

- 1.Strong Investment Value of Tax Credits
- 2.Overview of Cosmopolitan Unit
- 3.Specific Impact of HB 247 on BlueCrest

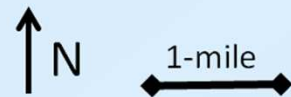



J. Benjamin Johnson
House Resources Committee Testimony
March 1, 2016


Cosmopolitan Project Area

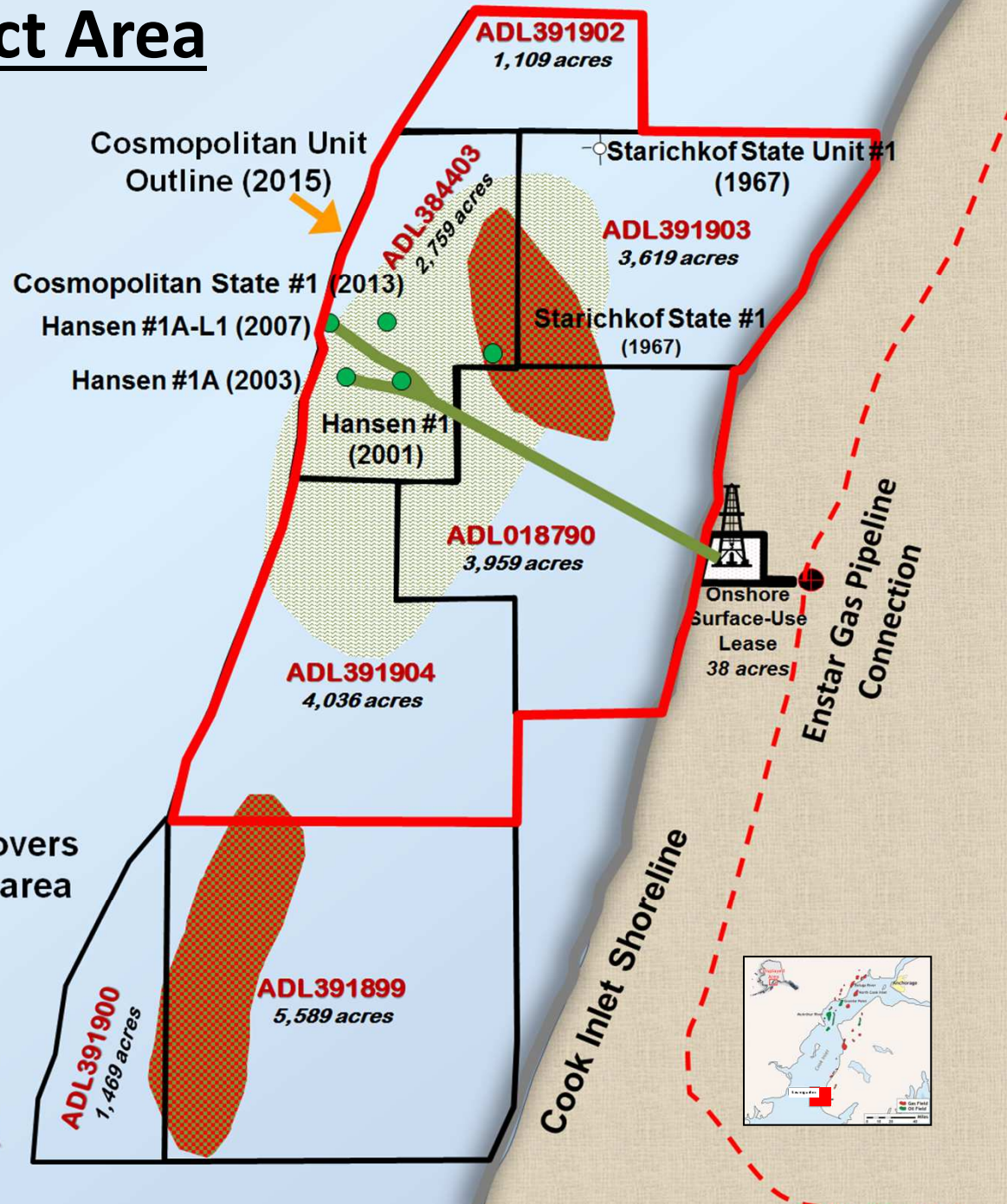
- 100% owned and operated by BlueCrest
- 7 State leases
- 22,540 acres offshore
- 38-acre onshore surface lease
- 6 wells drilled to date
- 6 known oil zones
- 6+ known gas zones
- 2 identified exploratory prospects

