

Senate Bill 85
Senate Resources Committee
Testimony by AVCG, LLC

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Discussion

Purpose: Present *ideas to re-incentivize investment and increase the competitiveness of Alaska relative to other oil basins with **one common State & Industry Goal** in mind:*

LEVEL ALASKA'S OIL PRODUCTION

- Thanks...and Introduction to Alaska Venture Capital Group (AVCG)
- Fundamental improvements to ACES to attract new investors for E&P
- The “**next frontiers**” for major developments on the NS
 - ✓ **Exploration with smaller fields sharing regional processing facilities**
 - ✓ **Low-permeability sands**
 - ✓ **Source rock shales**
 - ✓ **Major projects existing fields, ie “Big Fields Get Bigger”**
 - ✓ **NS viscous oil**
 - NS offshore oil
 - NS natural gas

AVCG & BRPC: Entity Comparison

AVCG LLC

Holding company

Own all leases

Assignments

ORRI

Production Revenues

Manage overall direction, strategy

BRPC budget, plan

Staffing

Negotiation of all business deals

My Main Job!!! → **Attract new investors & capital to Alaska**


Brooks Range Petroleum Corporation

Subsidiary of AVCG, LLC

Technical services for AVCG

JV companies as needed

Manage operations

office

staffing

misc. services

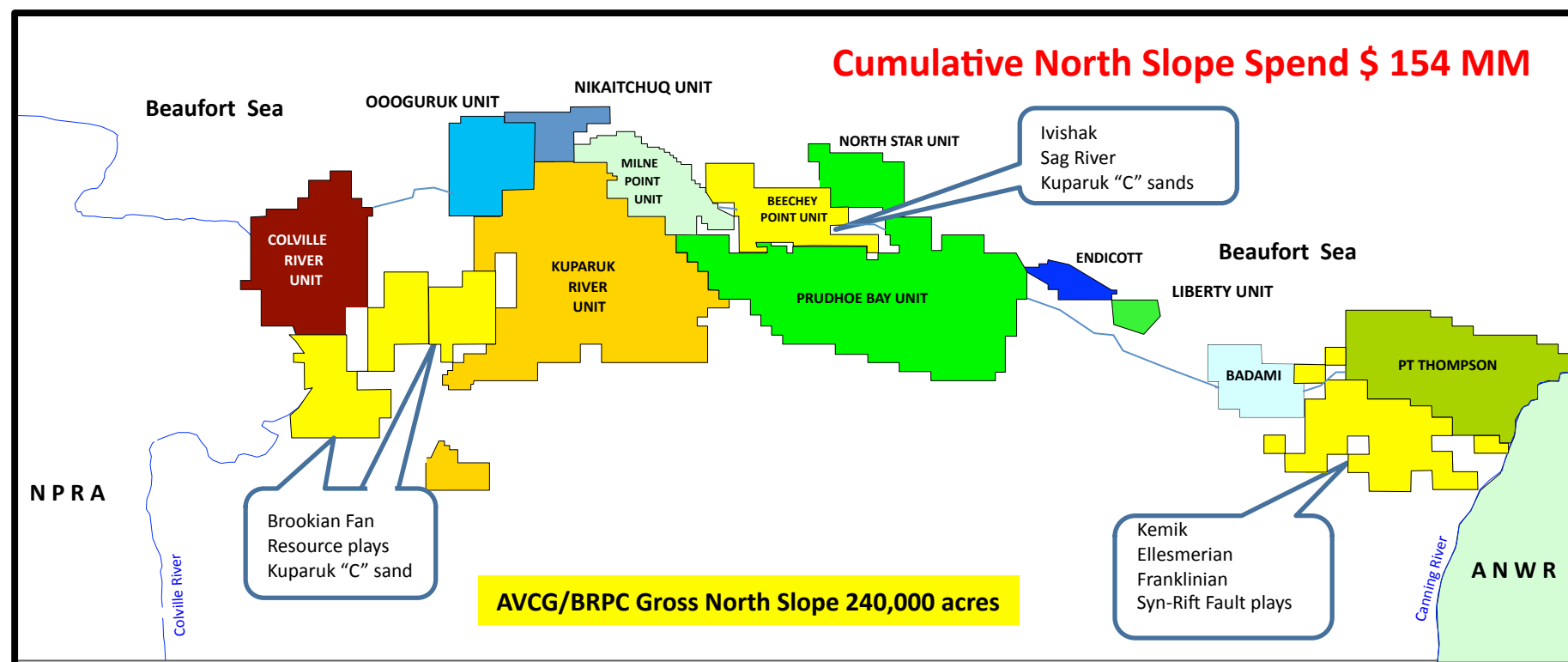
Administrative services

AVCG billings

accounting

lease administration

AVCG JV Leasehold Portfolio



Western – 94,142 acres

Activity

220 sq. mi. new 3 – D seismic
Drilled Kuparuk test & discovery

Central – 52,878 acres

Activity

130 sq. mi. new 3 – D seismic
Drilled Ivishak, Sag River & Kuparuk tests
Ivishak & Sag River discoveries
Formed Beechey Point Unit
Acquired Pete's Wicked discovery

