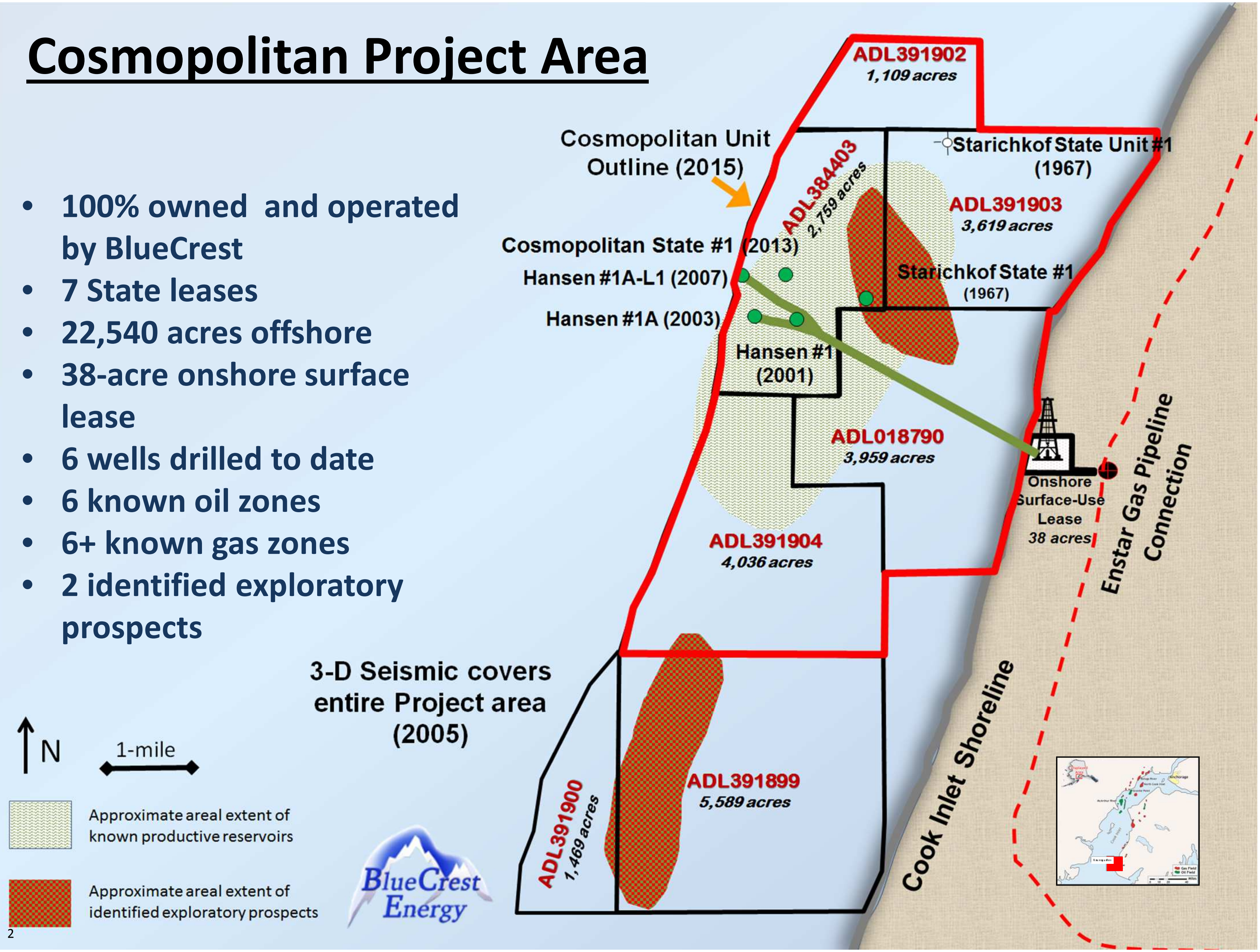
1. Strong Investment Value of Tax Credits
2. Overview of Cosmopolitan Unit
3. Specific Impact of SB 130 CS on BlueCrest

