

Senate Resources Committee

Jeff Hastings

Chairman, Chief Executive Officer

Managing Partner

April 17, 2017

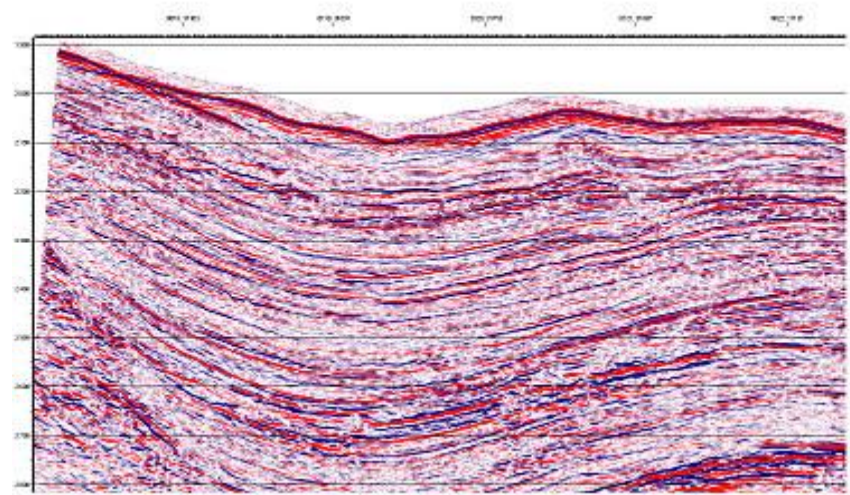


SAExploration – Born in Alaska

- Our team has been partnered with the Kuukpik Corporation for the past 20 years
- The company employs an average of 400 people per year
- The Kuukpik-SAE JV is a consistent revenue source to
 - ◆ Kuukpik Corporation and its shareholders
 - ◆ The village of Nuiqsut
 - ◆ The hundreds of Alaskan families that benefit from each program
- **We are committed to preferentially hire Native Alaskans and Alaska residents**
 - ◆ We are proud of our **80%+ Alaskan hire** rate
- We primarily use Alaskan subcontractors and suppliers

Our Core Business – Collecting Seismic Data

- Seismic Operations are the pointy end of the spear – we create the data so exploration wells can be drilled
- Seismic data is critical information, essential to the success of an exploration program
- Recently, use of new technology is producing higher resolution images of the subsurface
 - ◆ Information that is a direct correlation to the new discoveries which have recently been announced
- The information gathered from the seismic data is critical to finding new opportunities, new reserves to sustain us into the future