Eastern – 89,800 acres

Activity

Purchased area 2 – D lines

Plan

Drill North Tarn Brookian/Kuparuk test
Progress 3D seismic and prospects
Exploit resource plays in area

Plan

Drill East Shore Kuparuk formation test
Progress Plan of Development of known reserves
Obtain approval of development sanctioning

Plan

- Acquire 150 sq. miles of 3D seismic
- Looking for partner on Shoot-to-Earn
- Continue to progress 2D data
- Monitor Point Thomson activities

Attracting New Investors In The Face Of Global Competition For Capital

Side note: effect upon AVCG relative to Bow Valley/Dana Petroleum, i.e. Dana Petroleum elected not to participate on North Slope because of better tax treatment and higher returns in North Sea

UK North Sea exploration/development

Substantial tax incentives enacted 2009 to encourage development

- NEW FIELDS EXEMPT FROM 20% SUPPLEMENTARY SURCHARGE IT LEVIES ON TOP OF 30% CORPORATION TAX
- EXEMPTION APPLIES TO FIRST \$1.3 BILLION OF EACH FIELD'S TAXABLE INCOME

2010 vs 2009: 1Q drilling up 29%; drilling 2Q up 133%!

Anticipate significant new production

North Dakota to Surpass Alaska in Daily Production

Suspension of severance tax for initial development, i.e. "Severance Tax Holidays"

Expedited permitting by State

650 new wells drilled in 2010 with 168 per month in December!

Reserve estimates of 5-11 billion bbls compared to Prudhoe 13 bbl

Record oil production **ON THE INCLINE** to double this decade

370,000 BOPD to increase to 700,000 BOPD and surpass Alaska

Israel : Oil tax structure

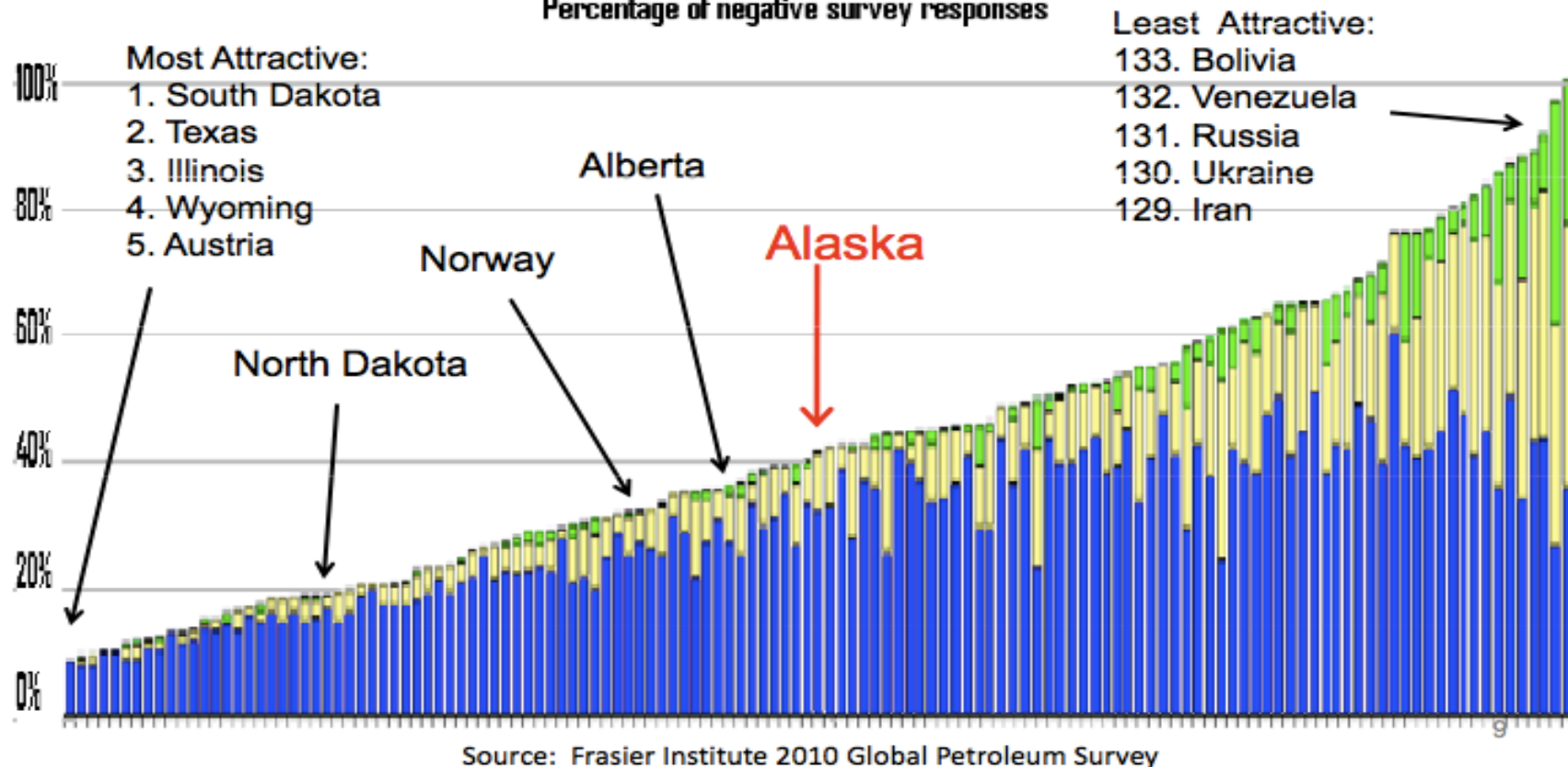
Increase government take from 30% to 52% - 62%
Maintain 30% rate until producer recovers 200% of investment

