

Senate Resources Committee Presentation on SB 21

AVCG

(Alaska Venture Capital Group, LLC)

Ken Thompson, AVCG Co-Owner/Investor

February 18, 2013

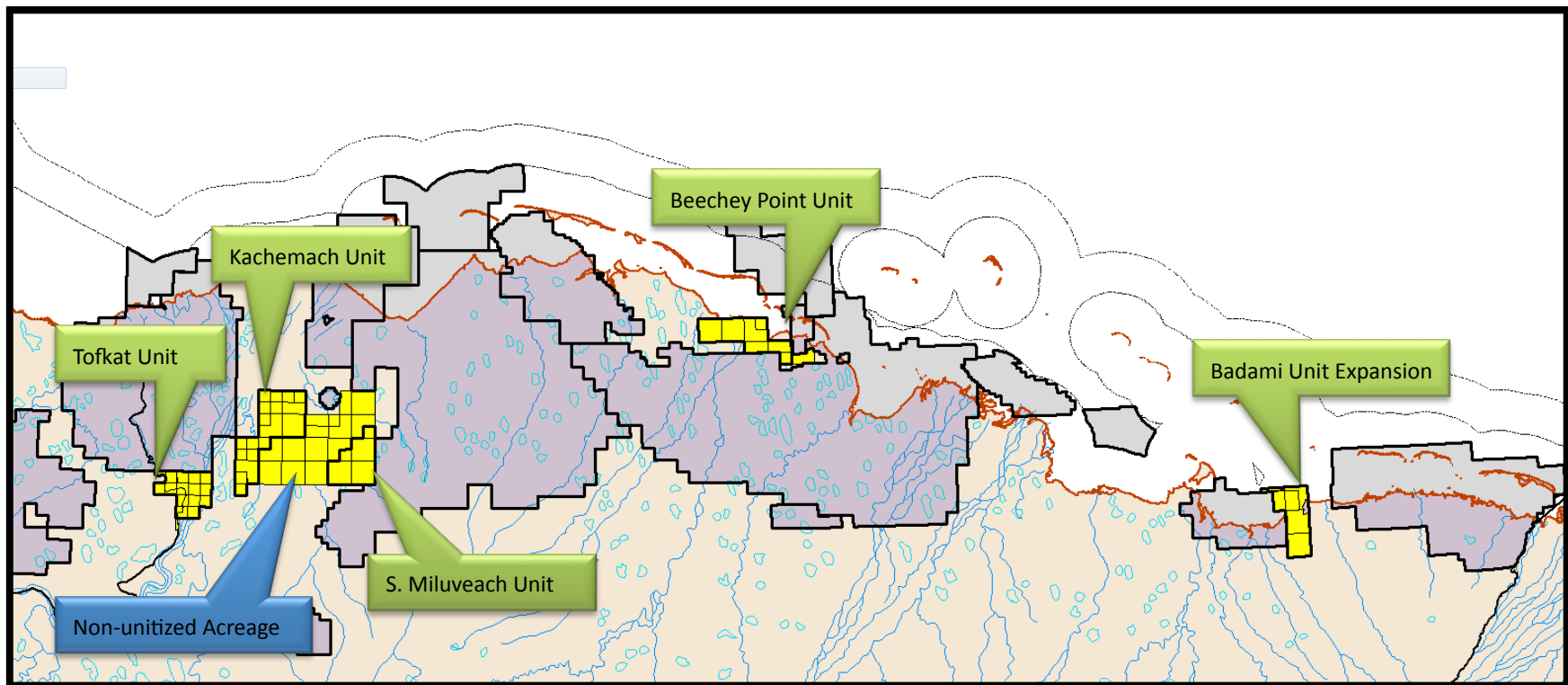
A G E N D A

- “Top 10” Facts About AVCG
 - Land Position And Drilling Successes
 - Capital Needs And Capital Fundraising
 - Production Growth Possible
- What Can Most Help Us To Grow Production?

“Top 10” Quick Facts About AVCG JV

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- 1) Startup company (1999), restricted only to Alaska North Slope E&P...no current oil production
- 2) 105,000 acres in 3 core areas on North Slope in JV Partnership with Ramshorn Exploration
- 3) ~ \$ 190 MM invested to date in Alaska North Slope projects
- 4) Formed Anchorage technical/operations subsidiary, Brooks Range Petroleum Corporation (2004)
- 5) 6 discovery wells – 3 by AVCG/Ramshorn operated by BRPC – 3 drilled by other companies
(N Shore #1, Tofkat & N Tarn/Mustang - acquired Pete's Wicked, Pt Storkerson & E Mickelson)
- 6) 4 development projects in permitting/conceptual engineering stage
(44 MMBO Mustang Field anchor development...construction currently underway)
- 7) 4 State approved unitized blocks (45,000 unitized – 60,000 non-unitized)
- 8) 570 square miles of modern 3D seismic
(330 square miles of proprietary 3D shot by BRPC - 240 square miles purchased from others and re-processed)
- 9) AVCG/Ramshorn wells operated by BRPC account for 28% of all exploration activity on State land over last 6 years (10 of 36 wells drilled from 2007-12)
- 10) First production and oil cash flow predicted on startup of Mustang in 3Q 2014



