



House Resources
HB 247
February 29, 2016

Pat Galvin
Chief Commercial Officer
and General Counsel

PRESENTATION TOPICS

RELATING TO PRODUCTION TAX CREDITS & HB 247

- Overview of Great Bear Petroleum
- Review of Great Bear's Exploration Activities
- North Slope Challenges for Explorers
- Great Bear's Forward Looking Plans
- The Role of Tax Credits In Great Bear's Activities
- Reasons to Extend Exploration Incentive Credits for the North Slope (currently set to expire 6/30/16)

GREAT BEAR PETROLEUM – A QUICK HISTORY

A NORTH SLOPE EXPLORATION COMPANY



GREAT BEAR PETROLEUM – A QUICK HISTORY

A NORTH SLOPE EXPLORATION COMPANY

- Founded in 2010
- Focused exclusively on Alaska's North Slope
- Office and employees all in Anchorage
- Holder of 499,000 acres, Operator of 590,000 acres
- Acquired 500 square miles of 3D seismic
- Currently acquiring another 450 square miles
- Drilled 3 exploration wells



GREAT BEAR PETROLEUM – A QUICK HISTORY

FROM UNCONVENTIONAL TO CONVENTIONAL

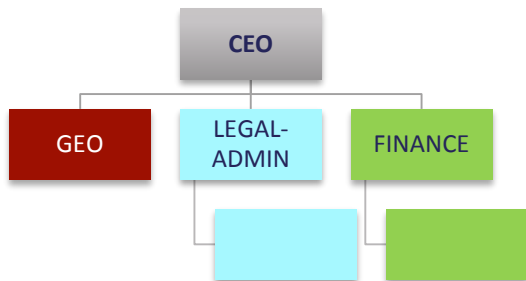
- Original Target -> North Slope Shale Play (aka “source rock play”, aka “unconventional play”)
- Soon Faced an “Alaska Shale Play Catch-22”
 - Not economic without cost reductions
 - Costs reduction requires a critical mass of drilling activity, such as that generated by a shale play
- Re-directed focus to extensive conventional prospectivity
- Still believe a North Slope unconventional play can be economic following a conventional play build-out