3-D Seismic covers entire Project area (2005)



 Approximate areal extent of known productive reservoirs

 Approximate areal extent of identified exploratory prospects



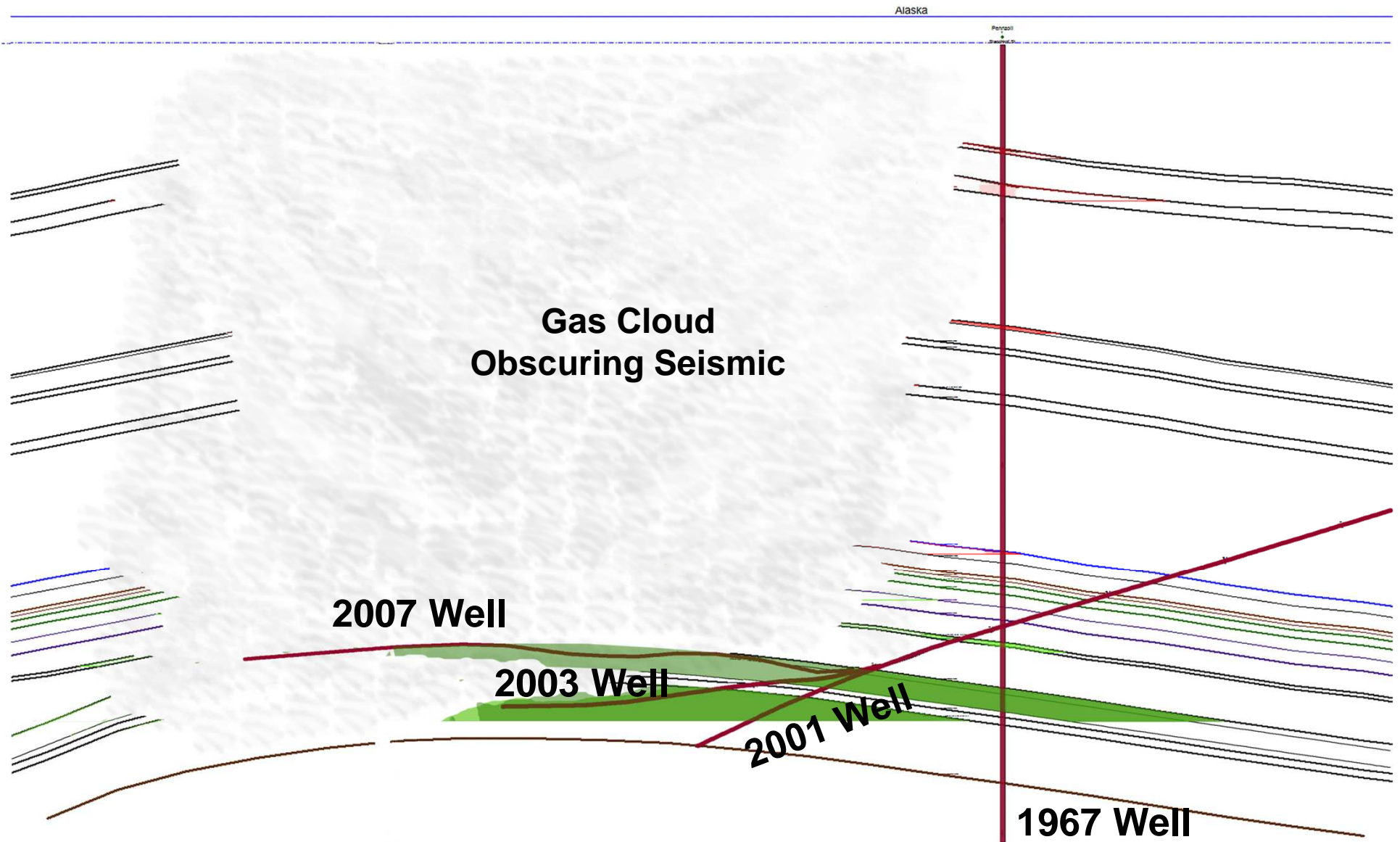
1967: Pennzoil Found the First Oil - Drilled from Offshore

