House Resources Committee
Comments on SB 21

“Perspectives Of An Alaska Exploration Company”

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

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

March 27, 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

7) Experience in bringing other independents to Alaska and in raising capital for Alaska
   a) Seeking additional capital for Mustang and 3-5 year exploration program...started fundraising 18 months ago, Sept 2011
   b) Sent materials to 210 firms, but only 19 wanted to consider Alaska...and after further review, only 2 firms remain interested
   c) Biggest hurdles we heard: 1) complex and high gov’t take of AK fiscal regime, 2) flow of capital to Lower 48 source rocks
   d) In final negotiations...belief in our confidence that Legislature will make positive change in 2013
North Slope Drilling Results And Success

Tofkat Unit
- ~ 40 MMBO Kup C, ~ 20 MMBO Jurassic
- Offset Alpine & Nanuq fields
- Ran 3D after drilling indicates Kup C may extend into Nanuq field
- 3 delineation wells drilled
- Returning to delineate in Q1 2014
- COP drilled 4 wells into Jurassic at Nanuq
- Less than 1 mile to Alpine CC pipeline
- Upside defined in Brookian, new leases Nov 2012
- **FIRST OIL 2015 or 2016**

Beechey Point Unit
- ~ 26 MMBO Kup C & Ivishak
- Adjacent to Prudhoe Bay and Midnight Sun
- 3-D definition on traps
- 3 discovery wells
- Substantial commercial opportunities within drilling reach
- East Shore prospect analog is Midnight Sun
- Lease block win Nov 2011 increases resource expectations
- **FIRST OIL 2016**

Kachemach Unit
3-D seismic evaluation
Exploration drilling planning

S. Miluveach Unit – Mustang / Appaloosa
- 44 MMBO Kup C Mustang, ~ 37 MMBO Appaloosa
- Extension to KRU field
- N Tarn well penetrated reservoir 2011, re-entered & tested 2012 (20+ Kup C discovery)
- N Tarn #1A confirmed quality C sand 10+ ft. oil test
- Drilled confirmation Mustang #1 2012 20+ ft.
- Confirmed communication with KRU 2M
- Common carrier pipeline 700’ from production pad
- 200 sq. miles proprietary 3D + 240 WBA license 3D
- **FIRST OIL 2014**

Telemark Discovery...Badami Unit Expansion
- ~ 16 MMBO Flaxman Sst
- Project area located between Badami & Pt. Thomson
- E Mikkelson #1 tested 250 BOPD un-stimulated
- Improved reservoir setting to Badami
- Horizontal development strategy
- Facilities and pipeline capacity in close proximity- no need to build facilities
- Pt. Thomson sand upside
- **FIRST OIL 2015 or 2016**
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 But Have Competitive Suggestions

1) Eliminates progressivity factor, increases base tax rate from 25% to 35% but provides $5/bbl produced bbl credit
   ✓ POSITIVE: Eliminating progressivity simplifies tax calculation and will be a public relations plus for AK
   X NEGATIVE: Increase in base tax rate from 25% to 35% not expected...suggest compromise at 30%
   ✓ POSITIVE: $5 produced bbl credit better balances relative state/producer takes at low oil prices but “retest” economics

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

3) SB 21 originally extended “Small Producers” Credits from 2016 to 2022...reduces small producers’ tax bill by $12 MM/yr...but latest version now sunsets this credit in 2016; originally intended to assist companies for 9 years
   X NEGATIVE: Small producer like BRPC with first production in 4Q 2014 has not been able to utilize, but included in economics
   ✓ POSITIVE: IF REINSTATED...more cash flow for small producers to re-deploy into facilities & drilling

4) Specifies 20% QCE tax credit certificate payment in single year vs. 2 but does eliminate QCE on 12/31/13
   ✓ POSITIVE: more immediate cash to put into Mustang development facilities and drilling in 2014
   ✓ NEGATIVE: goes away 12/31/13...no QCE payment in 2015 to redeploy into Mustang development drilling
   ✓ POSITIVE: IF EXTENDED to 12/31/16 for at least small producers...Mustang project was sanctioned assuming QCE...and OK to limit QCE per company per year to control impact on state treasury, e.g. limit credit to $40-50 MM per year per company

5) At one point SB 21 increased “20% Gross Revenue Exclusion (GRE)” to 30% GRE and amended definition of leases that can be included for this GRE...but GRE now lowered back to 20%
   ✓ POSITIVE: GRE should incentivize new oil production on more leases, also help during low oil price cycles
   X NEGATIVE: this applies to new oil which is what the state wants...reconsider increasing GRE to 30% or at least to 25%

6) SB 21 originally had a 30% “Exploration Incentive Credit” for NS exploration wells drilled that target new oil discoveries regardless of location...please re-instate this at least for small producers/explorers through 12/31/18
   X HUGE NEGATIVE FOR EXPLORERS: Doesn’t matter to legacy field owners, but a huge negative for small exploration companies like ours to omit an exploration credit
   ✓ HUGE POSITIVE FOR EXPLORERS: IF YOU REINSTATE this credit, but to minimize impact on state treasury, allow only for small producers and limit to $25 MM credit per year per company...for five years through 2018 then “retest” effectiveness
Photos: Mustang Development Project Underway - $1.2 B State Revenues