STRATEGIC EXPANSION OF CAPABILITIES

PARTICULAR FOCUS ON GEOSCIENCE & OPERATIONS

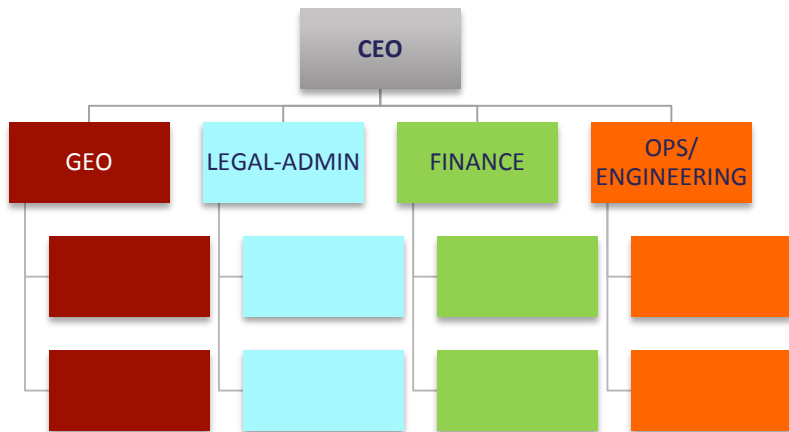
June 2015

5.5 Full Time Employees



Current

13 Full Time Employees



STRATEGIC EXPANSION OF CAPABILITIES

NEW MANAGEMENT TEAM



**Mike
Mason**
President
& CEO



Ryan Moynagh
Chief Financial
Officer



Clark Clement
Chief Operating
Officer

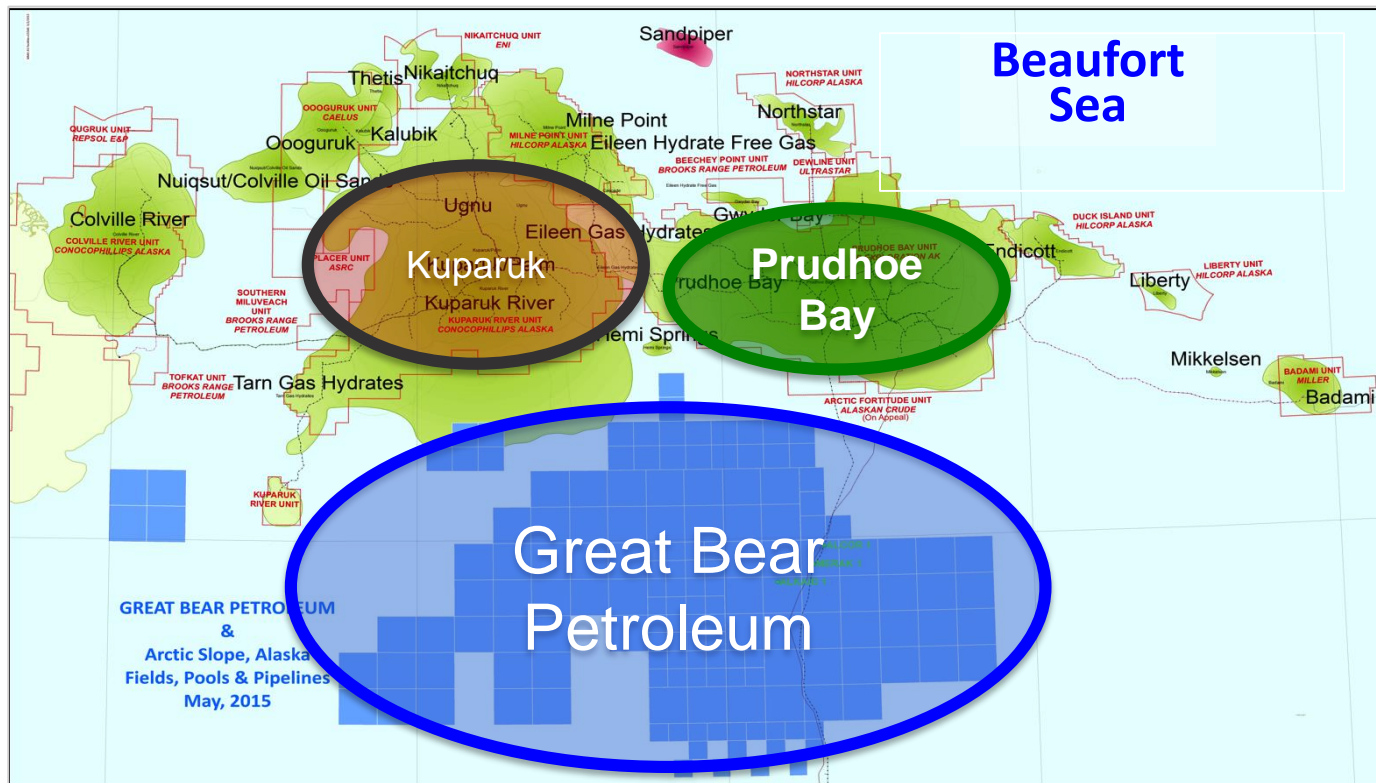


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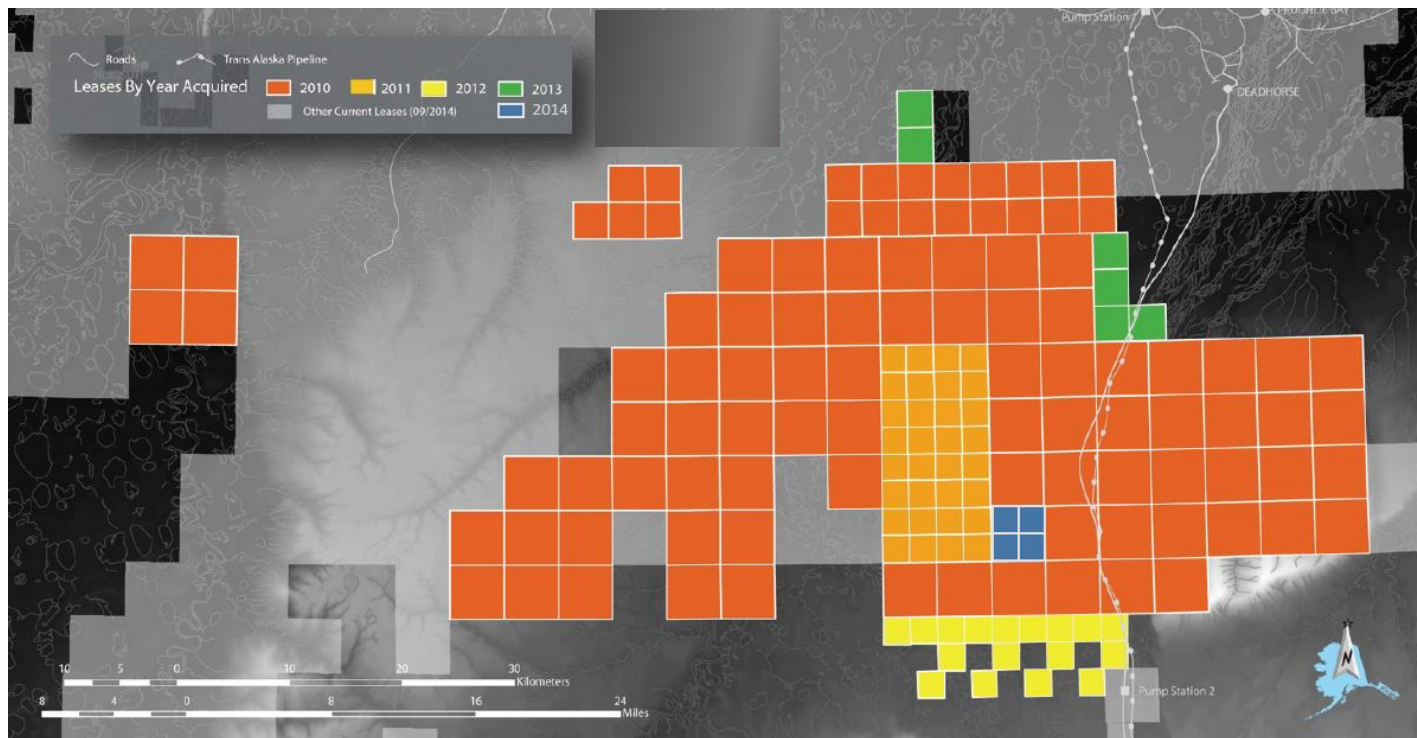