The Starichkof State No. 1

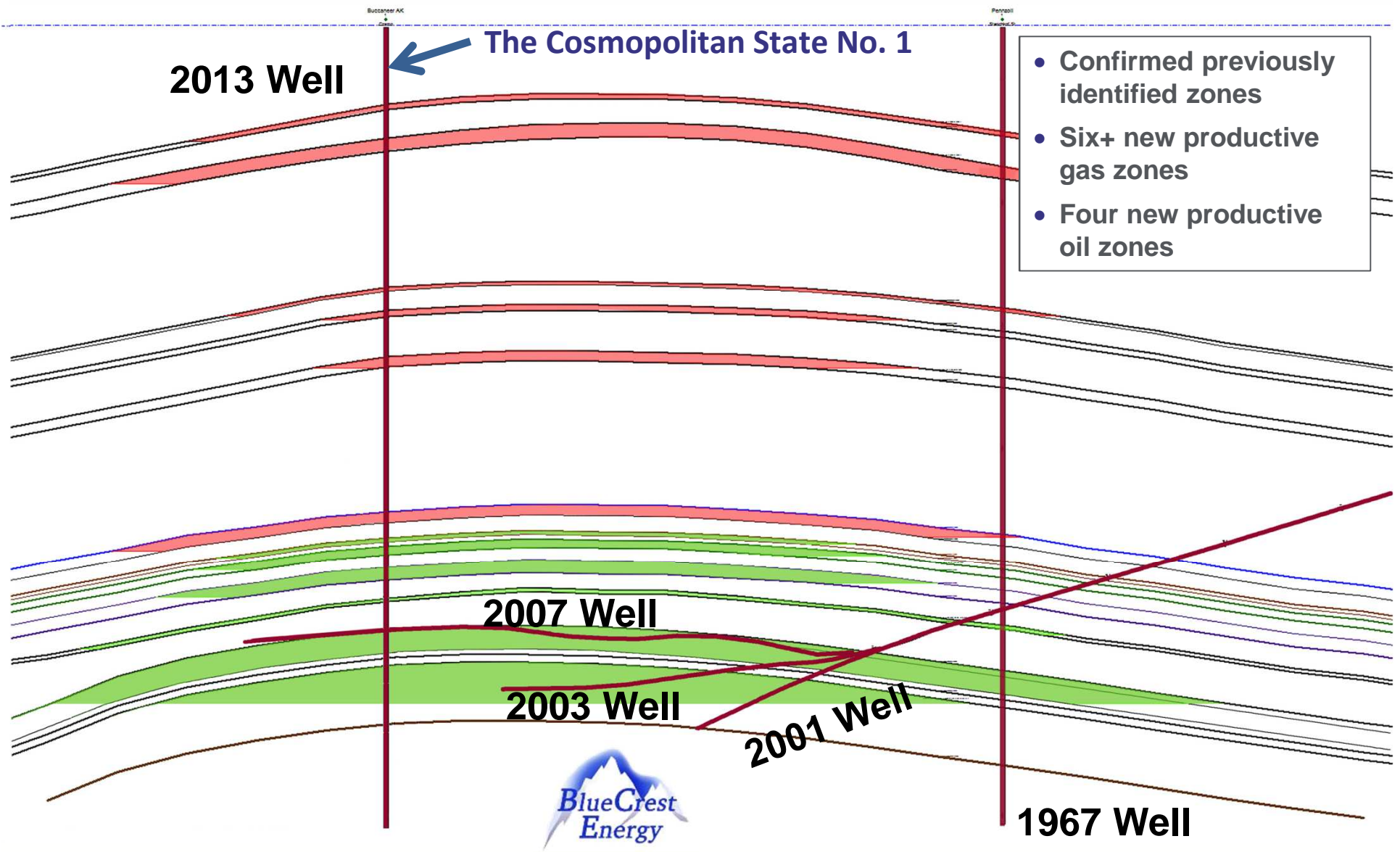


1967 Well

2007: ConocoPhillips and Pioneer had drilled 3 wells and 3D

