

1.Strong Investment Value of Tax Credits

2.Cosmopolitan Unit Overview

3.Impact of HB 247 CS on BlueCrest

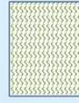


J. Benjamin Johnson
House Finance Committee Testimony
April 4, 2016

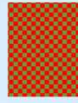
Cosmopolitan Project Area

- 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

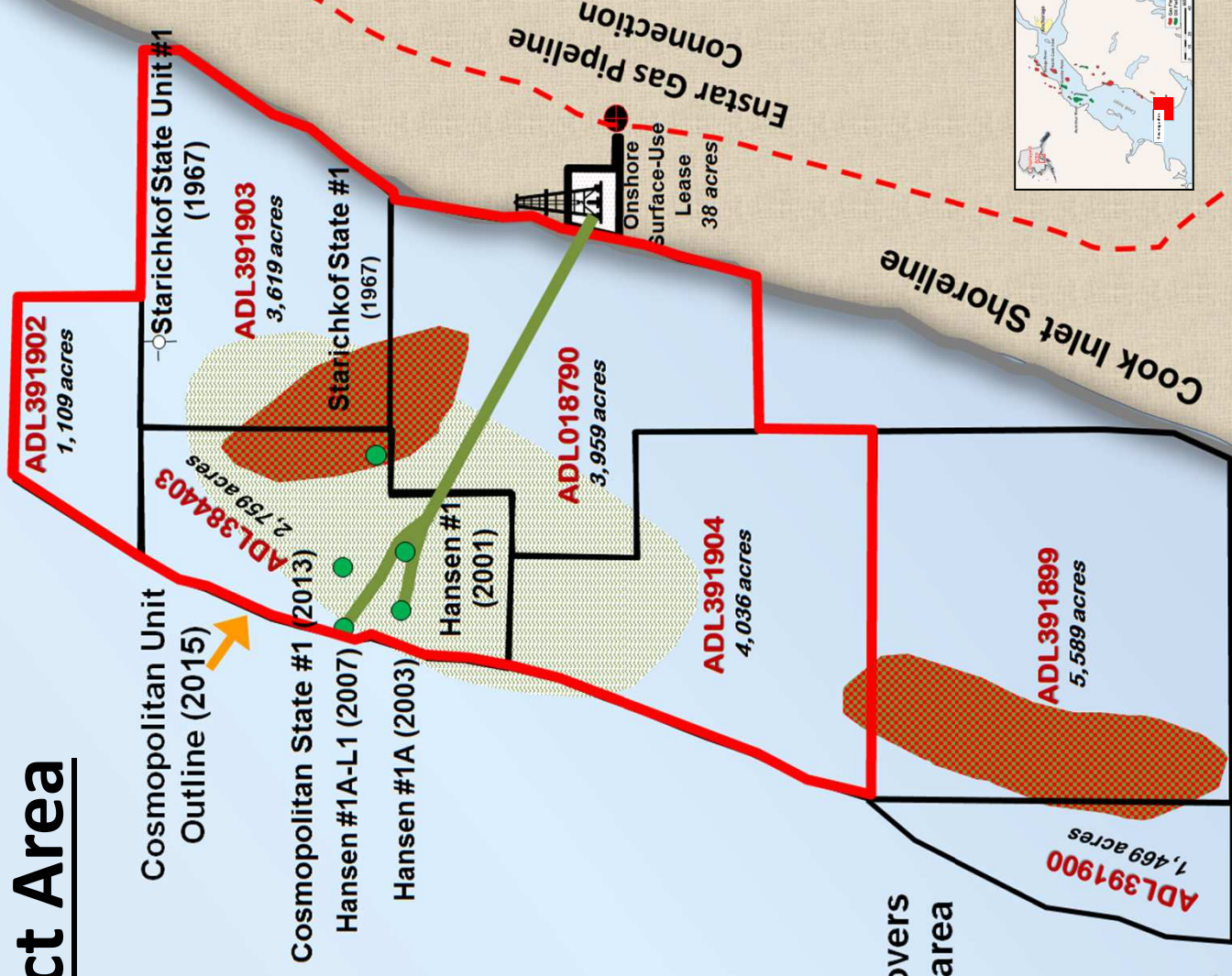
3-D Seismic covers entire Project area (2005)