Larry Casarta
VP-Exploration

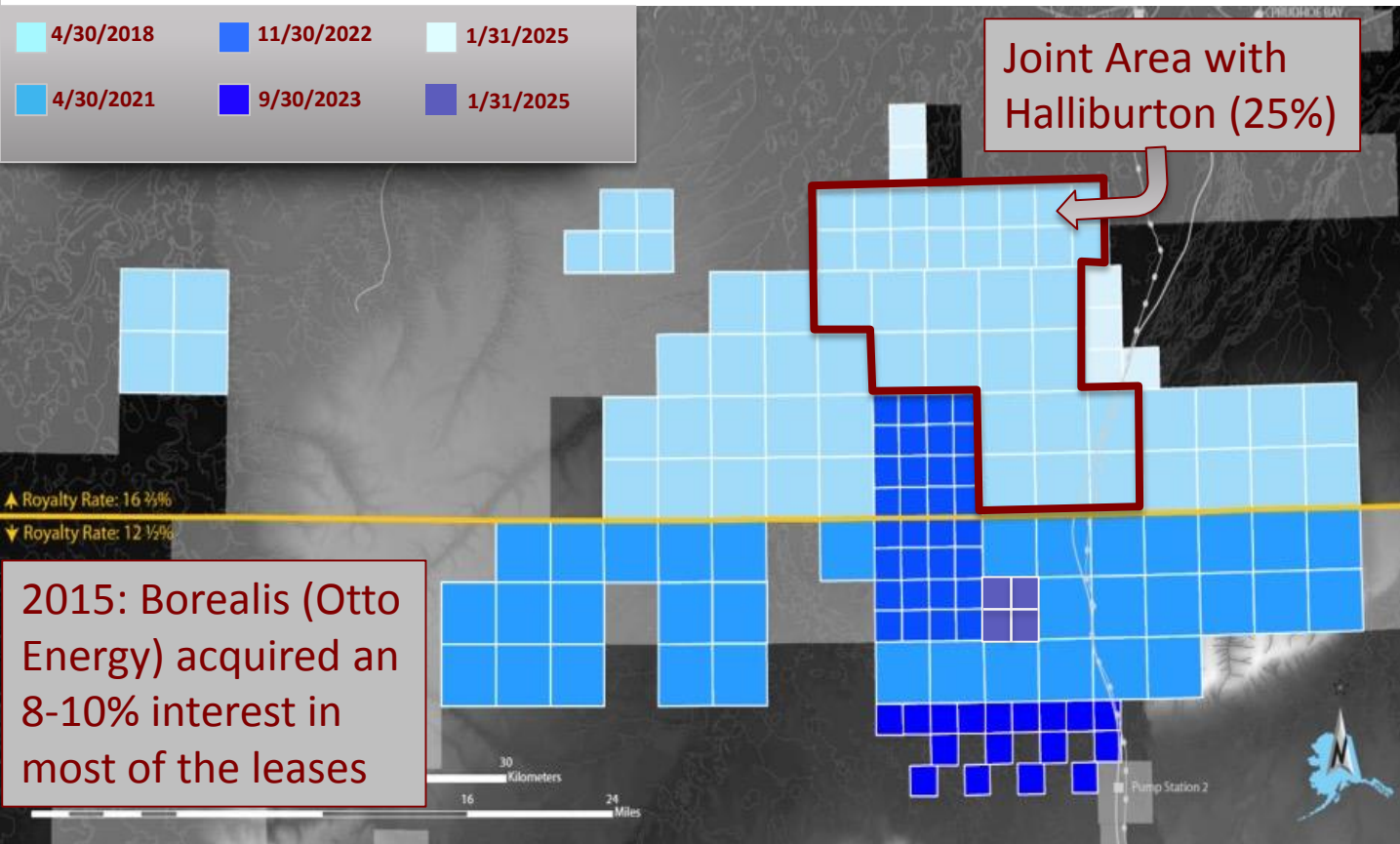
GREAT BEAR – PROJECT AREA



GREAT BEAR – LEASEHOLD POSITION

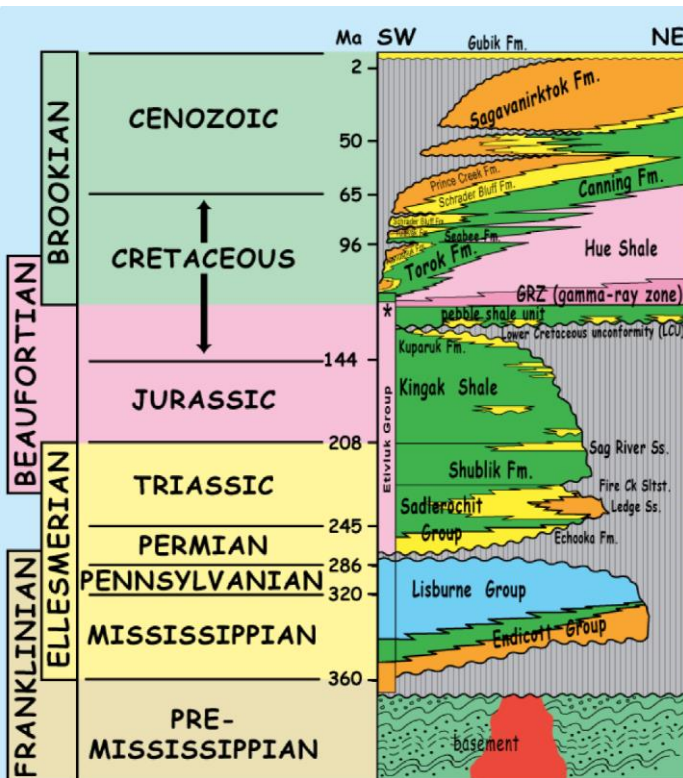


GREAT BEAR – LEASEHOLD POSITION



GEOLOGIC TARGETS

SOURCE ROCKS AND RESERVOIR ROCKS



Source
"Shale"