Via Teleconference

J. Benjamin Johnson
Senate Finance Committee Testimony
April 13, 2016

Cosmopolitan Project Area

- 100% owned and operated by BlueCrest
- 7 State leases
- 22,540 acres offshore
- 38-acre onshore surface lease
- 6 wells drilled to date
- 6 known oil zones
- 6+ known gas zones
- 2 identified exploratory prospects



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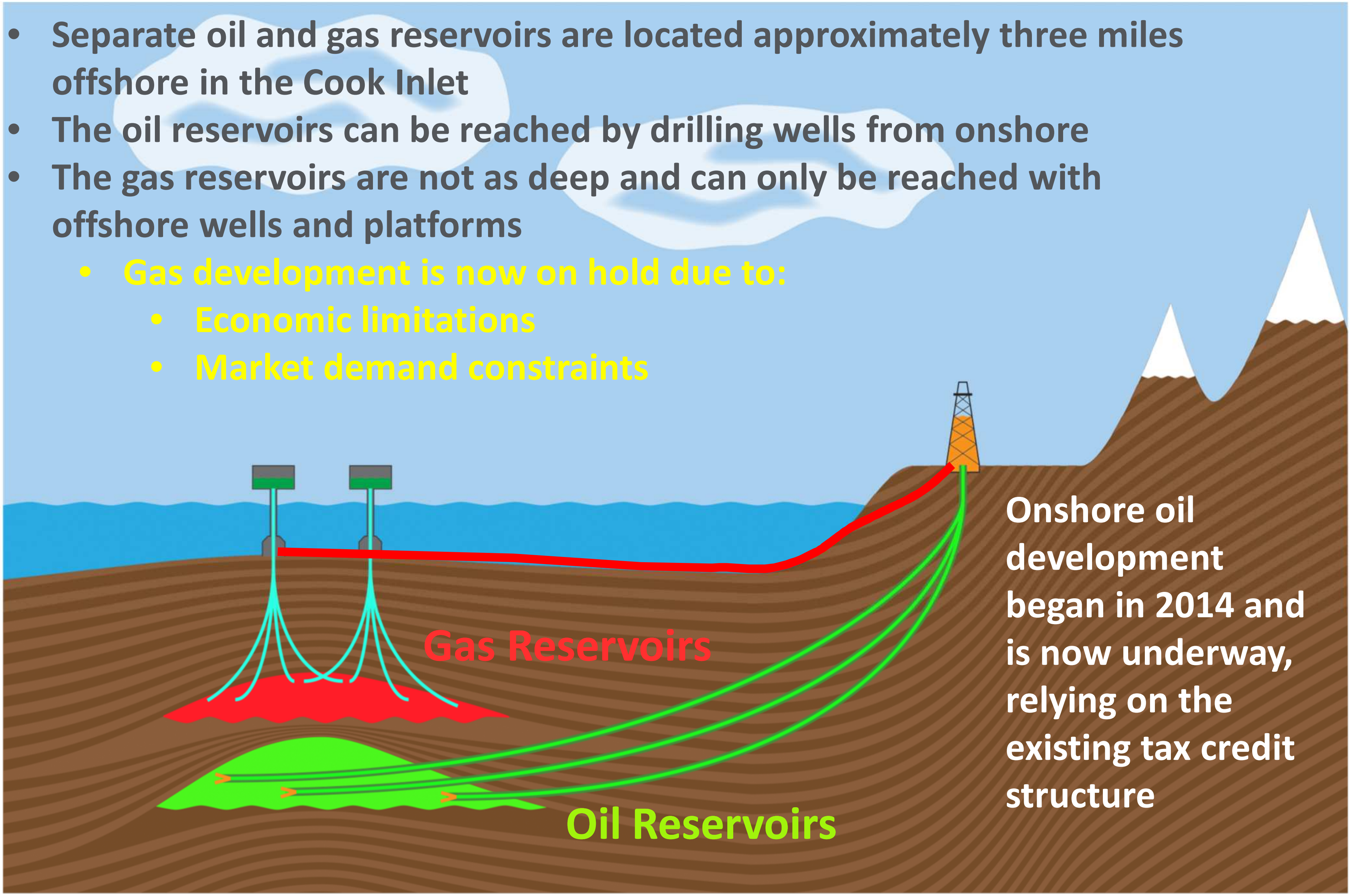
