

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



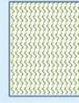
Via Teleconference

J. Benjamin Johnson
House Rules Committee Testimony
May 11, 2016

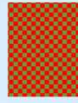
Cosmopolitan Project Area

- 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

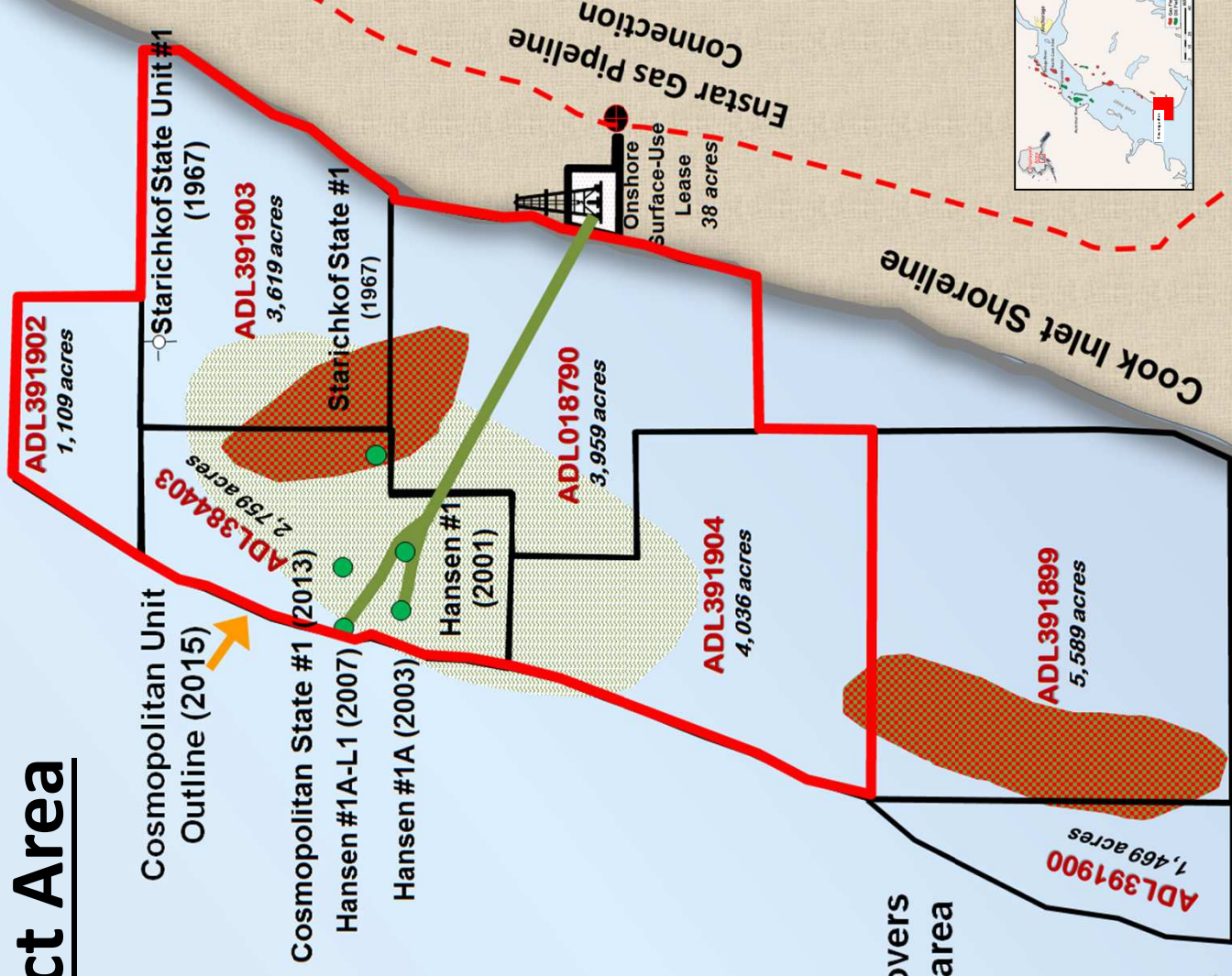
3-D Seismic covers entire Project area (2005)