North Slope Drilling Results And Success

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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**

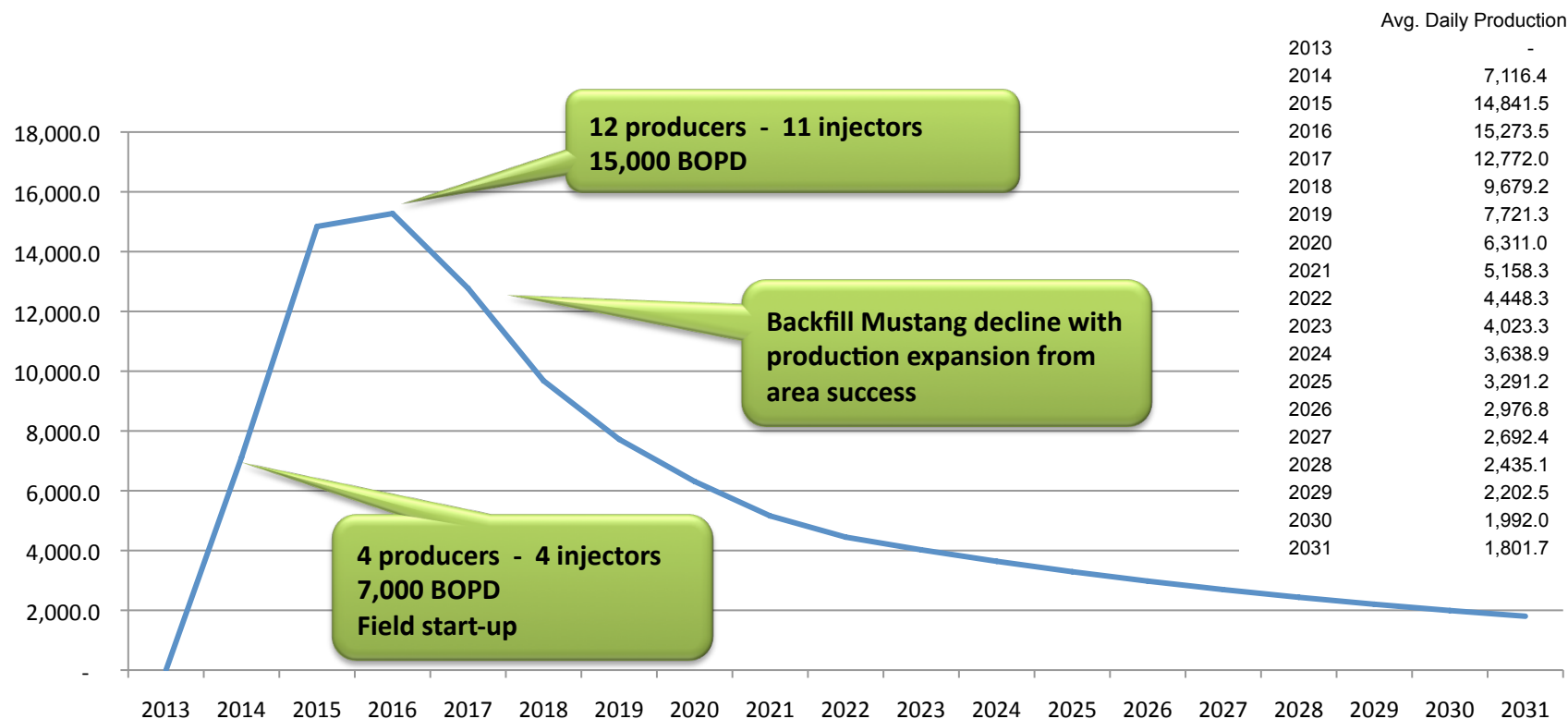
Badami Unit Expansion

- ~ 16 MMBO Flaxman Sst
- Project area located between Badami & Pt. Thomson
- E Mikkelsen #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**