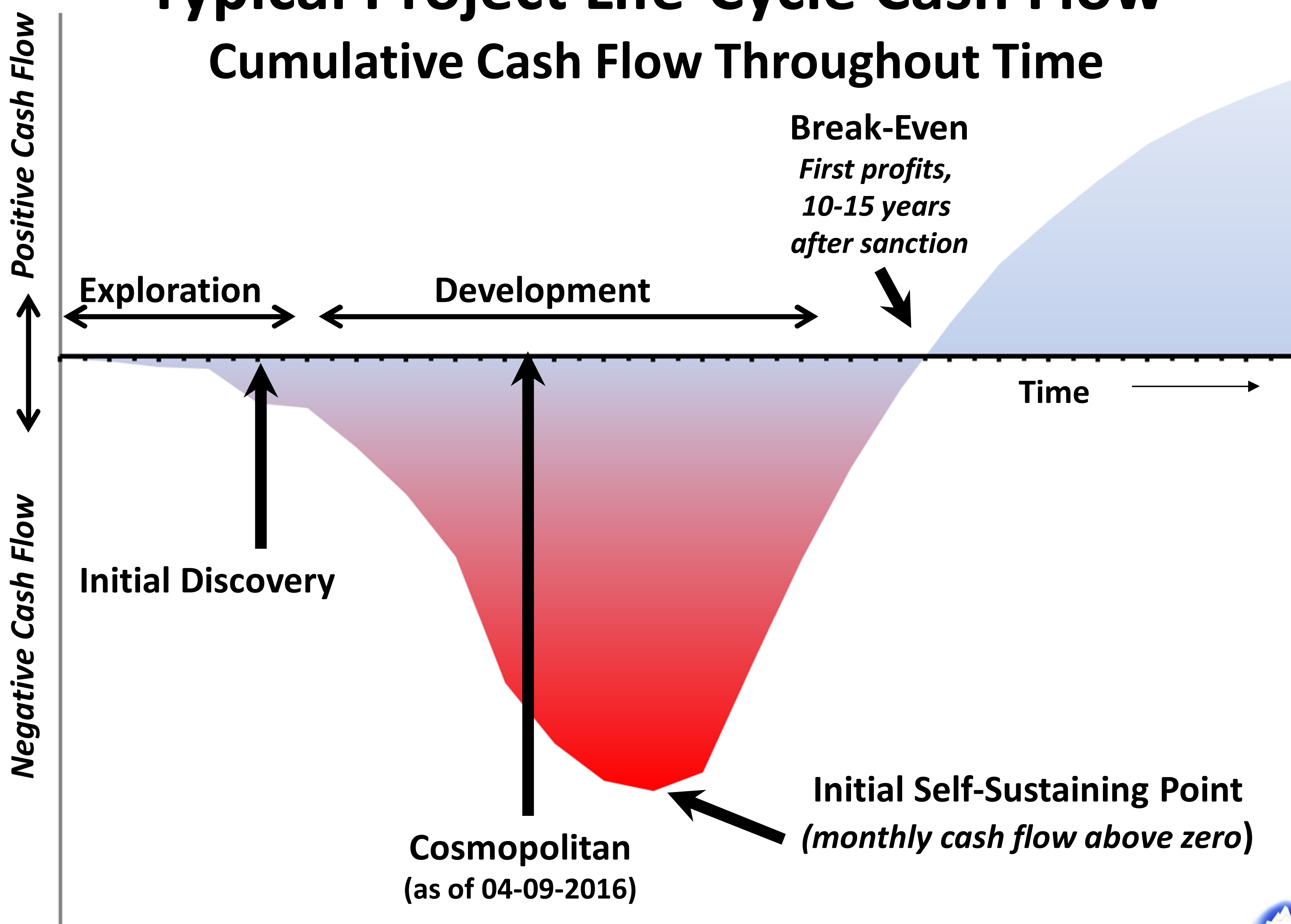
Cosmopolitan Unit Development

- Separate oil and gas reservoirs are located approximately three miles offshore in the Cook Inlet
- The oil reservoirs can be reached by drilling wells from onshore
- The gas reservoirs are not as deep and can only be reached with offshore wells and platforms
  - Gas development is now on hold due to:
    - Economic limitations
    - Market demand constraints