Approximate areal extent of known productive reservoirs

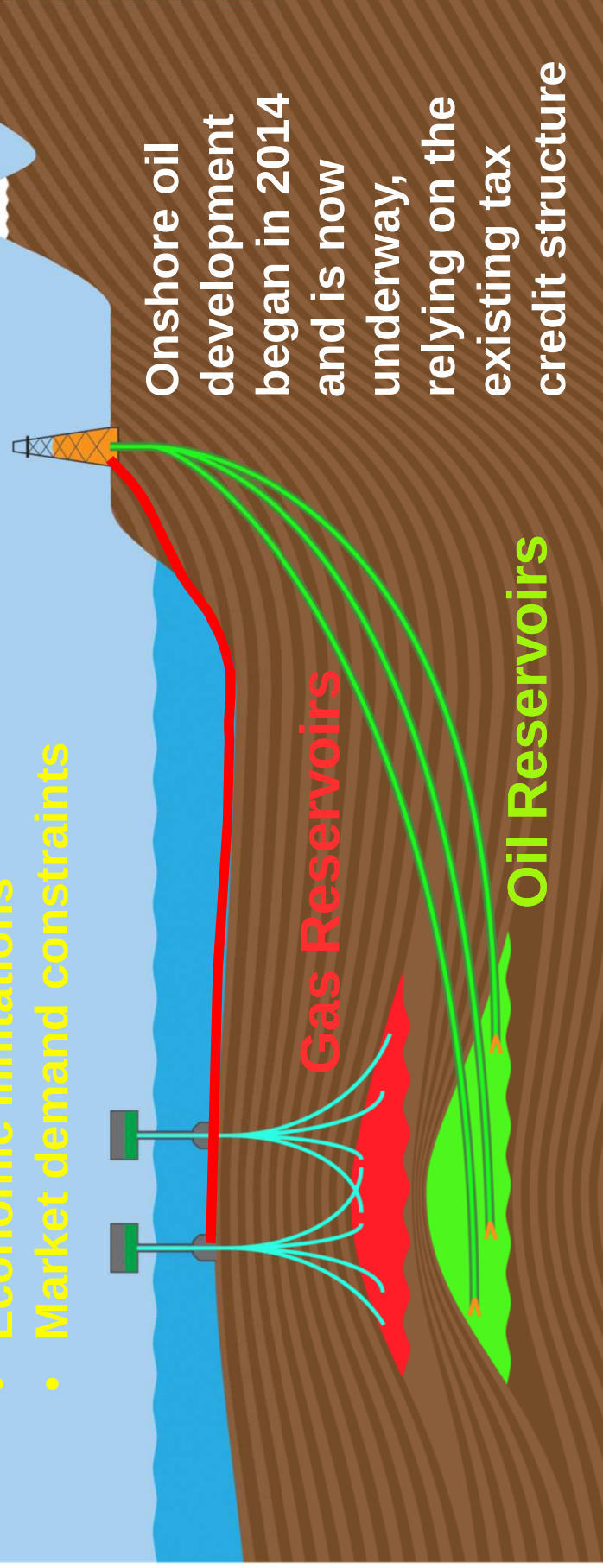


Approximate areal extent of identified exploratory prospects