- 1) JV partners have spent \$190+ MM to date, seeking additional third party capital to spread capital risk, particularly for AVCG which is a small company
 - a) AVCG seeking additional \$100 MM for Mustang development project (AVCG 38.6% working interest)
 - b) AVCG seeking an additional \$150 MM commitment spread over 5 years for a continuous North Slope exploration drilling program of 3-4 wildcats per year (AVCG 50% working interest)
- 2) Have been working on the fundraising effort since September 2011
 - a) Hired world-class energy advisory firm, Tudor Pickering & Holt, to assist
 - b) Mailed materials, followed up with phone calls to 210 producers and private equity firms
 - c) Only 19 (9%) of the 210 firms showed an interest in investing in Alaska, asking for management presentations
 - d) Of the 19, only two companies and their investment partners remain interested
 - e) Discussions with these **two contenders continue** but are uncertain...both have asked to follow AK Legislative process and the outcome on taxation certainty
- 3) Results have been eye opening about how other producers and private equity funds look at capital investing in Alaska...*“three 800-pound gorillas blocking the door to entry to most”*
 - a) Pursuing Lower 48 source rock plays as perceive higher reserve stakes, lower capital spending risk, easier and faster permitting, and less time from drilling to production startup (e.g., NY PE firms)
 - b) Source rocks plays, for many companies, allow sufficient reserve additions for them to stop conventional exploration
 - c) State taxation seen by most interviewed as “most complex and unfair” of any state. Progressivity likened to 80s’ Federal Windfall Profits Taxes that sent activity and jobs to foreign countries...ACES’ bad PR cannot be overcome
- 4) But on the positive side...two companies remain interested and in discussions
 - a) Feel “sweet spots” of Lower 48 source rocks have been leased...re-interested in conventional exploration and Alaska is seen as the “last frontier” for onshore, U.S. exploration
 - b) AVCG/Ramshorn portfolio seen as a good mix of near-term development projects with positive cash flow by 3Q 2014 and mid- to long-term exploration upside
 - c) The current development tax credits show the state has a stake in the game, lowers producer’s eventual capital needs and exposure...but state’s investment returned via royalties and production taxes after startup
 - d) Belief in our confidence that the AK Legislature will make positive change to the oil tax structure in 2013

