### SB 21 Support / Considerations

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**AS 43.55.023 (l) (suggest adoption for North Slope)**
- Allows 40% capital credit for all intangible well work (consider adoption)

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- Extends Small Producer Credits to 2022

**AS 43.55.160**
- Gross Revenue Exclusion
- “Does not contain land that was in a unit on January 1, 2003” (consider adjustment)

**Support**

**Consider Adjustment**
Reasons for Entering Alaska

• L48 oil price, reduced cash flows, lack of quality prospect inventory
  • In 2000, oil price had dipped to very low levels
  • Lower 48 average wells struggled to generate breakeven cash flow
  • Prospect reserve base was not very attractive
  • Deals were few and those that were being shopped didn’t impact CF for risk

• Drivers to Increase Cash Flow
  • Big reserves with high production rates increases cash flow
  • Acceptable cost of doing business
  • Tax policy was not an impact consideration - ELF
  • Expected eventual cycle change in focus with some majors lessening activity and independents entering as occurred in;

  Mid-continent, Rocky Mountains, Gulf of Mexico, North Sea
## What does Alaska have to offer ??

<table>
<thead>
<tr>
<th></th>
<th>ALASKA</th>
<th>LOWER 48</th>
</tr>
</thead>
<tbody>
<tr>
<td>World class reserve base</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Accessible infrastructure</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Cost environment</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Relative Oil Price</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Meaningful SOA credit structure</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Impacts of tax policy</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Perception of tax consequences</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Confidence in a 5 to 10 year business plan</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Why more players are not in Alaska

### 3 Key Elements

- Aggressive desire to be in Alaska
- Knowledge base to understand
- Financial capacity to fully execute

### What is the Reality

- Most are content with core areas
- High oil price provides superior cash flows
- Established relationships with knowledgeable investors and traditional capital sources
- Insufficient cause to compel a change in their operational focus
- Many would prefer to control own destiny
- Question internal geologic expertise for Alaska
- Deficiencies of staff operational competence
- Lack of fiscal comprehension
- Unable to model minimum 5 year business plan that is consistent
- Current capital commitments on other projects
- Alaska requires **VERY** patient capital
- Perception that majors control and inability or reluctance to compete

"Alaska is an educational process"
Credits have helped keep us in the game

<table>
<thead>
<tr>
<th>Section</th>
<th>Details</th>
</tr>
</thead>
</table>
| **Qualified Capital Expenditures (QCE)** | 20% QCE tax credit for capital expenditures  
50% of credit year 1 other 50% in year 2  
Credits do not expire and can be held, sold to third parties or sold back to the state. |
| **Carry Forward Loss Credits (CFL)** | 25% credit based on calendar year losses  
50% of credit in year 1 other 50% in year 2  
Credits do not expire and can be sold to third parties or sold back to the state. |
| **Small Producer Credit (SPC)** | Small producers (less than 50,000 BOPD)  
Entitled to a $12MM per year production tax credit.  
Credit is in effect for 10 years after start of production  
(need to start production by 2016 to qualify). |
| **Exploration Incentive Credits (EIC)** | 40% credit depending on well location and the prospect traits.  
Can take EIC credit or the QCE credits, but not both.  
Work needs to be complete by July 1, 2016 to qualify.  
BRPC has never received this for exploration wells |
AS 43.55.025  Limitations - 25 Mile Unit Buffer With 3 Mile Well Buffer
Tax Credits History & Forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>BRPC Credits Received</th>
<th>Tax Credit Certificates Refunded</th>
<th>Credits Applied Against Production Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-2009</td>
<td>$109 MM</td>
<td>$935</td>
<td>$935</td>
</tr>
<tr>
<td>2009</td>
<td>$193</td>
<td>$333</td>
<td>$526</td>
</tr>
<tr>
<td>2010</td>
<td>$250</td>
<td>$412</td>
<td>$662</td>
</tr>
<tr>
<td>2011</td>
<td>$450</td>
<td>$386</td>
<td>$836</td>
</tr>
<tr>
<td>2012*</td>
<td>$353</td>
<td>$360</td>
<td>$713</td>
</tr>
<tr>
<td>2013**</td>
<td>$360</td>
<td>$490</td>
<td>$850</td>
</tr>
<tr>
<td>2014**</td>
<td>$400</td>
<td>$615</td>
<td>$1,015</td>
</tr>
</tbody>
</table>

* Estimated pending final true-ups
** Fall 2012 Revenue Source Forecast
Impacts to Mustang Development Funding

Under ACES, Mustang SOA revenues $1.2 B Life of Field

Requires $123.4 MM additional funding not planned in sanction process
## Forecast by Development Project

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<th>Development Project</th>
<th>Peak Throughput</th>
<th>SOA Rev. ( B )</th>
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<tr>
<td>Mustang Development</td>
<td>14,806</td>
<td>1.2</td>
</tr>
<tr>
<td>Appaloosa Development</td>
<td>12,722</td>
<td>1.0</td>
</tr>
<tr>
<td>Tofkat Development</td>
<td>8,667</td>
<td>0.7</td>
</tr>
<tr>
<td>Beechey Point Development</td>
<td>12,000</td>
<td>0.9</td>
</tr>
<tr>
<td>Badami Expansion</td>
<td>6,900</td>
<td>0.6</td>
</tr>
<tr>
<td></td>
<td><strong>55,095</strong></td>
<td><strong>4.4</strong></td>
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**Annual Average SOA Revenues**

- 0.293

**10 new entrants replicated**

- 10

**Annual Average SOA Revenues**

- 2.933

Includes $561 MM in credit support
Combined Development Projects and Throughput Forecast

Throughput Forecast (4 projects)

- BOPD: 55,095
- CAPEX: 2,210
- Royalty SOA 1/6th: 2,167
- Pro Forma: 1,625
- Production Tax SOA: 2,286
- Total Revenue SOA: 4,453
- Credit Applied: 561

Elimination of Capital credits increases CAPEX requirements

1/6 vs. 1/8 royalty is 33% increase in Royalty share

Burdens by 1/6th royalty and reduces net profits
One Size Does NOT Fit ALL

- Legacy Tier
- Mid-size Production and Development Tier
- Exploration and Discovery Tier
- New Entrants Tier
**SB 21 Support / Considerations**

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✓ Support • Consider Adjustment