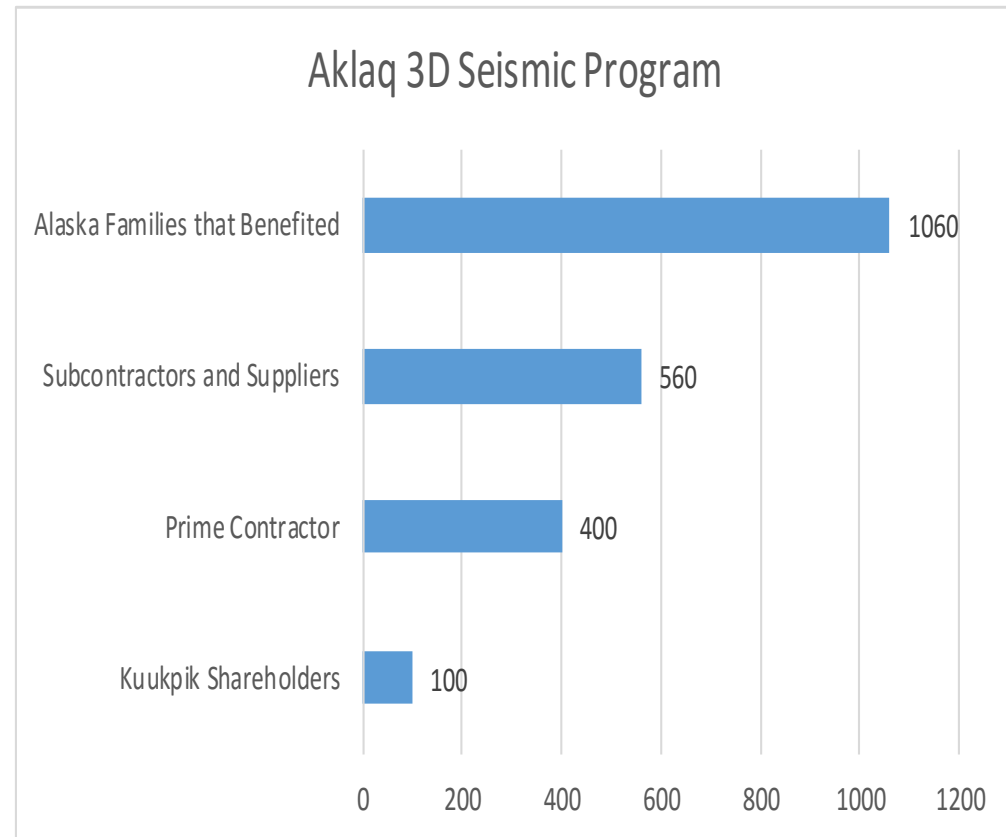


190+ Alaska Suppliers

- Afognak Leasing, LLC
- Air Liquide America LP
- Airport Equipment Rentals
- Alaska Air Taxi, LLC
- Alaska Charter & Transport
- Alaska Clean Seas
- Alaska Communications System
- Alaska Emergency Medicine
- Alaska Frontier Constructors
- Alaska Hydraulics, Inc.
- Alaska Industrial Hardware
- Alaska Mining & Diving Supply
- Alaska Pavement Maintenance
- Alaska Printing, Inc.
- Alaska Process Industry C
- Alaska Pure Water Product
- Alaska Rubber
- Alaska Safety
- Alaska Serigraphics
- Alaska Sportsman's Lodge
- Alaska Steel Co.
- Alaska Tent & Tarp
- Alaska Textiles Inc.
- Alaska Urgent Care, LLC
- Alaska Waste
- Alaska Welding Works
- Aldrich Offshore Services
- ALMx-Security Inc.
- Alutiq Oilfield Solutions
- American Marine Corporation
- Anchorage Waste
- Arctic Fox Environmental
- Arctic Office Products
- Arctic Slope Telephone association
- Arctic Wire Rope and Supply
- Atlas Fluid Controls Corp
- B & J Sporting Goods
- Bald Mountain Air Service
- BDO USA, LLP
- Beacon Occupational Health
- BeadedStream LLC
- Best Western Bidarka Inn
- Best Western King Salmon
- Big Ray's
- Boldings Enterprises LLC
- Brooks Range Supply
- Budget Rental car of Anchorage
- Builders Choice Inc.
- Canterwoods Cabins LLC
- Caribou Construction Inc.
- Carlile Transportation Systems
- Central Pacific Rebuilders
- CH2M Hill Alaska Inc.
- Challenger Learning Center
- City of Homer P/H
- Clean Harbors Exploration
- Coburn's Machine Shop
- Container Specialties
- Corvus Specialty Equipmen
- Crowne Plaza Anchorage
- Cruz Construction, Inc.
- Cummins Northwest LLC.
- D & D Equipment Service
- Delta Leasing, LLC
- Delta Western Inc.
- Desperate Marine LLC
- Discovery Luxury Rentals
- Doodlebugger Consulting
- Ekelund Excavating Inc.
- Emerald Alaska/NRC Alaska
- Enstar Natural Gas
- Fairfield Nodal
- Fairweather Science, LLC
- Fairweather, LLC
- Far North Supply
- Ferguson Enterprises, Inc
- Frigid North Company
- Frontier Paper, Inc. - DO
- Frontier Precision Inc.
- Garness Engineering Group
- Garness Industrial Products
- GBR Equipment, Inc.
- GCI Communication Corp
- Glacier Exploration Surveyors
- Glass Doctor of Fairbanks
- Grant Aviation
- H & H Industrial Inc.
- MW Fire Protection
- Holiday Inn Express Anchorage
- Ice Services, Inc.
- Inupiat Resources LLC
- J & J Janitorial Services
- K & L Gates, LLP
- Ketek Group Inc.
- Kuukpiik Arctic Services
- Kuukpiik Corporation
- Kuukpiik Fuel
- Kuukpiik Hotel
- Land's End Resort
- LTR Training Systems, Inc
- Lynden Transport Inc.
- Magic Industries, Inc.
- Magic Metals, Inc.
- MagTec Alaska, LLC
- Main Street Hotel
- Mapmakers Alaska
- Marine Chemist Consulting
- Marsh Creek
- Millennium Alaskan Hotel
- Minto Development Corpora
- Mom's Laundry Service
- Municipality of Anchorage
- N C Machinery
- Nana Oilfield Services
- Naniq Global Logistics
- Nanuq Inc
- Nenana Heating Services
- Nikiski Fuel
- North Slope Borough
- North Slope Telecom
- North Star Terminal & Stevedore
- Northern Air Cargo, Inc
- Northern Oilfield Services
- Northern Sled Works
- Northwest Geophysics, LLC
- Ocean Sonics Ltd
- Olgoonik Fairweather, LLC
- Owl Ridge
- Pacific Alaska Leasing CoPacific Power Group, LLC
- Pacific Western Equipment
- Peak Oilfield Service Co
- Peregrine Falcon Alaska
- Petro Marine Services
- Petroleum newspaper
- Polar Wire Products, Inc.
- Premier Alaska Tours
- Prudhoe Bay Hotel
- Quality Inn - Kenai
- Reanier & Associates
- Rebel Seismic Supply, Inc
- Restoration Science & Eng
- Rotating Services, LLC
- Rough Woods Inn
- Sala LLC Remote Medical Services
- Shoreside Petroleum Inc.
- Skidmore Mac
- Smultea Environmental
- Snug Harbor Seafood's
- Soloy Helicopters, LLC
- Sophie Station
- Stephen R Braund & Assoc.
- Steve's Chevron Service I
- Sukup Geophysical Consulting
- Surveyors Exchange Co
- TekMate, LLC
- Coast International Inn
- Theisen Ventures
- True North Oilfield Servi
- UMIAQ, LLC
- Unitech of Alaska, Inc.