Attracting New Capital and/or New Investors To Alaska Are Keys To Increasing Activity That Will Level Production



Frasier: Alaska is #68 of 133 in terms of overall attractiveness

Frasier All-Inclusive Composite Index for 133 jurisdictions
Percentage of negative survey responses



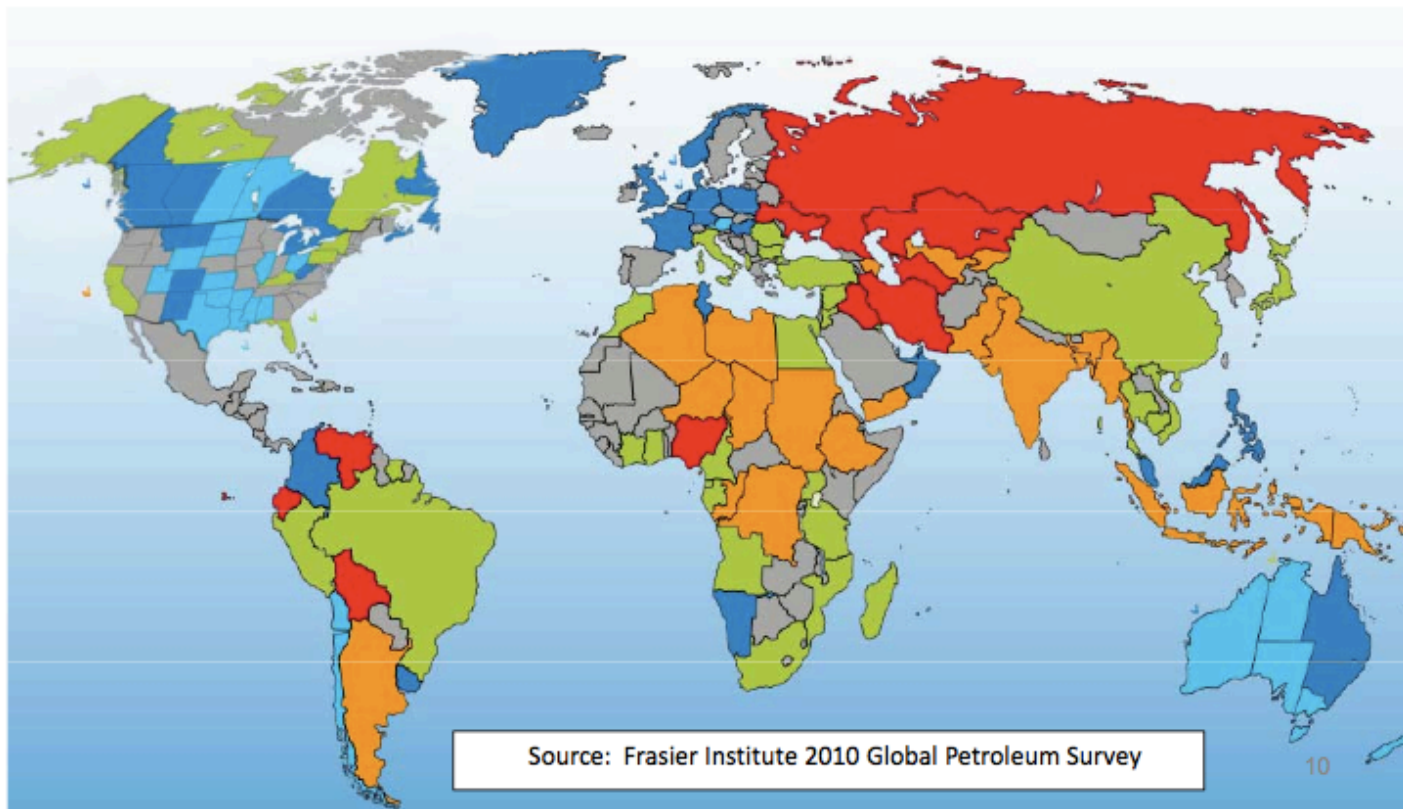
Source: SB 49 Dept of Revenue Presentation, 2/5/2011