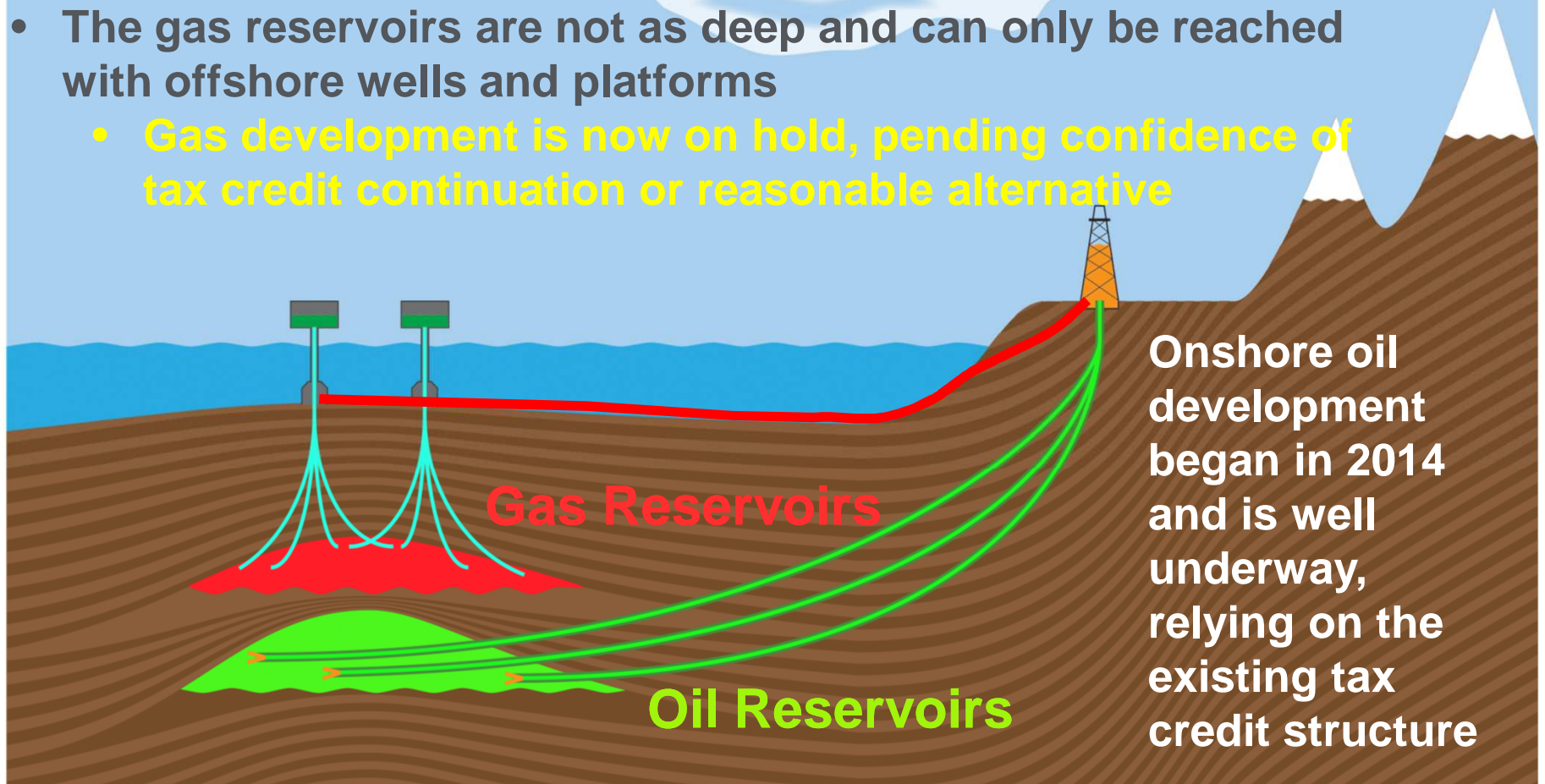


2013: BlueCrest Drilled a Vertical Well from Offshore



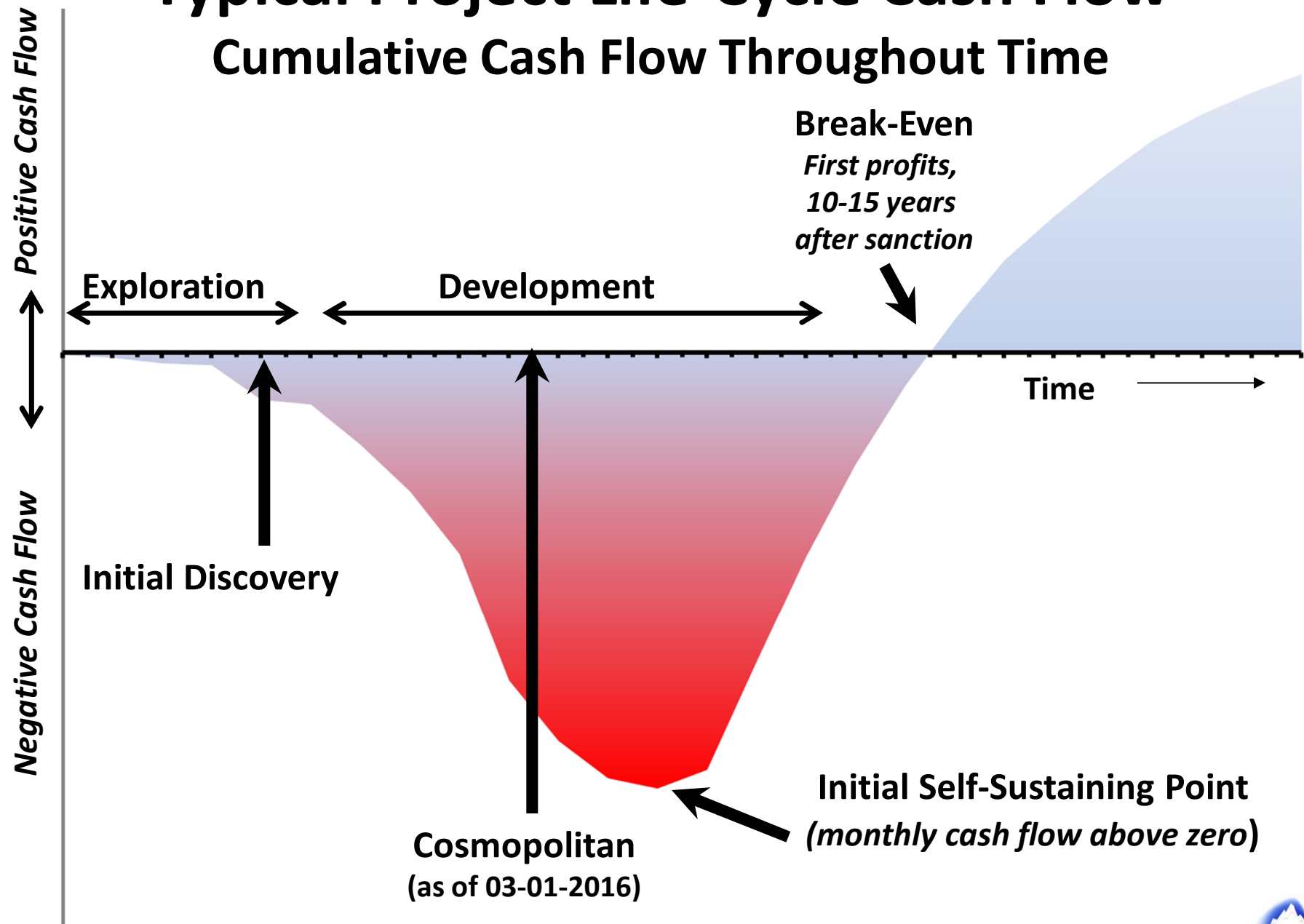
Cosmopolitan Unit Development Concept

- 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, pending confidence of tax credit continuation or reasonable alternative