Benefit from a Single Program

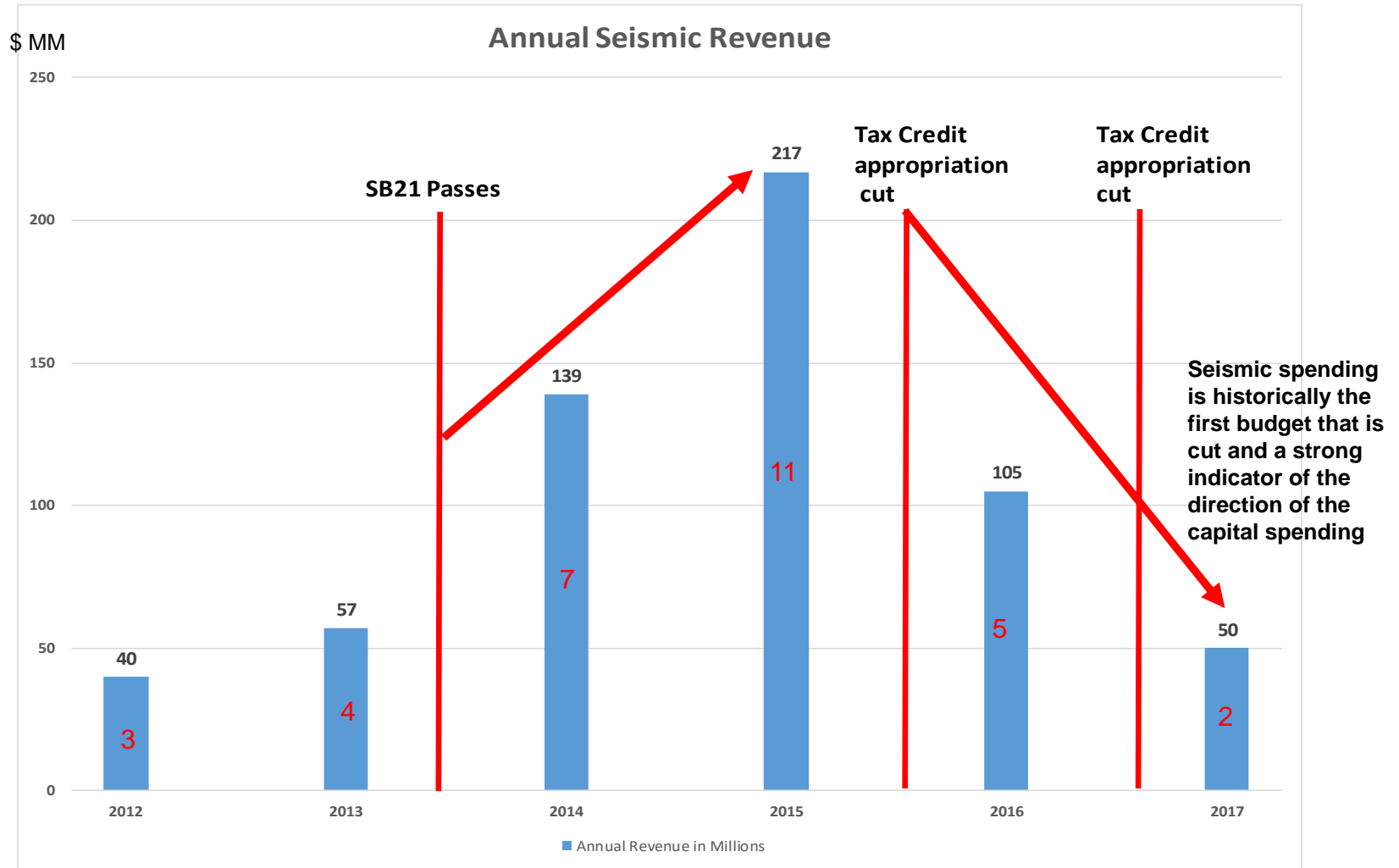
- How does a seismic program benefit Alaskan contractors and their families?
- The graph to the right is a snap shot of a single program “Aklaq”, acquired in winter of 2016
- More than 1000 Alaska employees and their families gain a direct benefit
- The majority of the revenue generated is paid to subcontractors and suppliers who are Alaskan
- In the case of the Aklaq program of the \$57 million in revenue \$49 million was earned by Alaskan contractors and suppliers