Frasier: Alaska's investment climate is "in the middle" globally



Most attractive 2nd Quintile 3rd Quintile 4th Quintile Least attractive Unmeasured



Source: SB 49 Dept of Revenue Presentation, 2/5/2011

AVCG's Thoughts, Suggested Changes To SB 85

- 1) **AVCG supports the SB 85 Development Cost Credit for a credit of up to 100% of qualified CAPEX...would help us attract new investors & capital**
 - ✓ For AVCG's approach to development of "early on production" with stages of modular facilities rather than wait on one massive facility, there is significant – perhaps 50% - CAPEX for development wells and add-on modules 2 years or so after production startup
 - ✓ Modify credit to apply to all CAPEX in the approved Field Development Plan and not just CAPEX spent to start of production, eg Credits to the date the Department of Natural Resources attests that the formal Field Development Plan for CAPEX has been achieved ... or for CAPEX spent 2 years after initial production startup
- 2) **However, AVCG believes that to level production, comprehensive change must address ALL the "next frontiers" for major developments on the NS**
 - ✓ **Exploration with smaller fields sharing regional processing facilities**
 - ✓ **Low-permeability sands**
 - ✓ **Source rock shales**
 - ✓ **NS viscous oil**
 - ✓ **Major projects in existing fields/zones, ie "Big Fields Get Bigger"**
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- 3) **SB 85 addresses NEW oil, e.g. the first 3 items listed above...these may be insufficient to level the production...SB 49, however, addresses ALL oil sources which is needed**

AVCG's Recommends Merger of 49 & 85 To Achieve The Common Goal of "No Decline"

Merge ideas of SB 85 into the broader bill and support proposals in SB 49 :

- 1) Revise the progressivity surcharge to the "bracketed tax structure" with calculations made annually instead of monthly
- 2) Cap the total tax at 50% when oil prices top \$92.50/bbl
- 3) For development of new fields outside existing production units, the base tax rate will be 15% instead of 25% and cap the total tax at 40%..and introduce credit structure of HB 85

A bracketed structure with reduced base rate and cap and a reduced base tax rate for new fields with a lower cap would attract more investor partners for AVCG et al to increase small field development and establishment of the North Slope's first "open access" facility sharing processing facilities.

- 4) Accelerate the payment for exploration and other qualified capital investments to one year vs. two years

The acceleration of credit recovery payments to a one year cycle would allow for AVCG and its partners to consider drilling 3 exploration wells per year instead of an average of 2 per year...a chance for more discoveries sooner

- 5) Increase the tax credits for "qualified capital" investments from the current 20% to 40%...OR SB 85

An increase in qualified capital credits to 40% would provide immediate impact to BRPC's project investment base and would extend our ability to encourage additional and continued capital investment from our current WIO's therefore providing more opportunities for successful discoveries and future development projects

- 6) Extend indefinitely the "Small Producer Tax Credit" of \$12MM a year from expiring on May 1, 2016 (or certainly extend another 5 years to May 1, 2021 then re-assess at that time). This is an item not currently in current bills but would be helpful in attracting new long-range development capital for BRPC and others like our company.

Currently, we have a sanctioning proposal in front of our WIO's that projects first oil and revenues in 2013. With the Small Producers Credit expiring in May 2016, the development would be limited to a 3 year use of this credit. We would propose an extension through 2021 to allow our first project the full credit to attract new investors.