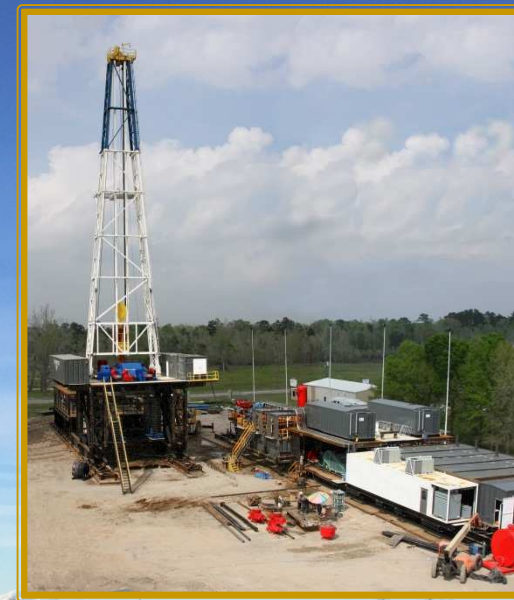


Typical Project Life-Cycle Cash Flow

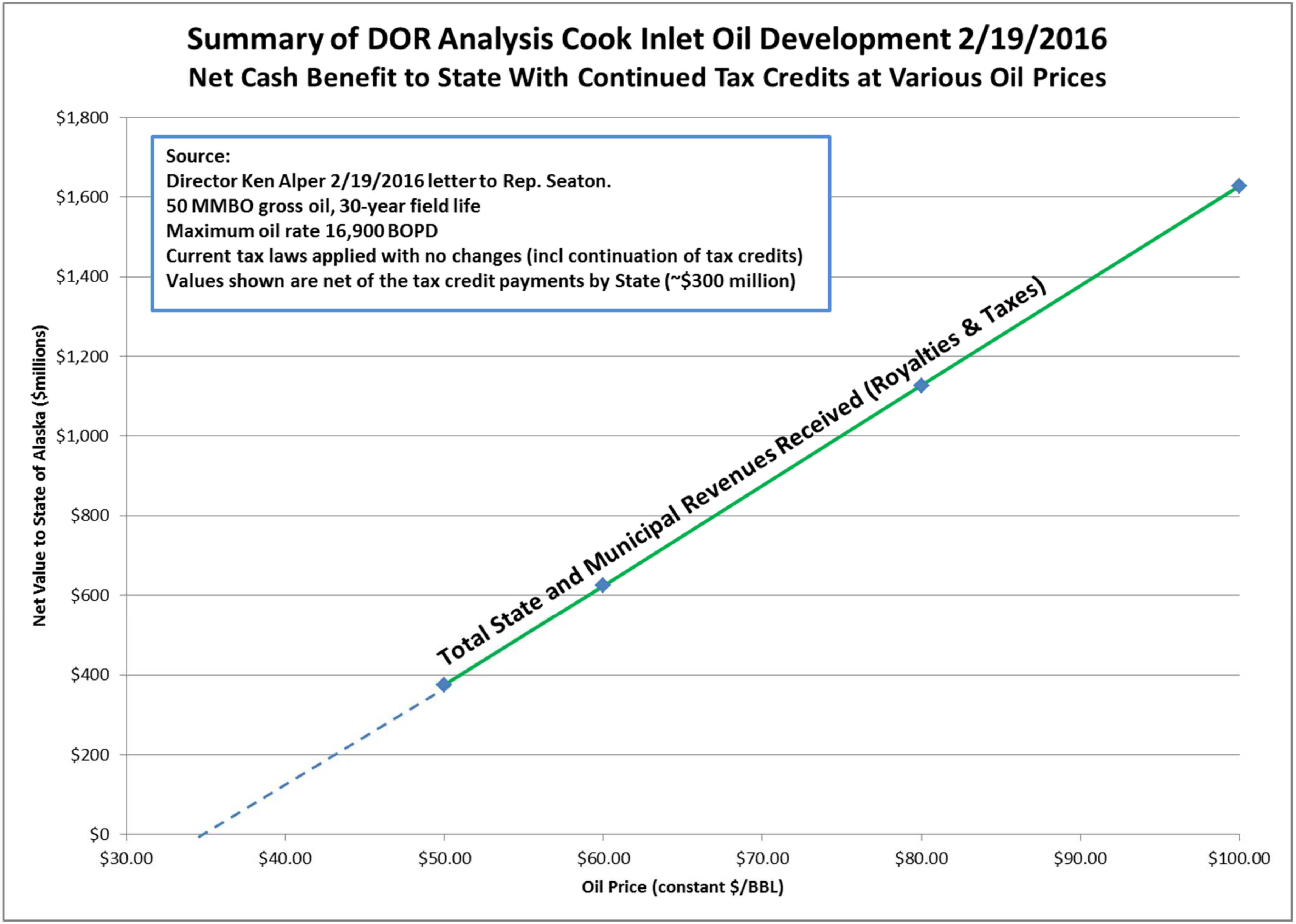
Cumulative Cash Flow Throughout Time

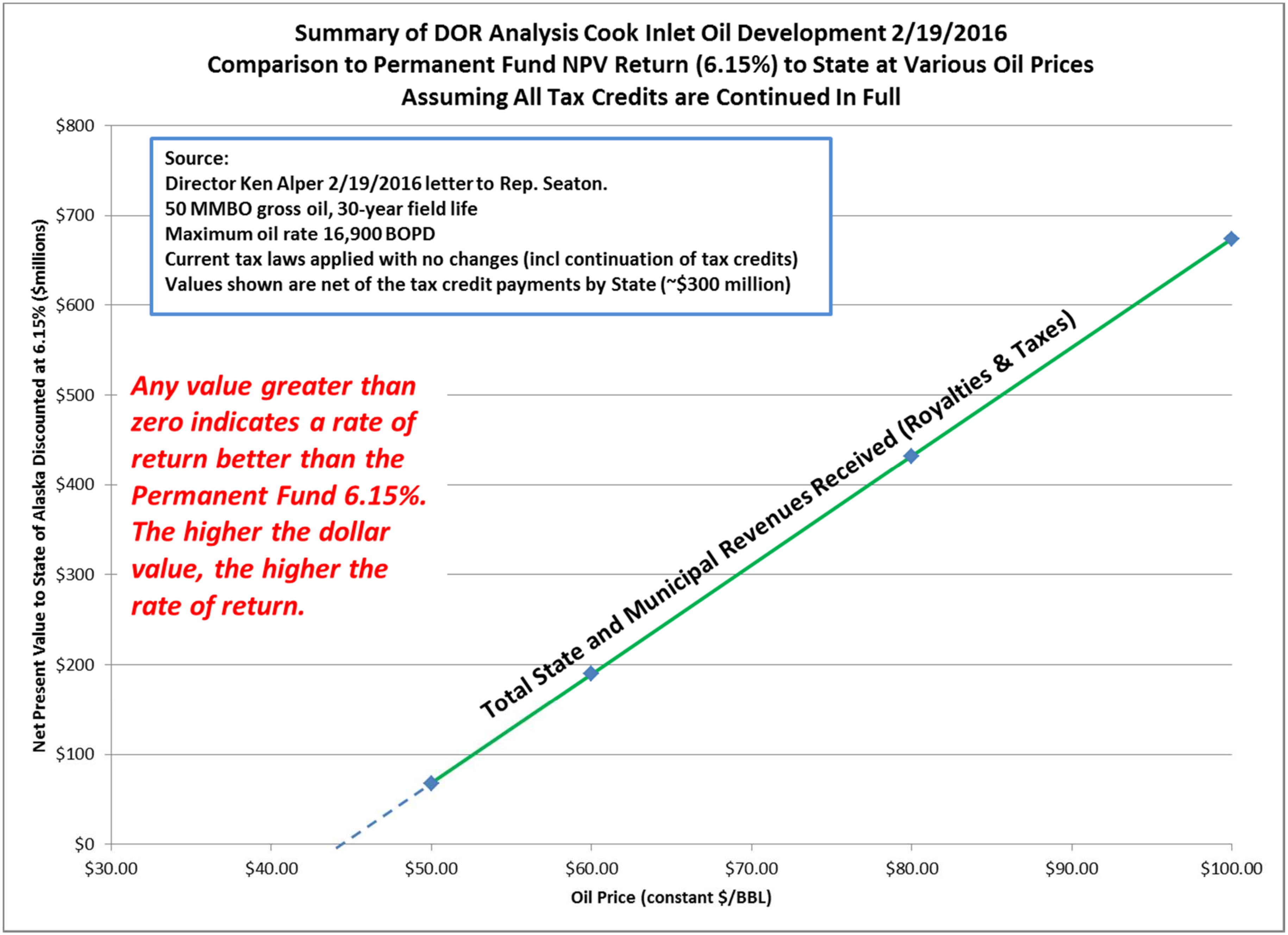


Cosmopolitan Progress as of 04/13/2016



Tax credits for development of previously discovered proven reserves are a solid, low-risk investment for Alaska.


Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016
Net Cash Benefit to State With Continued Tax Credits at Various Oil Prices
Source:
Director Ken Alper 2/19/2016 letter to Rep. Seaton.
50 MMBO gross oil, 30-year field life
Maximum oil rate 16,900 BOPD
Current tax laws applied with no changes (incl continuation of tax credits)
