Senate Resources Committee
Comments on SB 21 CS

Investors: AVCG (Alaska Venture Capital Group)
Operator: Brooks Range Petroleum

Ken Thompson
AVCG Co-Owner/Investor
Former President, ARCO Alaska, Inc.

February 25, 2013
1) Most active exploration company exploring and developing solely on North Slope state lands
   a) Drilled 10 of 36 exploration wells on state lands in 2007-12 (more than COP, BP, XOM, ENI, Repsol, Armstrong combined)
   b) 105,000 leased acres in 3 core areas in JV partnership with Ramshorn Exploration (affiliate of large Nabors Industries)

2) ~ $200 MM invested to date in Alaska North Slope projects...3 discoveries, acquired discovery

3) Mustang development project under construction...$577 MM capital, 44 MMBO, 15,000 BOPD ... future level of capital spending/yr same as Pioneer Natural Resources and one-third the level of COP capital spending

4) Three other development projects in permitting/conceptual engineering stages...> $1.5 B capital

5) First production and cash flow to state and our companies...startup of Mustang in 3Q 2014

6) On investment of $200 MM, received refunded tax credits totaling $69 MM but State will receive back this amount+ in the first year of Mustang production...and $1.2 billion over field life
   a) All credits have been redeployed on the North Slope for new drilling or seismic to find, develop oil...none sent Outside
   b) Credits redeployed has allowed in some years the drilling of 3 exploration wells instead of 2...or 2 wells instead of only 1
   c) Payment of credits in cash versus just an allowance against taxes critical to AVCG which has no current production
Between 2012 and 2011, North Slope oil production declined 50,768 BOPD. Developments such as the above, if repeated, could help in replacing production fall off...AND ACHIEVE “NO DECLINE!”

Note: Mustang delineated and development underway. Tokfat, Beechey Point, Telemark, Appaloosa require delineation before sanctioning...not risked.
We See Positives In SB 21 CS To Help Grow Production

1) Increases “Carry Forward Loss Credit (CFL)” from 25% to 35% and interest on unused credits  43.55.023(b)
   ✓ POSITIVE: incrementally more future cash flow to re-deploy into facilities & drilling

2) Extends “Small Producers” Credits from to 2022...reduces small producers’ tax bill by $12 MM/yr  43.55.024(c)
   ✓ POSITIVE: more cash flow for small producers to re-deploy into facilities & drilling

3) Specifies 20% QCE tax credit certificate payment in single year vs. 2 but does eliminate QCE on 12/31/13  43.55.023(a)
   ✓ POSITIVE: more immediate cash to put into Mustang development facilities and drilling 2014
   ✓ NEGATIVE: no QCE payment in 2015 to redeploy into Mustang development drilling...“wish list” is extend QCE and cash payment to 12/31/14...project was sanctioned assuming QCE, requiring less Owners’ funding

4) Eliminates progressivity factor, increases base tax rate from 25% to 35% but provides $5/bbl produced bbl credit  42.55.011(e)
   ✓ POSITIVE: Eliminating progressivity simplifies tax calculation and will be a public relations plus for AK
   ✓ NEGATIVE: Increase in base tax rate from 25% to 35% not expected...but partially offset by...
   ✓ POSITIVE: $5/bbl produced bbl credit better balances relative state/producer takes at low oil prices

5) For new oil, increases “20% Gross Revenue Exclusion (GRE)” to 30% GRE and amends definition of leases that can be included for this GRE  43.55.160
   ✓ POSITIVE: Should incentivize new oil production on more leases, also help during low oil price cycles

6) Removes old distance limitations and allows for a 40% “Exploration Incentive Credit” for exploration wells drilled that target new oil discoveries regardless of location  43.55.023(a)
   ✓ HUGE POSITIVE: For exploration companies like ours-will result in more companies & more oil on State lands

7) Overall? Thank you for the changes in the CS...this should help in attracting new capital & leveling oil production