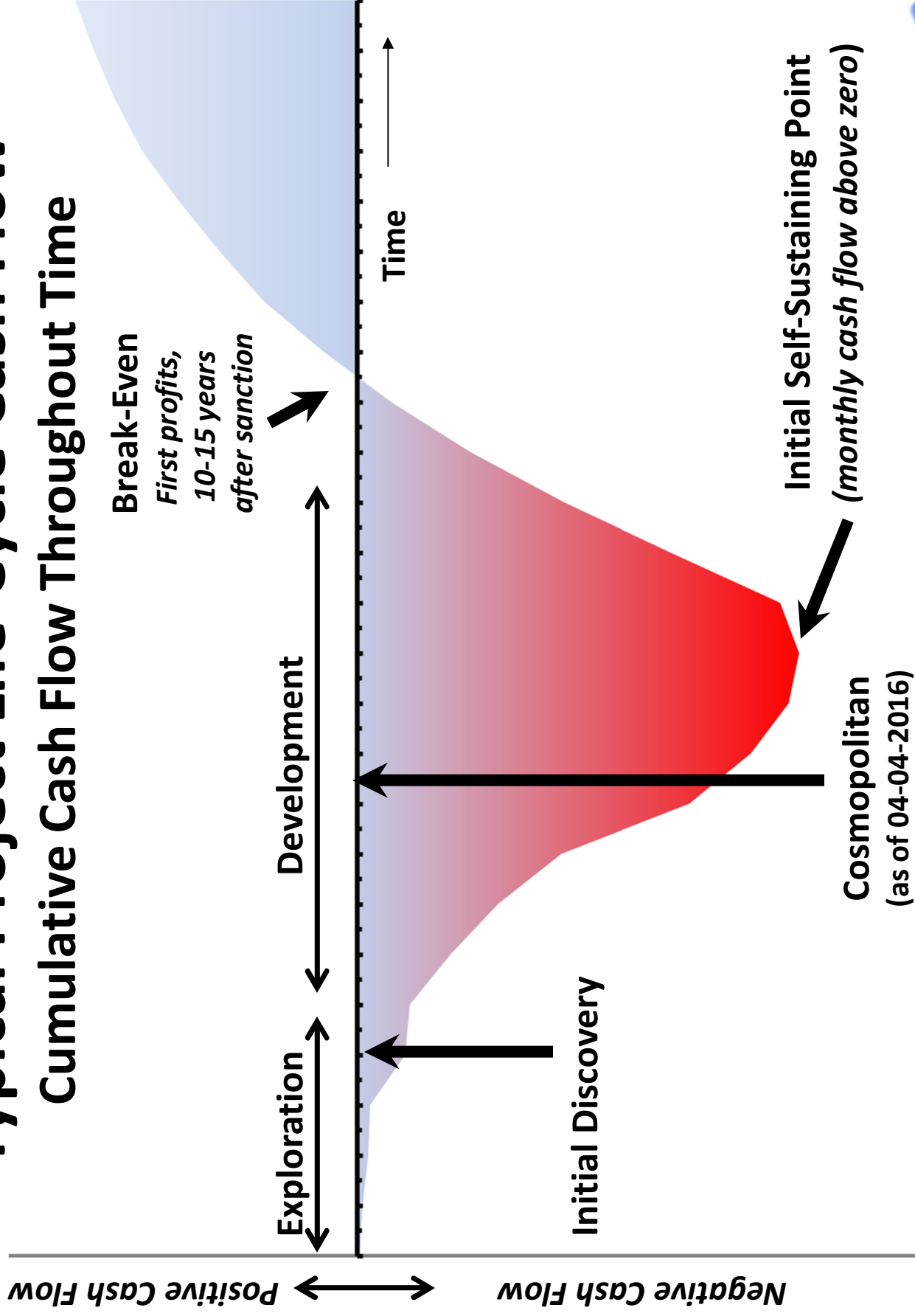
Cosmopolitan Unit Development Concept

- 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 due to:**
 - Economic limitations
 - Market demand constraints