Reservoir

Unconventional ↔ Conventional

Brookian – Ugnu/
West Sak/Torok

Hue/HRZ/GRZ

Kuparuk

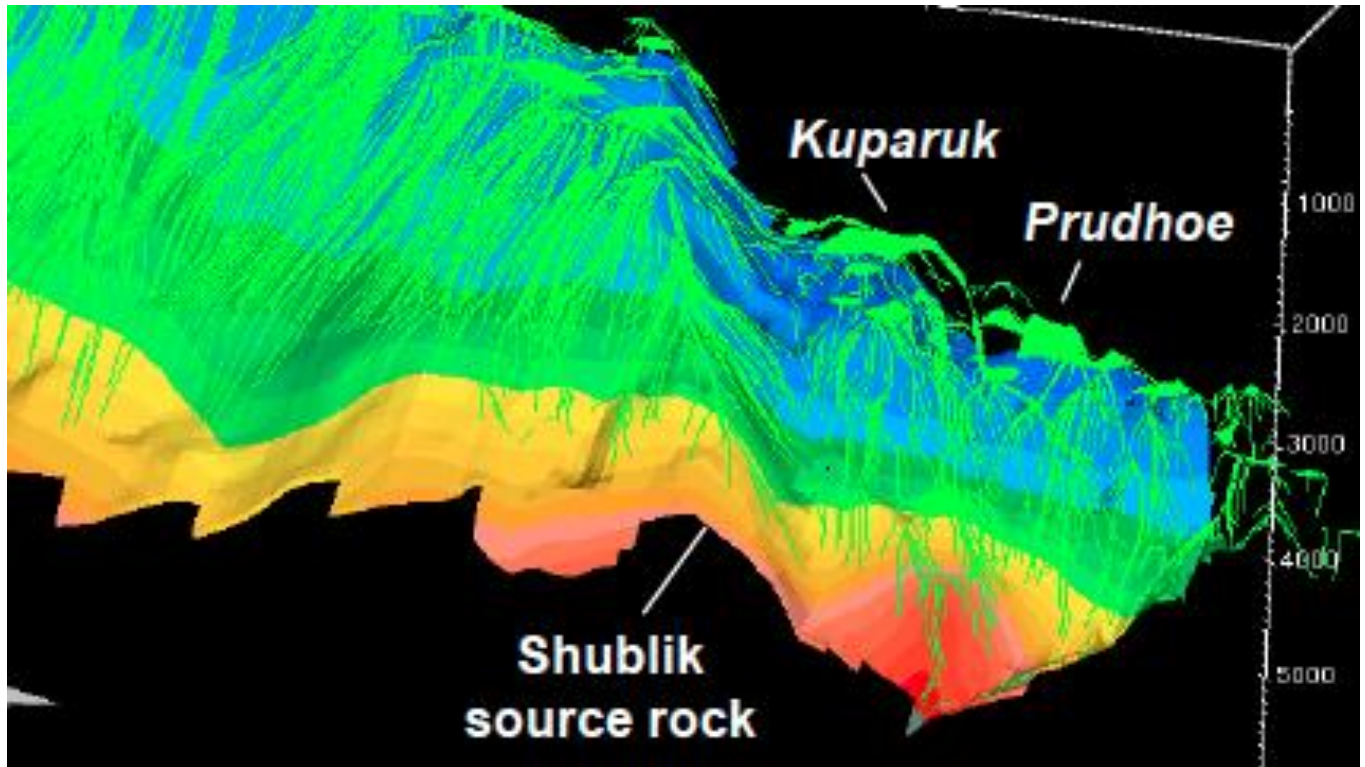
Kingak

Shublik

Ivishak

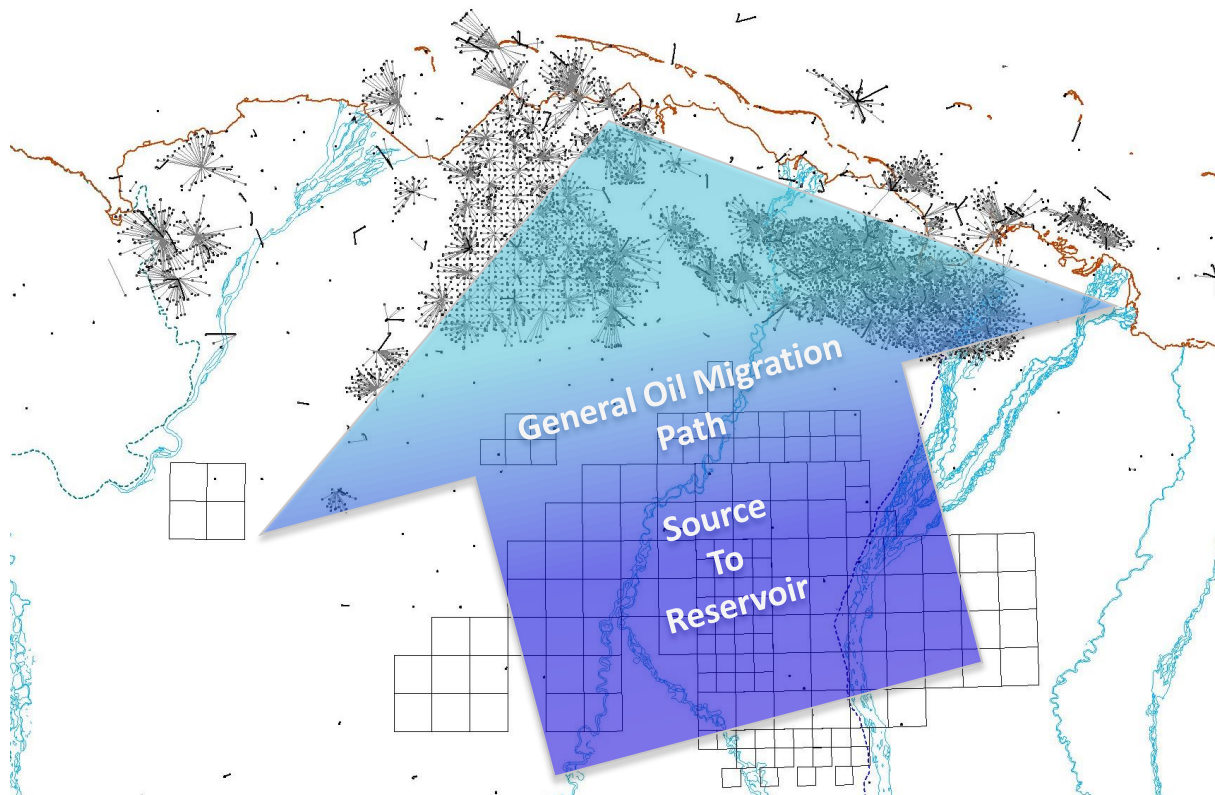
MODEL – MIGRATION OF SHUBLIK OIL

SOURCE: PETROMOD



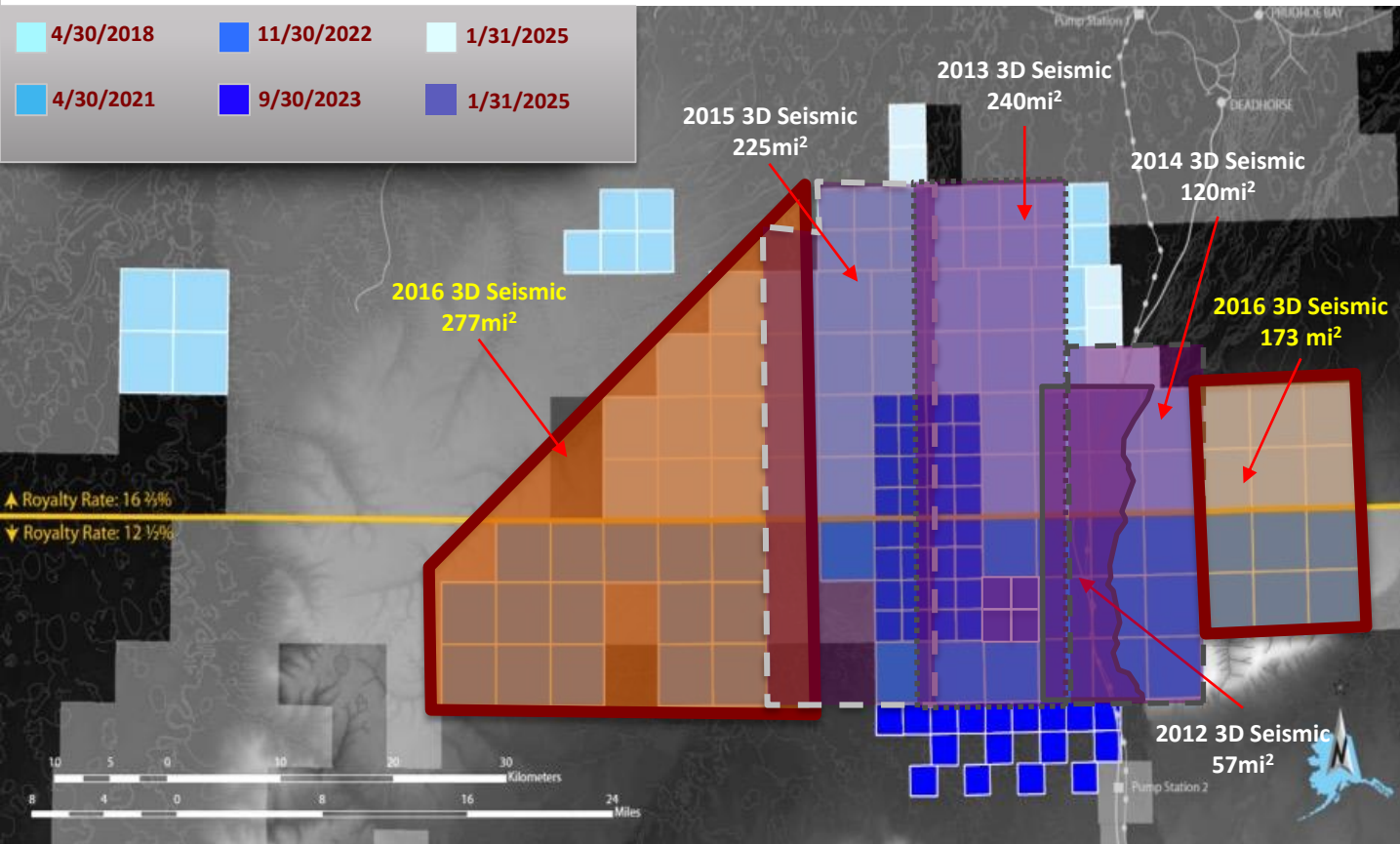
GREAT BEAR'S CONCEPT

FIND AND PRODUCE OIL FROM THE SOURCE OR FROM TRAPS ALONG THE MIGRATION ROUTE



GREAT BEAR – 3D SEISMIC SURVEYS

2012 - PRESENT



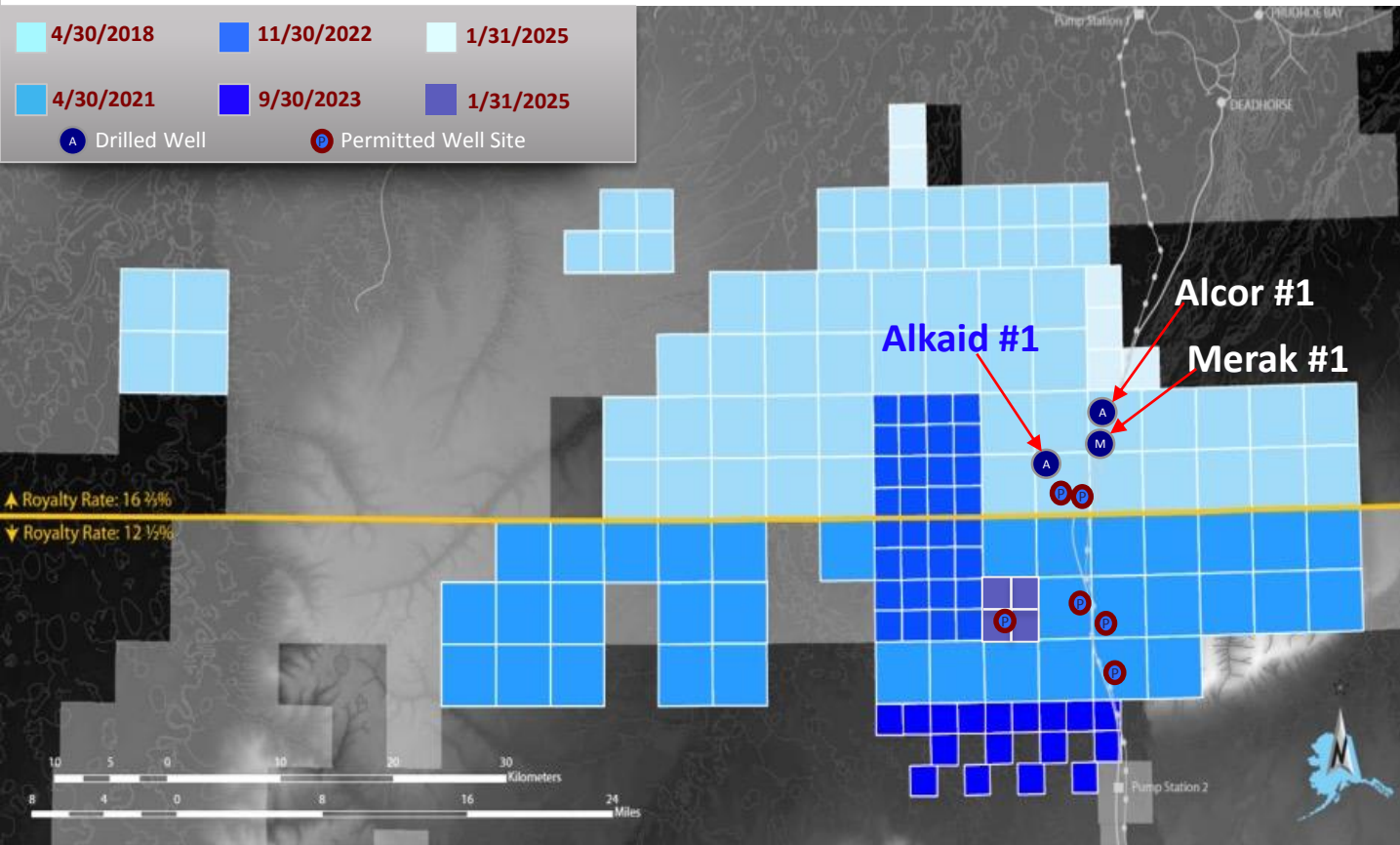
GREAT BEAR – EXPLORATION WELLS

2012 - PRESENT



▲ Royalty Rate: 16 2/3%

▼ Royalty Rate: 12 1/2%



GREAT BEAR PROJECT SPENDING (2010 – PRESENT)

BUSTING THE MYTH THAT EXPLORATION COMPANIES DON'T HAVE "SKIN IN THE GAME"

- Total Gross Spend of Approximately \$220 Million
 - Approximately \$140M has been or will be reimbursed by State of Alaska
 - Net Operating Loss Credits (25% -> 45% -> 35%)
 - 40% Exploration Incentive Credit for Seismic
 - 30% Exploration Incentive Credit for Wells
- Great Bear Petroleum and Partners have spent approximately \$80M that will not be recovered through tax credits
 - As a result, Great Bear has been very prudent and deliberate in what activities we have conducted
- State now has extensive new data about its resources on the Great Bear leases