Typical Project Life-Cycle Cash Flow

Cumulative Cash Flow Throughout Time



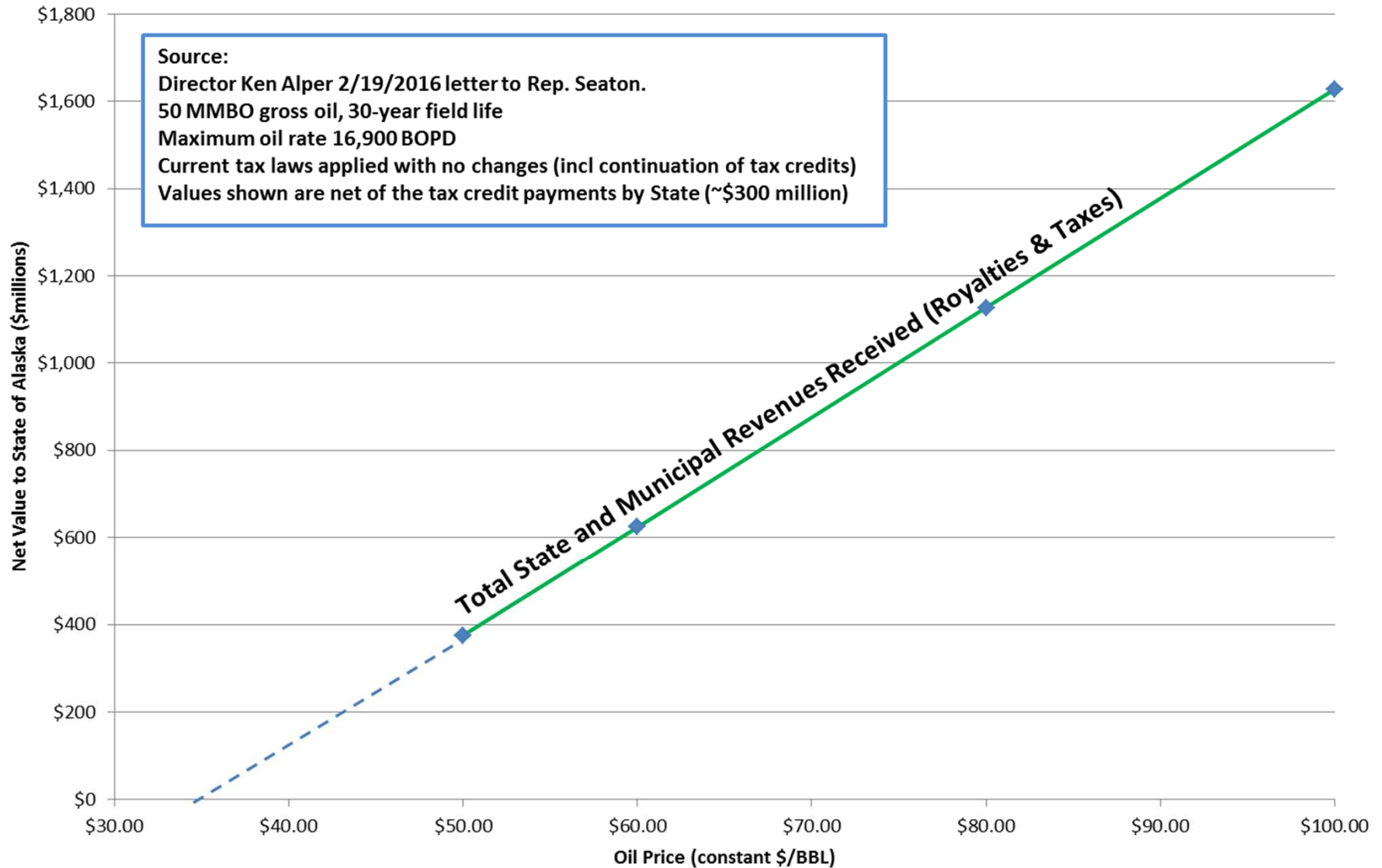
Cosmopolitan Progress as of 03/01/2016



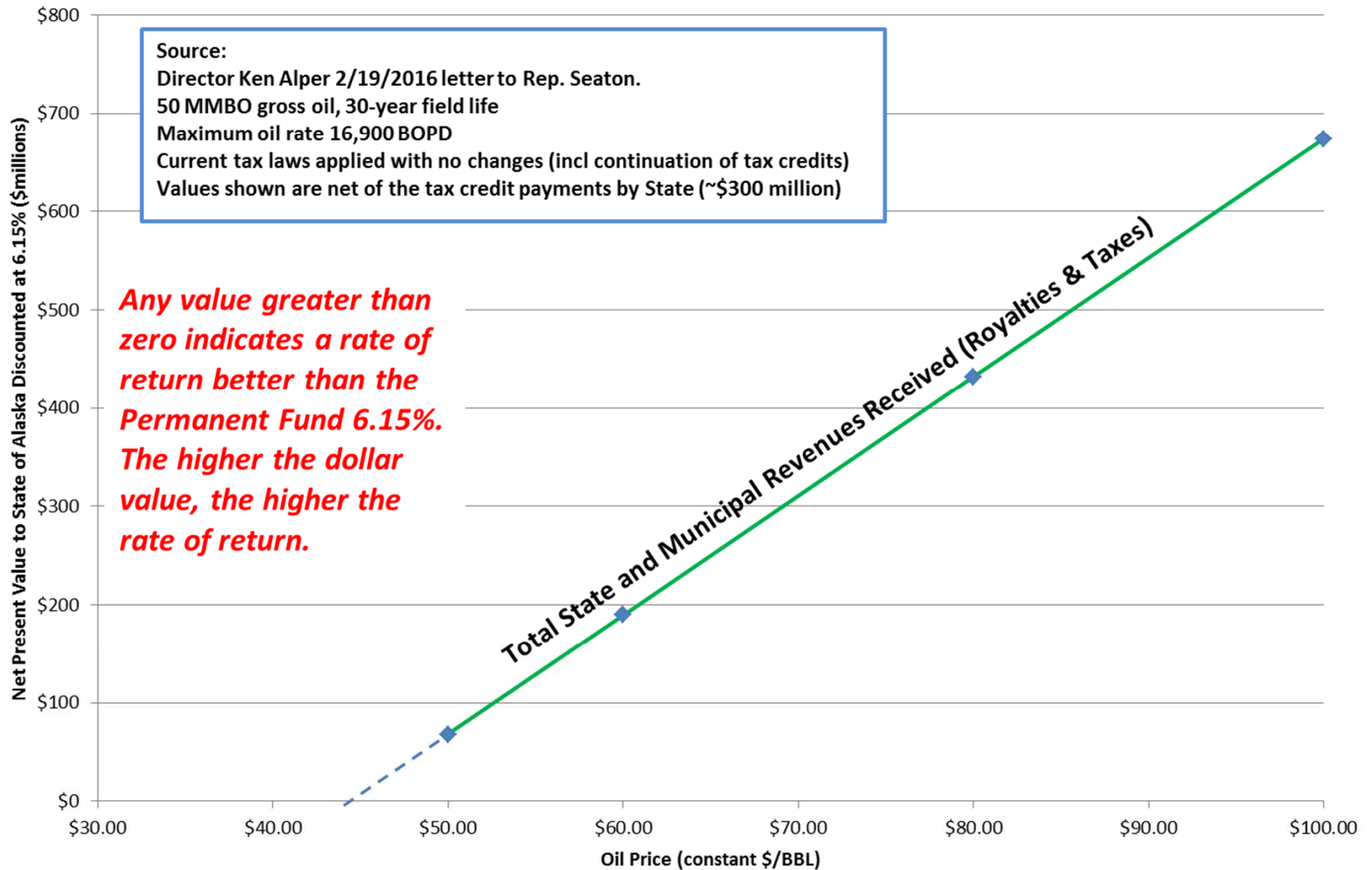
Tax credits for development of previously discovered proven reserves are a solid, low-risk investment for Alaska.

Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016

Net Cash Benefit to State With Continued Tax Credits at Various Oil Prices



Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016
Comparison to Permanent Fund NPV Return (6.15%) to State at Various Oil Prices
Assuming All Tax Credits are Continued In Full



Continuation of the 023(a) and 023(l) credits is a good investment for the state.

Termination of the 023(a) and 023(l) credits will result in a significant reduction of BlueCrest's ability to continue drilling at Cosmopolitan.

