 30 days of notice to BP pursuant to Article XI of the Royalty Trust Agreement, (i) cause the Company to perform its payment obligations under the Royalty Interests pursuant to the Conveyance and (ii) cause the Company and SOC to satisfy their respective payment obligations to the Trustee, Transfer Agent and Registrar and their respective payment obligation to the Trust under the Royalty Trust Agreement (including without limitation, the obligation to make payments as indemnification), including, in each case, without limitation, contributing to the Company or SOC or causing to be contributed to the Company or SOC by an affiliate of BP such funds as are necessary to make such payments. BP's obligations under the foregoing undertaking are unconditional.
- (b) For purposes of BP's obligations under this Support Agreement, no assignment, sale, transfer, conveyance, mortgage or pledge or other disposition of the Royalty Interests shall relieve (i) the Company of its obligations under the Royalty Trust Agreement or the Conveyance, (ii) SOC of its obligations under the Royalty Trust Agreement or (iii) BP of its obligations under this Support Agreement.

3. DURATION

This Agreement shall be deemed to have come into full force and effect on the date first above written and shall continue thereafter until the earlier of (a) the termination of the Royalty Interests and all obligations of the Company under the Conveyance and of the Company and SOC under the Royalty Trust Agreement or (b) all or substantially all of the Company's working interest in the PBU is sold or transferred to a transferee of Equivalent Financial Standing in accordance with the provisions of Section 5(d) hereof.

4. SUPPORT TO BE PROVIDED BY BP

Pursuant to BP's undertaking described in Section 2 hereof BP shall make

available to the Company and SOC, and the Company and SOC shall receive such financial support as the Company, SOC or the Trustee may from time to time request from BP in writing.

5. ASSIGNMENT AND DELEGATION

- (a) Neither BP nor the Company nor SOC shall transfer or assign its rights or obligations under this Agreement without the prior written consent of the Trust.
- (b) Notwithstanding (a) above BP shall however be free to arrange for its obligations hereunder to be performed by any affiliate of BP (with the exception of the Company) provided that BP shall remain responsible for ensuring that such obligations are performed in a timely manner.
- (c) The Company may sell or transfer all or part of its working interest in the PBU, although such a transfer will not relieve BP of its responsibility to ensure that the Company's payment obligations with respect to the Royalty Interests and under the Royalty Trust Agreement and the Conveyance are performed.
- (d) BP shall be released from its obligation under the Agreement upon the sale or transfer of all or substantially all of the Company's working interest in the PBU, if the transferee is of Equivalent Financial Standing and unconditionally agrees to assume and be bound by BP's obligation under this Agreement in a writing in form and substance reasonably satisfactory to the Trustee.

6. ENFORCEABILITY

This Agreement may be enforced by the Trustee, for the benefit of the Trust, or for its own benefit or for the benefit of the Transfer Agent or Registrar at any time when the Company or SOC has failed to pay amounts due the Trust or the Trustee, individually, or as Trustee, or the Transfer Agent or Registrar, as described in the Royalty Trust Agreement, or has otherwise failed to perform their respective payment obligations under and pursuant to the Royalty Interests or the Royalty Trust Agreement or the Conveyance.

7. NOTICES

Any communications by a party to another shall be sufficiently made if sent by post (by airmail where airmail is possible), postage paid, or by telegraph, telex or facsimile to the address hereinafter specified and shall be deemed to have been made when received.

Unless otherwise specified by not fewer than 15 days' notice in writing to the party in question, the address to which communications shall be sent shall be:

BP - THE BRITISH PETROLEUM COMPANY p.l.c.
Britannic House, Moor Lane
London EC2Y 9BU, England
Attention: Secretary

the Company - BP EXPLORATION (ALASKA) INC.
c/o BP AMERICA INC.
200 Public Square
Cleveland, Ohio 44114
Attention: Treasurer

SOC - The Standard Oil Company
c/o BP America Inc.
200 Public Square
Cleveland, Ohio 44114
Attention: Treasurer

the Trustee - The Bank of New York
21 West Street, 12th Floor
New York, New York 10286
Attention: Corporate Trust
Trustee Administration

8. SUBMISSION TO JURISDICTION

BP agrees that any legal suit, action or proceeding arising out of or based upon this Agreement may be instituted in any state or Federal Court in the Borough of Manhattan, The City of New York, New York, United States of America, and waives, to the extent it may effectively do so, any objection which it may have now or hereafter to the laying of the venue of any such suit, action or proceeding, and irrevocably submits to the jurisdiction of any such court in any such suit, action or proceeding. BP has designated and appointed BP America Inc. (or any successor corporation) as BP's authorized agent to accept and acknowledge on its behalf in any such suit, action or proceeding in any such court and agrees that service of process upon said agent at its office at 667 Madison Avenue, 22nd Floor, New York, New York 10021, attention of the General Counsel (or at such other address in the Borough of Manhattan, The City of New York, as BP may designate by written notice to the Company and the Trustee), and written notice of said service to BP, mailed or delivered to it at its notice address specified in Section 7 hereof, shall be deemed in every respect effective service of process upon BP in any such suit, action or proceeding and shall be taken and held to be valid personal service upon BP, whether or not BP shall then be doing, or at any time shall have done, business within the State of New York, and any such service of process shall be of the same force and validity as if service were made upon BP according to the laws governing the validity and requirements of such service in such State, and waives all claim of error by reason of any such service. Said designation and appointment shall be irrevocable until this Agreement shall have been satisfied and discharged. BP agrees to take all action as may be necessary to continue the designation and appointment of BP America Inc. or any successor corporation in full force and effect so that BP shall at all times have an agent for service of process for the above purposes in the Borough of Manhattan, The City of New York, New York, United States of America.

9. APPLICABLE LAW

The construction, validity and performance of this Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF the undersigned authorized officers have executed this Agreement the day and year first hereinbefore written:

for and on behalf of)
THE BRITISH PETROLEUM) /s/ D.A.G. Simon
COMPANY p.l.c.)

for and on behalf of) /s/ G.N. Nelson
BP EXPLORATION (ALASKA) INC.)

for and on behalf of)
THE BP PRUDHOE BAY ROYALTY TRUST) /s/ W.N. Gitlin
by THE BANK OF NEW YORK, as Trustee)

for and on behalf of) /s/ [Signature illegible]
THE STANDARD OIL COMPANY)

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the audited financial statements of BP Prudhoe Bay Royalty Trust as of and for the fiscal year ended December 31, 1996 and is qualified in its entirety by reference to such financial statements.

</LEGEND>

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