TAX CREDIT FINANCING

BUSTING THE MYTH THAT EXPLORATION COMPANIES ARE “FINANCED” BY TAX CREDITS

- North Slope exploration company investors pay for employee salaries, oil and gas lease rentals, office rental, and other business expenses
- Some expenditures (geologic work, permitting, etc.) qualify for tax credits (35% - 75% reimbursement rate)
- The explorer can borrow against those expected tax credits, but has to have the remaining equity funding (plus financing costs) in hand to qualify for the loans
- At no time does a North Slope explorer “make money” on tax credits

CHALLENGES UNIQUE TO NORTH SLOPE EXPLORERS

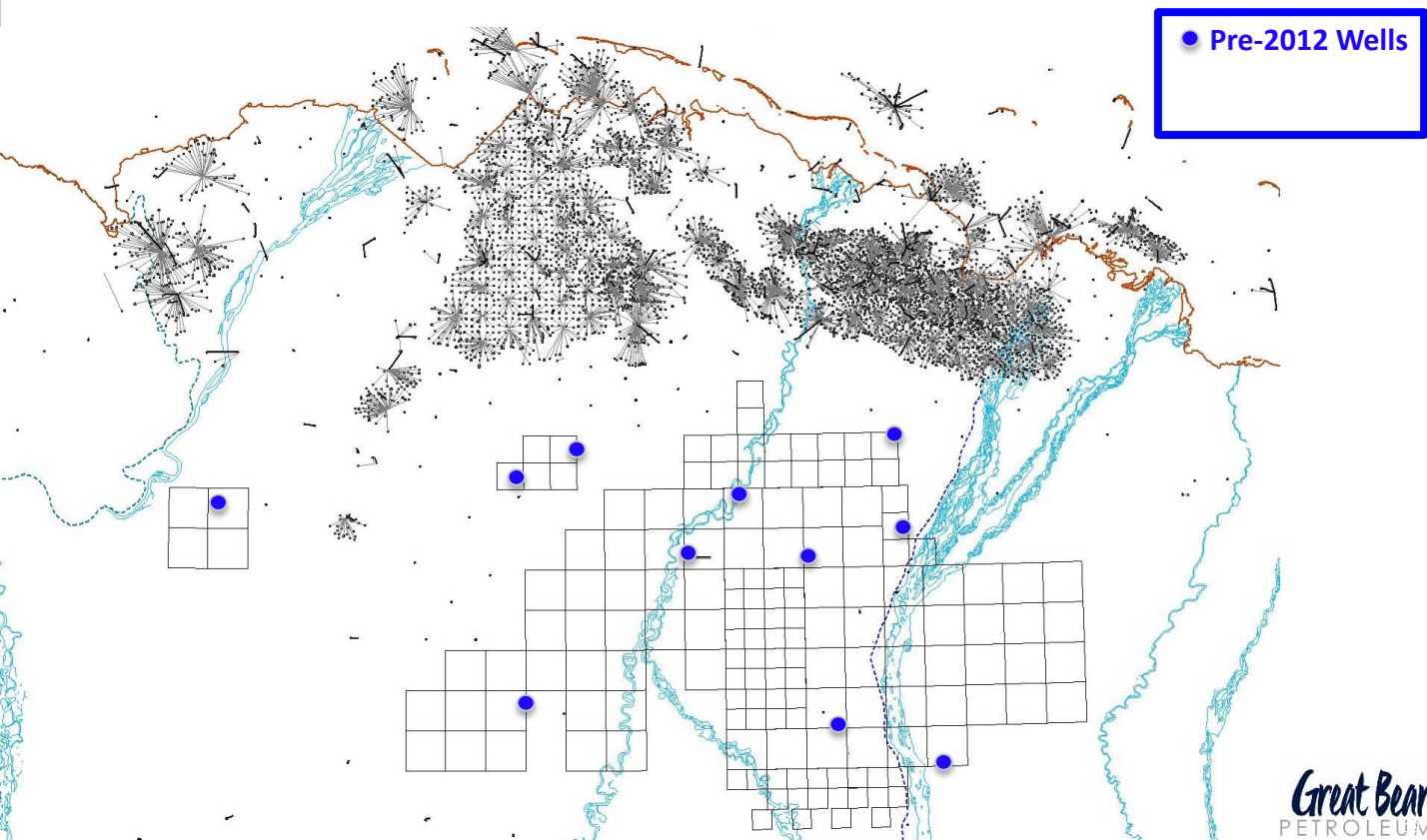
ADDING MORE RISK TO AN ALREADY RISKY INVESTMENT

- Lack of Geologic Data
- Short & Unpredictable Winter Exploration Season
- Permitting Complexity & Delays
- Alaska's High Cost Environment