Typical Project Life-Cycle Cash Flow

Cumulative Cash Flow Throughout Time



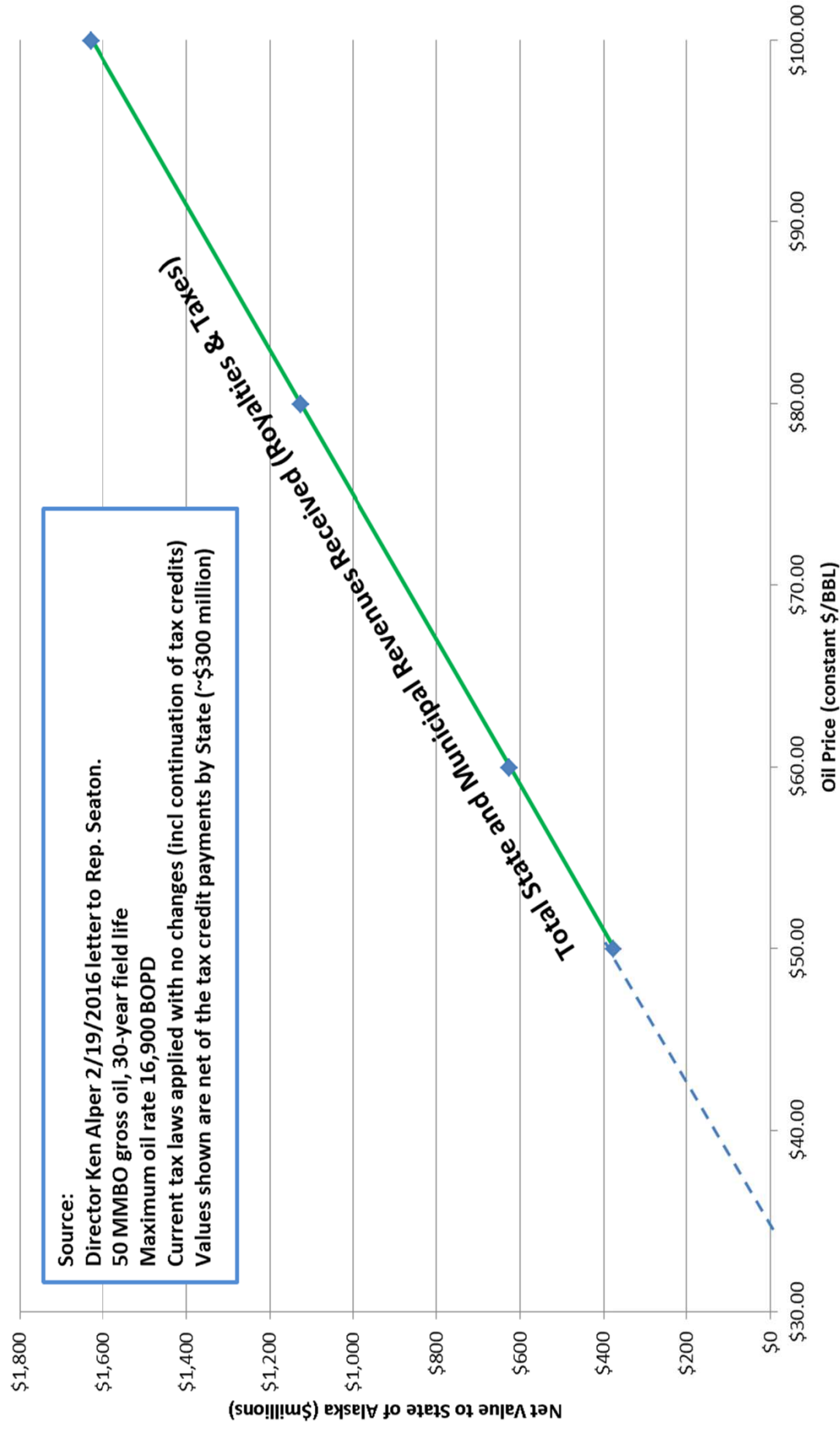
Cosmopolitan Progress as of 04/04/2016