Approximate areal extent of known productive reservoirs

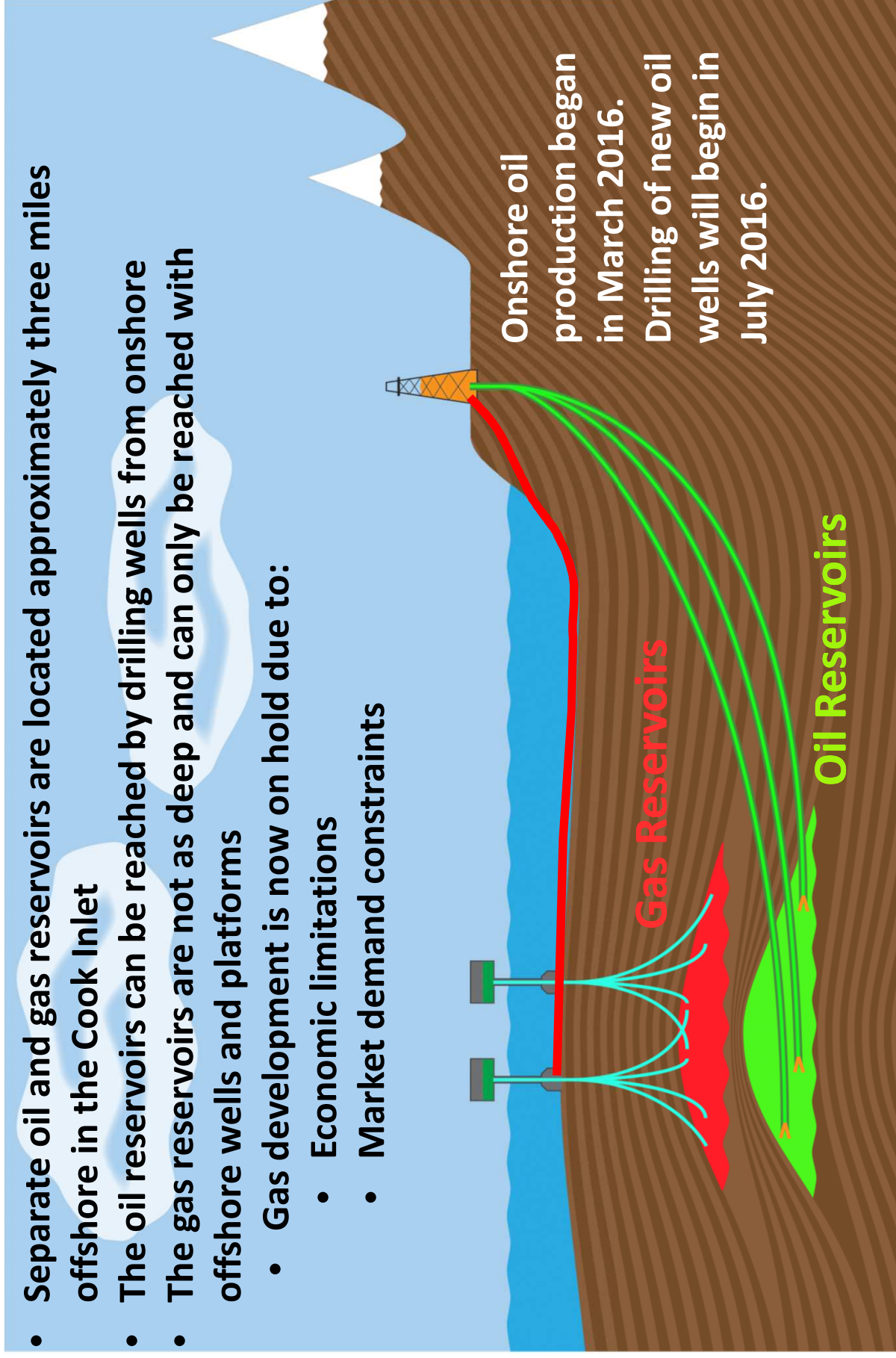


Approximate areal extent of identified exploratory prospects

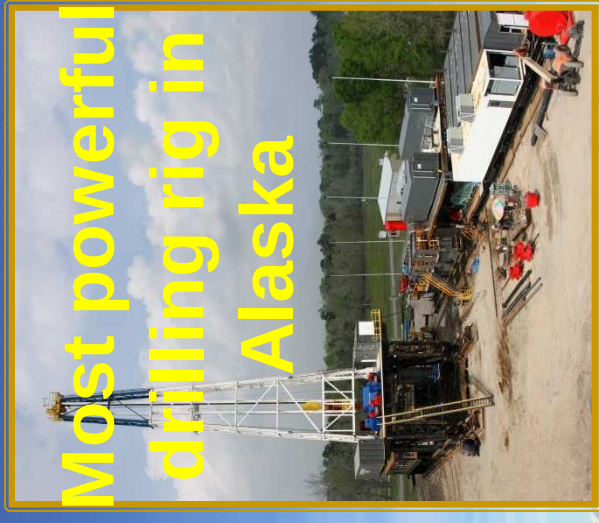


Cosmopolitan Unit Development

- 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



Cosmopolitan Progress as of 05/10/2016



38-acre Drill Site and Production Facility

BlueCrest sells first oil

Posted: April 26, 2016 - 9:05pm | Updated: April 26, 2016 - 9:15pm



By ELIZABETH EARL

Peninsula Clarion

BlueCrest Energy sold its first barrel of oil from its new Cosmopolitan development last week to the Tesoro refinery in Nikiski.

Carlile Transportation Systems, a trucking and logistics company that provides oilfield support, transported the first oil produced by the facility on Thursday to Tesoro's refinery.

The company expects to drive two tankers a day from the Cosmopolitan site near Anchor Point to the refinery each day, according to a press release from Carlile.

Tesoro Kenai Refinery Vice President Cameron Hunt said in the press release that Tesoro was



Photo courtesy Carlile Transportation Systems
Workers unload an oil tanker full of oil from the Cosmopolitan development near Anchor Point at the Tesoro refinery in Nikiski on Thursday, April 21.