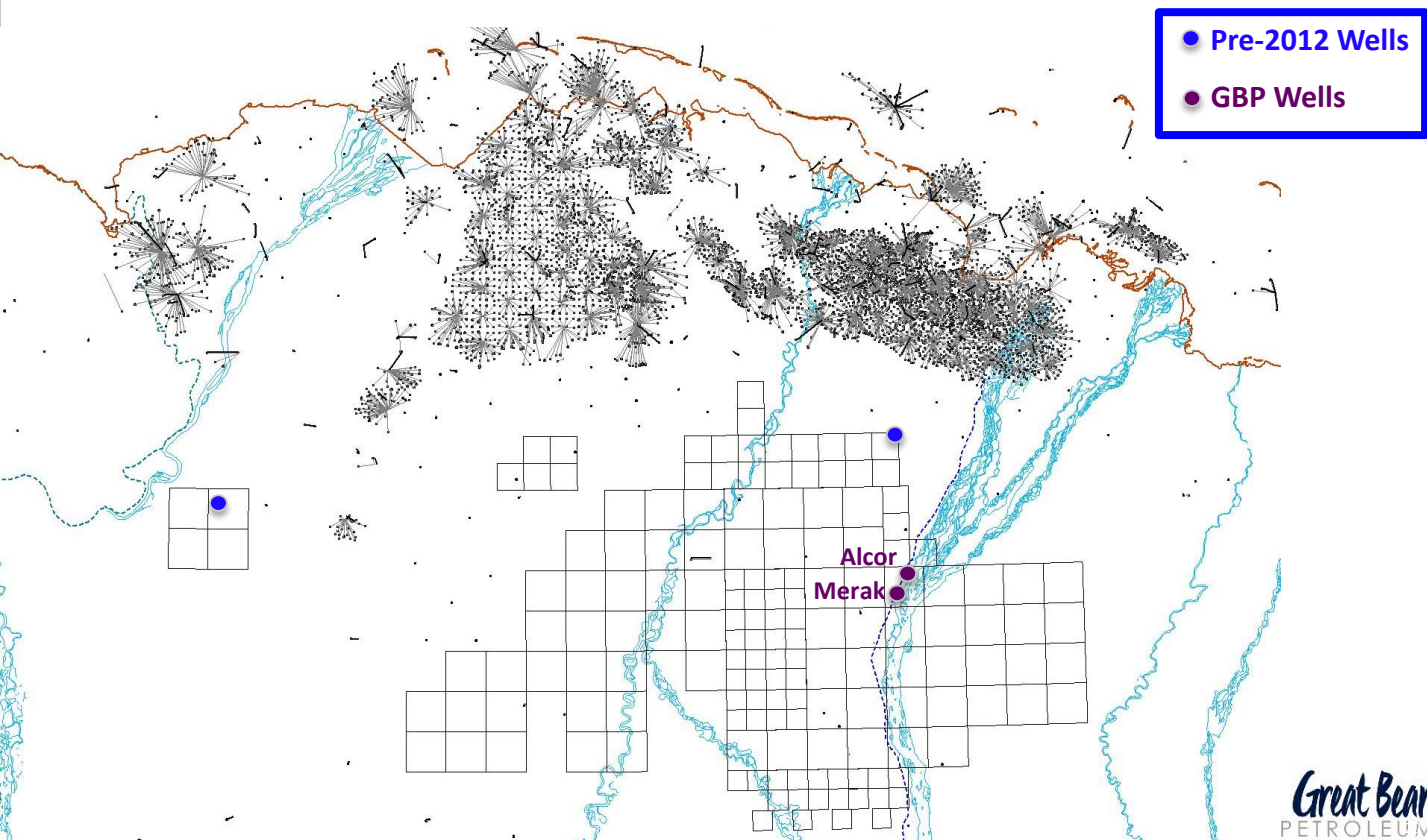
UNIQUE ANS CHALLENGES – LACK OF GEOLOGIC DATA

FEW WELLS IN GREAT BEAR ACREAGE



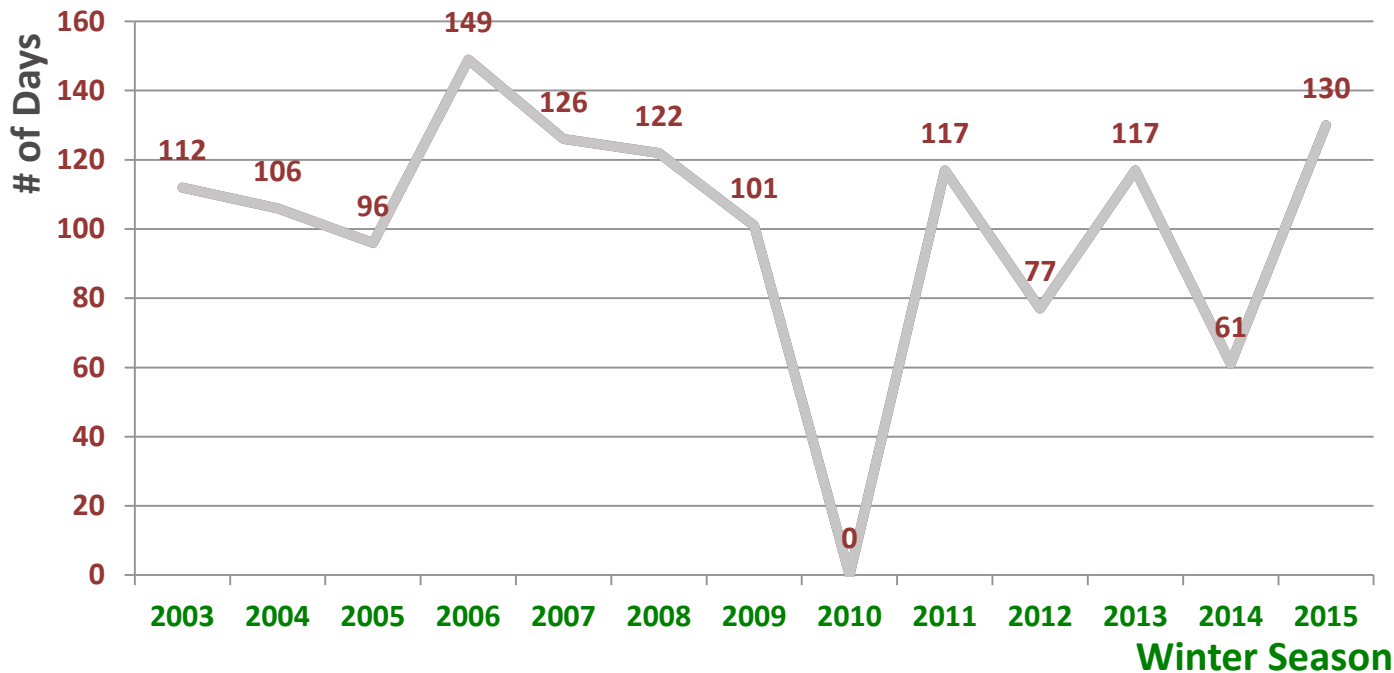
UNIQUE ANS CHALLENGES - LACK OF GEOLOGIC DATA

EVEN FEWER WELLS THAT PENETRATED THE SHUBLIK FORMATION



ANS CHALLENGES– SHORT & UNPREDICTABLE DRILLING SEASON

NUMBER OF DRILLING DAYS PER YEAR THE LOWER FOOTHILLS TUNDRA WAS OPEN TO ACTIVITY



UNIQUE AND CHALLENGES – COMPLEX PERMITTING

DIFFICULT TO FIGURE OUT – DIFFICULT TO EXECUTE

- Multiple Jurisdictions, Separate Processes
 - Example: Winter Exploration Well Program
 - 19 Different Permits
 - 16 Different Agency Contacts
- North Slope Development Challenge
 - Wetland Permitting – What Mitigation Will Be Required?