Why is Seismic Exploration Different?

- Seismic Exploration is really about creating an image of the subsurface so that Oil Companies can develop prospects and decide where to lease and where to drill new exploration wells.
 - ◆ We do not drill for or develop oil
 - ◆ Seismic data is typically sold or licensed to oil companies
 - ◆ *We do the CAT scan.....we are not the surgeons*
- This was contemplated when the tax credit system was first created.
 - ◆ Special provisions were written for .023 and .025 credits specifically to incentivize companies to collect seismic data because without it, there is less exploration drilling
 - ◆ Seismic is treated differently because the companies that pay to have seismic collected may not be the company that will ever drill wells.
 - ◆ The simple explanation for the tax credit system for seismic is that the state agreed to pay tax credits to companies willing to invest in seismic, and every time that seismic data is sold or licensed to an oil company, the state gets a piece of the action, or a refund of part of their credit. The state ALSO gets to own the seismic data and can do whatever it wants with the data after 10 years.

Historical Seismic Investment



The Impact of HB 111 Version on Kuukpiik SAE

- There is no clear view or timeline for paying seismic exploration tax credits.
 - ◆ When will the .025 seismic tax credits be processed? – These are simple applications compared to drilling and yet the DOR has been holding these for over a year
 - ◆ When will the .023 and .025 seismic tax credits be paid?
- Recent interpretations of the regulations have completely eliminated the already thin secondary market
- DOR Tax Division Advisory Bulletin 2017-01 says that legacy field producers cannot use any of our tax credits to reduce their tax below the 4% minimum– It effectively eliminates our ability to sell the few certificates they have even issued.
- The impact on this Alaska company, our Alaska subcontractors and all the Alaskan families that make their living through these companies is significant

What Can You do to Help?

- Create a timeline for processing seismic exploration .025 credits
 - ◆ It was never envisioned that seismic explorers would drill for oil or have production. The obligation was to fund the seismic program and provide the data to the state so that DNR scientists have the best information to value the states leases.
- Re-establish the Secondary Market
 - ◆ Allow seismic tax credits to be used by producers to reduce their tax below the 4% minimum
- Create a payment plan and stick to it
- The State of Alaska created a program to incentivize the seismic industry to invest millions and hire thousands of Alaskans. Our work is first step in putting more oil down the pipeline. We played by the rules you set out and now we need the State to live up to their end of the deal.

The Reality

- For SAE, the delayed tax credit payout forced the company to a crossroads
 - ◆ Option 1: seek protection under the chapter 11 bankruptcy code and leave all our Alaska vendors hanging
 - ◆ Option 2: restructure the company and work with our Alaskan subcontractors and suppliers to find a way to extend payments
- We chose to restructure – eliminating 98% of our shareholders equity, the majority of which was held by employees, many of whom are Alaskans

We are Alaskans and are committed to staying



The village of Nuiqsut



SAE's Alaska HQ in South Anchorage

Thank You