Mustang Development Production Curve

AVCG LLC

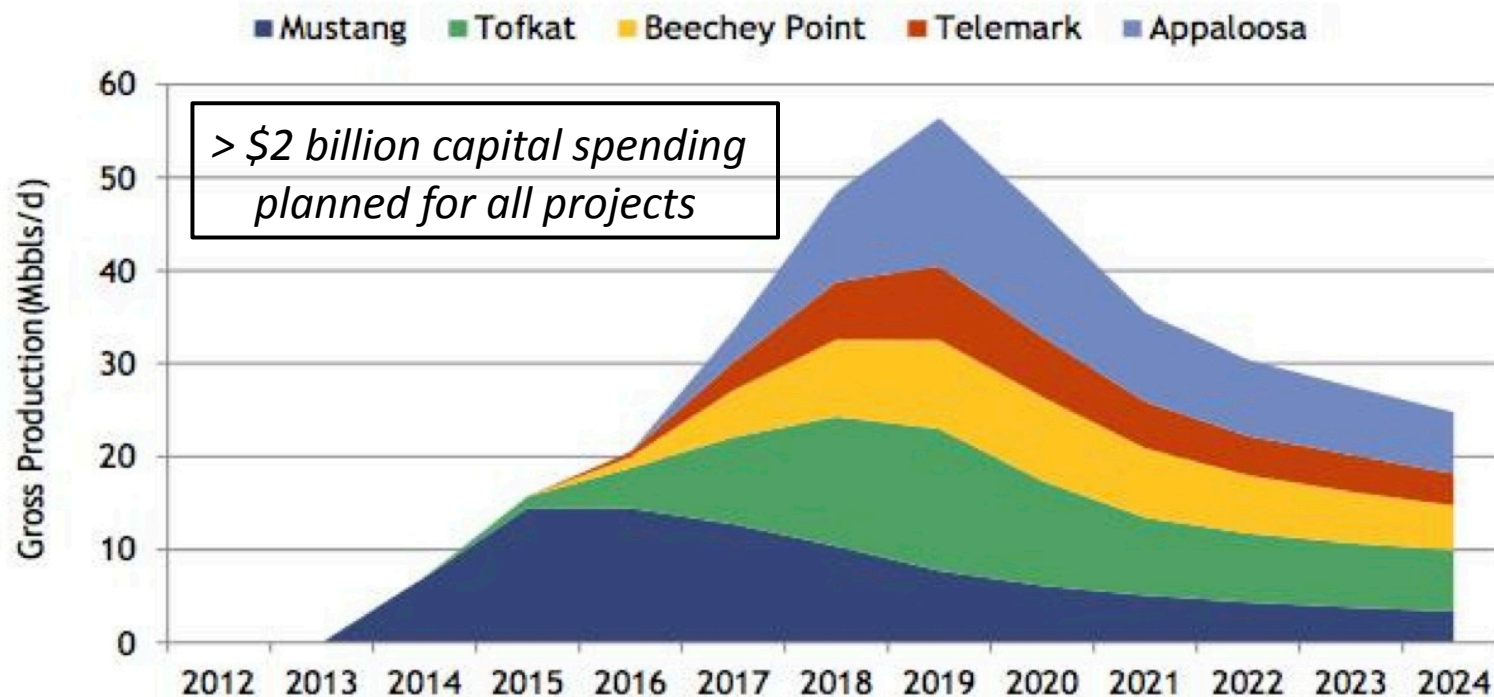


| | Wells | Gross Cost |
|----------------------|-------|------------------|
| Exploration Drilling | 0 | Already made |
| Development Drilling | 23 | \$ (345,000,000) |
| Production Facility | 1 | \$ (232,000,000) |

TOTAL COST \$ (577,000,000)

THIS CAPITAL OF ~ \$225 MM/YR COMPARES TO CONOCOPHILLIPS' OF ~ \$750 MM/YR

Production Profile (Mbbbls/d)



Between 2012 and 2011, North Slope oil production declined 50,768 BOPD. Developments such as these, if repeated, could potentially help replace production fall off...**AND ACHIEVE “NO DECLINE!”** And these results represent those of only one small independent startup!

Note: Mustang delineated and development underway. Tokfat, Beechey Point, Telemark, Appaloosa require delineation before sanctioning...not risked.

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 (CFL) Credits

- 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

- 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).

- ❖ AVCG/Ramshorn JV has invested \$190+ MM to date
- ❖ For this investment, JV has received refunded state credits totaling \$69 MM
- ❖ ALL CREDITS HAVE BEEN RE-DEPLOYED ON THE NORTH SLOPE FOR NEW SEISMIC AND DRILLING...NONE HAS BEEN DIVIDENDED TO OWNERS
- ❖ Credits re-deployed has allowed in some years the drilling of 3 wells instead of 2...or 2 wells instead of 1...and has expedited development, PV of Mustang
- ❖ State will receive all credits back plus some within the first year of production from Mustang...not only credits received on Mustang but all the \$69 MM of credits received on all AVCG/Ramshorn projects for the past few years
- ❖ State will ultimately receive \$1.2 billion in revenues from Mustang in terms of royalties, production taxes, etc. vs. their investment of \$69 MM credits
- ❖ Presence of credits have allowed a new company to share the capital burden with the state of Alaska...and is helping in attracting new funding...in return for the state receiving future new revenues of \$1.2 billion

What Can Most Help Us To Grow Production Re SB 21?

AVCG LLC

- 1) Do not eliminate 20% development tax credits on 12/31/13 but extend (43.55.023(a))
 - a) Option 1: extend through end of 2014 or 2015 for all of industry
 - b) Option 2: grandfather new approved development projects for credits until production start date
 - c) Option 3: or for “small producers” extend to 2022...similar to the “Small Producer Credits” extension to 2022 being considered (43.55.024(c))
 - d) Option 4: certainly keep for those companies without current production until their first production start date
- 2) Allow for tax credit certificate payment in single year (43.55.023(a))
- 3) SB 21 contemplates eliminating Keep Carry Forward Loss Credit payments in cash...but keep CFL’s payable in cash for “small producers” or certainly those without current production (43.55.023(b))
- 4) Extend “Small Producer Credits” to 2022 (43.55.024(c))
- 5) Eliminate progressivity, maintain 25% base tax rate but resolve low oil price take scenario (43.55.011(e))
 - a) Progressivity single biggest “Fear Factor” externally about Alaska oil and gas production taxes...negative PR Outside
- 6) Allow 40% capital credit for all intangible well work not only for Cook Inlet but also for NS (43.55.023)
 - a) Will increase well workovers and recompletions to stimulate more production, and potentially increase exploration
- 7) For new oil tax calculation, approve “20% Gross Revenue Exclusion” but amend HB 21 to not limit to non-unit lands post-2003...consider granting to new oil on all lands with 1/6 royalty (43.55.160)
- 8) *New idea not in SB 21:* To increase pace of exploration drilling on North Slope, allow same exploration well tax credits as now allowed for the Cook Inlet...a “conditional” 30-40% credit
 - a) AVCG/Ramshorn has never received any exploration well tax credits under AS 43.55.025...we drilled risky exploration wells but none outside the 25-mile unit buffer (last of these credits last granted in 1994? And only for 22 wells in 1983-94?)
 - b) Adopt the same exploration well tax credit rules for the North Slope as currently exist for Cook Inlet
 - 30% of the cost of an exploratory well if well target is pre-approved as an exploration well (use SEC definition?)...OR
 - Credit increased from 30% to 40% if pre-approved as an exploration well AND well is at least 10 miles from any unit boundary