

House Resources Committee Comments on SB 21

“Perspectives Of An Alaska Exploration Company”

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

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Why Consider Our Company's Perspectives ?



- 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

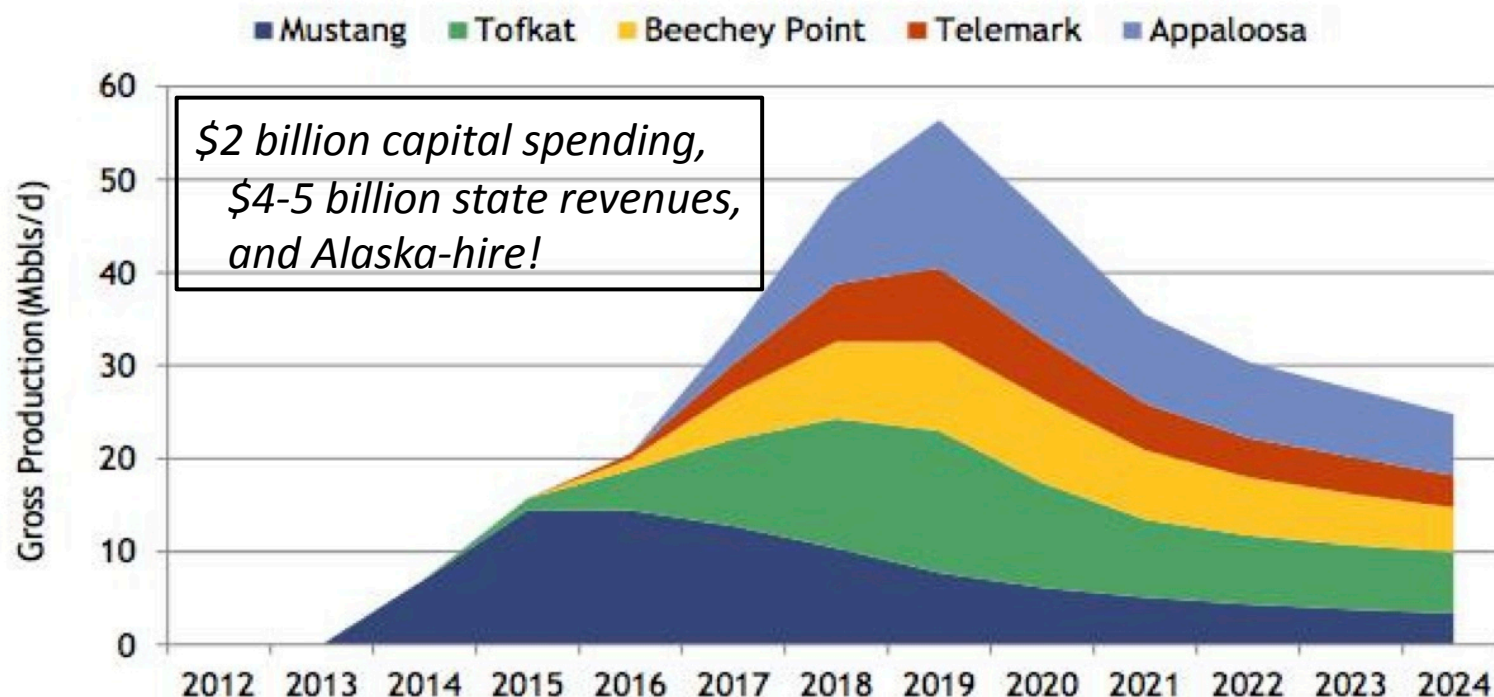
- ~ 16 MMBO Flaxman Sst
- Project area located between Badami & Pt. Thomson
- E Mikkelson #1 tested 250 BOPD un-stimulated
- Improved reservoir setting to Badami
- Horizontal development strategy
- Facilities and pipeline capacity in close proximity- no need to build facilities
- Pt. Thomson sand upside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

What Difference Can Our Company Make?



Production Profile (Mbbls/d)

“New work in existing fields to increase production above their existing declines will not – by itself – level AK’s oil production. Production from exploration discoveries are needed also. Alaska still needs E&P...not just P!”...Ken Thompson



*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*
 - ✗ *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
 - ✗ *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*
 - ✗ *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
 - ✗ *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