Values shown are net of the tax credit payments by State (~$300 million)
Total State and Municipal Revenues Received (Royalties & Taxes)
Net Value to State of Alaska ($millions)
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$30.00
$40.00
$50.00
$60.00
$70.00
$80.00
$90.00
$100.00
Oil Price (constant $/BBL)



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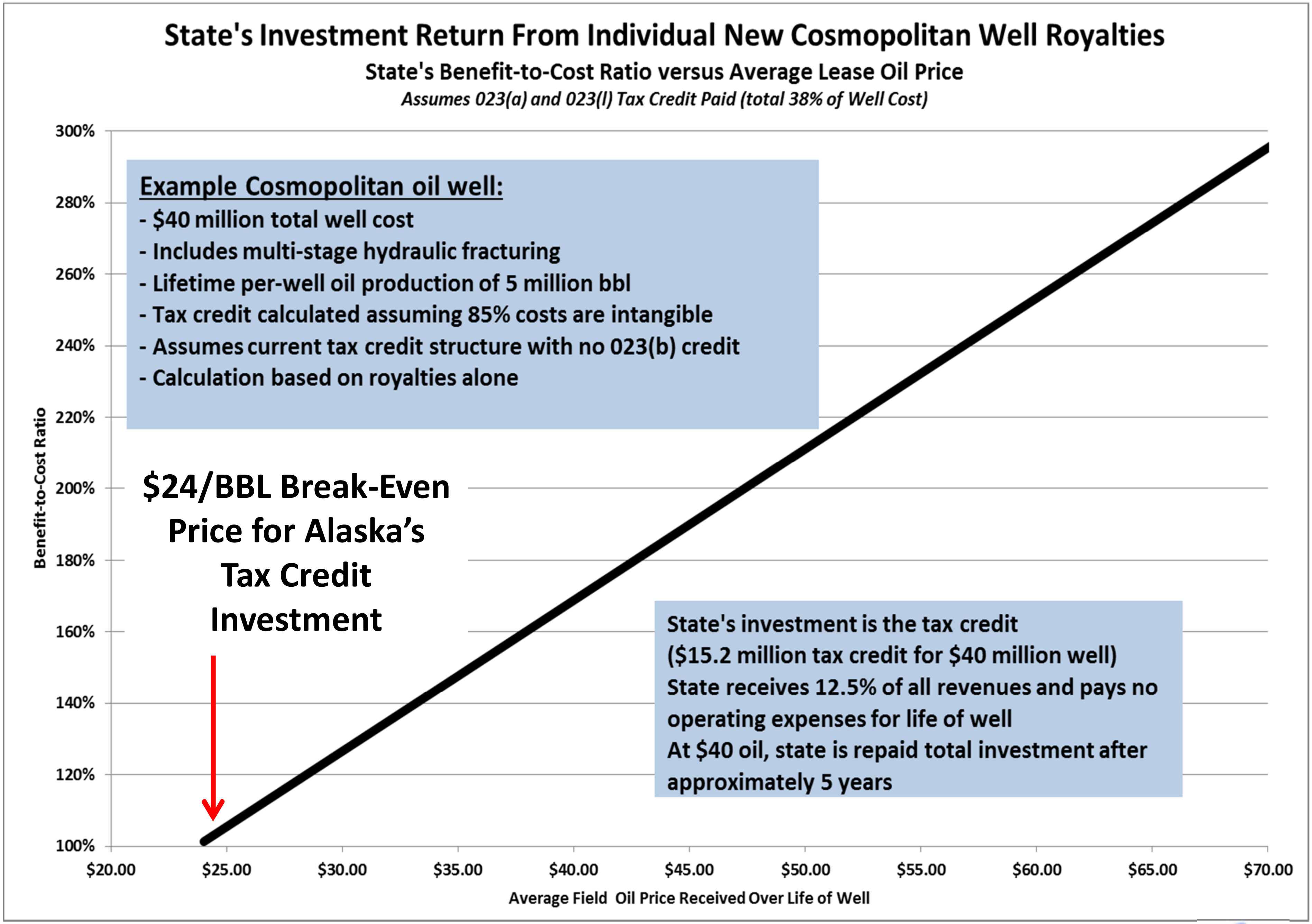
State's Investment Return From Individual New Cosmopolitan Well Royalties
State's Benefit-to-Cost Ratio versus Average Lease Oil Price
Assumes 023(a) and 023(l) Tax Credit Paid (total 38% of Well Cost)
Example Cosmopolitan oil well:
- $40 million total well cost
- Includes multi-stage hydraulic fracturing
- Lifetime per-well oil production of 5 million bbl
- Tax credit calculated assuming 85% costs are intangible
- Assumes current tax credit structure with no 023(b) credit
- Calculation based on royalties alone
$24/BBL Break-Even Price for Alaska's Tax Credit Investment
State's investment is the tax credit
($15.2 million tax credit for $40 million well)
State receives 12.5% of all revenues and pays no operating expenses for life of well
At $40 oil, state is repaid total investment after approximately 5 years
Benefit-to-Cost Ratio
300%
280%
260%
240%
220%
200%
180%
160%
140%
120%
100%
$20.00
$25.00
$30.00
$35.00
$40.00
$45.00
$50.00
$55.00
$60.00
$65.00
$70.00
Average Field Oil Price Received Over Life of Well