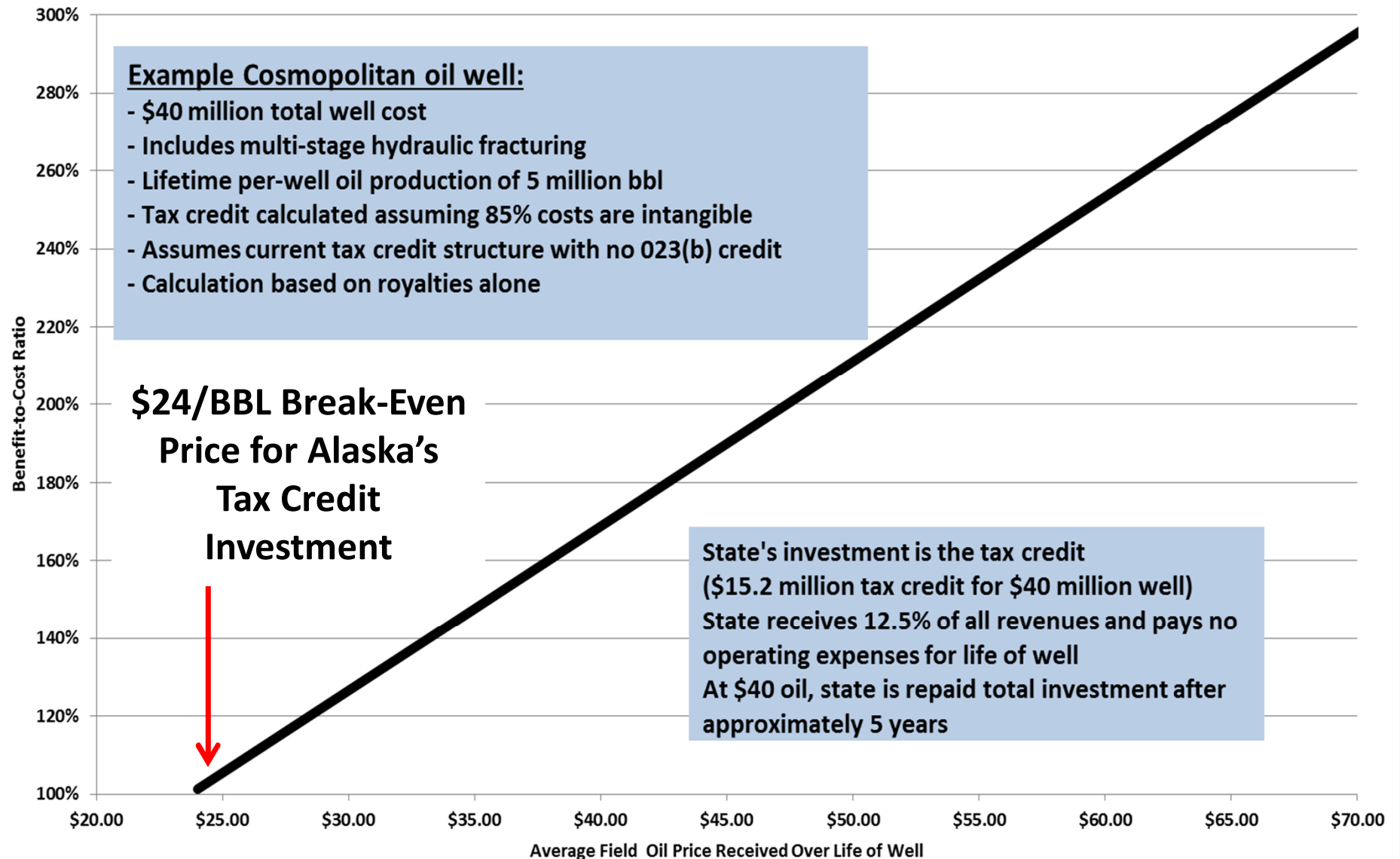
Continuation of the credits facilitates Cosmopolitan continued drilling at ~\$10/BBL lower oil prices.

In the event that the NOL is the only remaining credit, it should match the 35% received by North Slope parties.

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)



Limits of \$25 million per company for cash payments:

- **Arbitrary**
- **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**
- **The state is backing out on its prior commitment**
- **A strong disincentive for future investments**

The reduction 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.

BlueCrest has hired 100% Alaskans for its permanent operations workforce and has encouraged contractors to hire as many Alaskans as practical for short-term construction jobs.



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

An effective date of July 1, 2016 is too soon for implementation of 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!**