UNIQUE ANS CHALLENGES – HIGH COSTS

CHALLENGES THE ECONOMICS OF EXPLORATION AND ANY DISCOVERY

- Causes of the High Cost Environment
 - Lack of Infrastructure
 - Lack of Competition in Service Sector
 - One-Off Exploration Drilling Programs
 - Alaska is Far From Sources of Equipment

GREAT BEAR – IMMEDIATE WORK PLAN

HOW WE WILL REALIZE THE POTENTIAL

1. Complete our seismic program
2. Complete our prospect inventory
3. Execute a multi-year, multi-well exploration program
4. Secure cost-effective services by using the multi-well commitment

GREAT BEAR – IMMEDIATE WORK PLAN

HOW PRODUCTION TAX CREDITS WILL DICTATE LIKELIHOOD OF SUCCESS

Number of Exploration Wells We Will Drill Is Directly Dependent on the Tax Credit Program

- Extension of the Exploration Incentive Credit Program
- “Stackability” of EIC and NOL Credits
- Collateralization of Tax Credit Certificates
- Interest Rate on Tax Credit Financing

HOW TAX CREDITS DICTATE EXPLORATION DRILLING VOLUME

A CONCEPTUAL EXAMPLE

\$100M

Exploration Company Has \$100M In Equity Capital to Spend on Exploration

35% Tax Credit Offered

\$140M

5-7 Wells

Company will spend approximately \$140M in exploration activities

65% Tax Credit Offered

\$260M

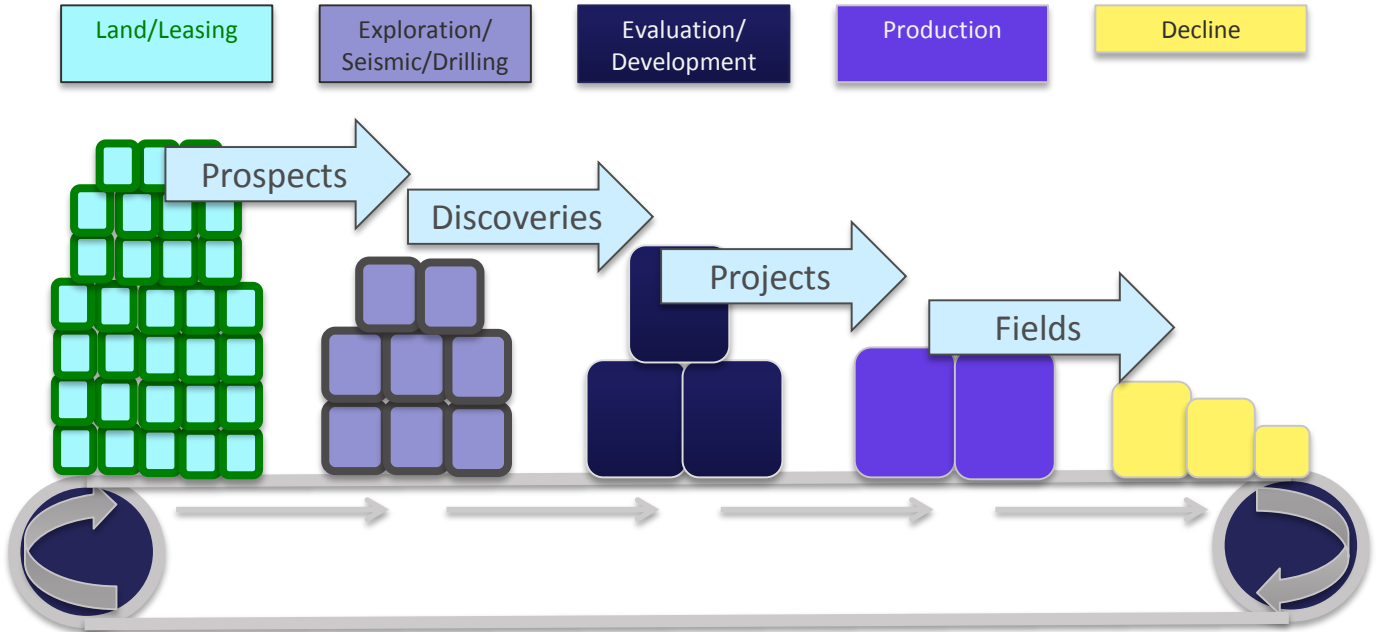
10-13 Wells

Company will spend approximately \$260M in exploration activities

By offering a higher tax credit, State generates more activity

EXPLORATION'S ROLE IN FUTURE STATE PRODUCTION

AS A RESOURCE OWNER, STATE WANTS TO KEEP EXPLORATION GOING



A Strong Exploration And Production System Must Keep Feeding the System with New Exploration

WHY THE STATE SHOULD EXTEND EXPLORATION INCENTIVE CREDITS

STATE NEEDS NORTH SLOPE EXPLORATION DRILLING

- Successful exploration will result in future production and significant cash flow to the State
- Chance of success is increased by drilling more wells
 - Multiple play types to explore
 - Constantly learning - early wells reduce risk on subsequent wells
 - Success breeds success – one discovery will increase interest in other North Slope exploration
- As resource owner across the North Slope, the State has a greater chance of success than any individual explorer
- The State's risk is reduced, and chance of success is improved, if the number of exploration wells increases
- At a minimum, the State obtains valuable data about its resources to attract future investment

TAX CREDITS – KEEP WHAT IS WORKING

INERTIA/MOMENTUM ARE STRONG FORCES IN THE OIL & GAS INDUSTRY

- Alaska Has Emphasized North Slope Exploration in State Oil and Gas Policy for the Past 15 Years
 - Areawide Leasing Program
 - Exploration Incentive Credit (EIC) Program
 - Net Operating Loss Credits
 - Tax Credit Certificate Payments
 - Collateralization of Tax Credit Certificates
- It Took A While, But That Effort is Now Showing Success
 - Diversified Group of North Slope Explorers
 - Recent Discoveries
 - New Production Coming On-Line
- Elimination/Reduction of Credits Will Be Costly
 - Likely to Slow Down or Stop Exploration
 - Lower Likelihood of New Discoveries
- Getting Momentum Back Will Take A Long Time



SUMMARY

- Great Bear is a highly active North Slope explorer
- Great Bear's investment to date has been substantial and well spent
- Great Bear's pace and volume of future exploration activity will be directly related to tax credit program
- Risk is reduced, and likelihood of success is increased by more exploration
- Reducing exploration risk of Alaska's North Slope resources is a good investment for the State of Alaska
- The Exploration Incentive Program ("025 Credits") should be extended for North Slope exploration activities