Reduction/Elimination of Cook Inlet Credits

Particularly in low oil price environments, continuing work on new developments after start-up is mostly impacted by the QCE and WLE credits. The existing WLE credit facilitates drilling of new wells at <u>$10/bbl lower oil prices</u>.

The NOL credit is less important for continuation of existing developments (low risk, high return for the state) .

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Alaska Resident Hire

Reduction or priority of the credit payment amount by the percentage of non-Alaskan workers in the previous year is impractical.

Investments have already been made and contracts entered into based on the current tax laws.

Any change in future credit payments based on resident hire prior to the effective date of any new law would be a retroactive change.

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Energy
FACILITY
100% Alaska hire for long-term field operations employees.

Per-company limits for cash payments:

- **Arbitrary – different developments have different needs**
- **Particularly disadvantages small companies like BlueCrest who have invested but do not yet have production**
- **BlueCrest has invested in good faith, based on the tax policy in existence when the investments were committed**
- **BlueCrest has financed the Cosmopolitan development assuming the credits would be paid on time**
- **BlueCrest has already entered into (and financed) spending commitments, based on the State’s existing credit repurchase practice**
- **A strong disincentive for future investments**

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Effective Date

An effective date prior to March 31, 2017 is too soon for substantial reductions in tax credits for ongoing work that has already been contracted for and now underway.

BlueCrest's funding plan for initial Cosmopolitan oil development

Total cost:	**$525 million**
Funding sources	
Cash investment by shareholders:	$200 million
AIDEA loan on drilling rig:	$30 million
Development loan:	$150 million
Tax credits received to date:	$24 million
Tax credits for 2015-2016 spending under current law:	$121 million

When we are driving on slippery icy roads, the most dangerous thing we can do is suddenly slam on the brakes!