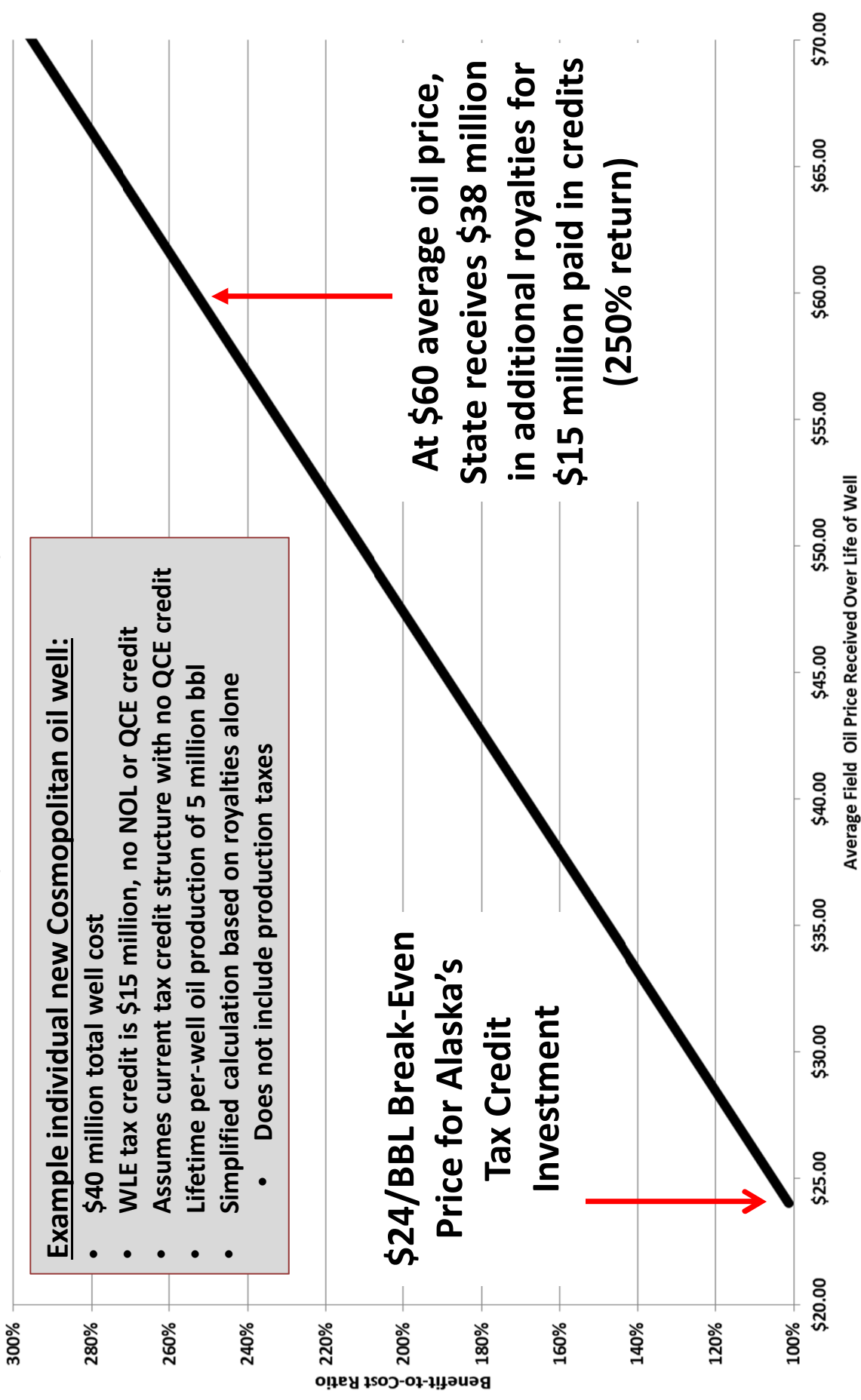
Continuation of Cook Inlet Credits

- Cook Inlet oil has high value to the State
 - Lower infrastructure deductions and higher quality than NS
 - All CI oil is refined and used in Alaska
- Credits are particularly important with low oil prices
- Continued drilling in new developments after start-up is mostly impacted by the WLE credits
 - Higher WLE credits facilitate continued drilling
 - The existing 40% credit allows drilling of new wells
 - \$10/bbl lower oil prices than without the credit
- Once a drilling program has been suspended, even higher prices are required to resume
- For each new development well drilled as a result of continued credits, the return to the State is low-risk and high-reward

State's Investment Return through Royalties from Each New Cosmopolitan Well

BlueCrest Calculation of State's Benefit-to-Cost Ratio versus Average Lease Oil Price

Assumes only WLE Tax Credit Paid (total 38% of Well Cost)



Per-Company Limits for Cash Payments

- **BlueCrest has already 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 fully paid on time**
- **BlueCrest has already entered into (and financed) spending commitments through 2016, based on the State's existing credit repurchase practice**

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

BlueCrest's funding plan for initial Cosmopolitan oil development

Total cost to reach sustainability (2 new wells): \$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 (2 years, current law): \$121 million

**We are getting close,
but we must
finish the climb!**



Drilling begins July 2016