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

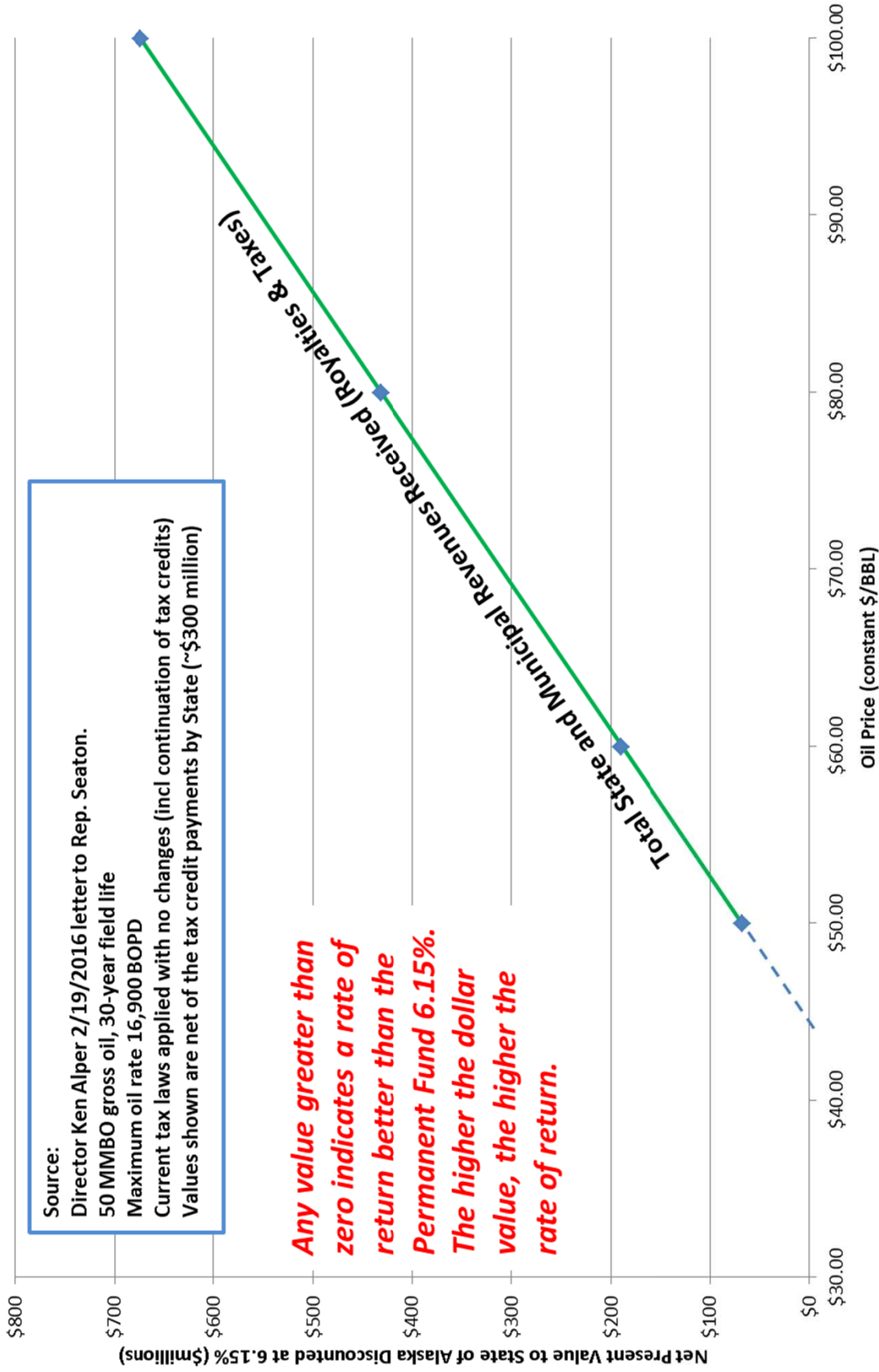
Summary of DOR Analysis, 2/19/2016: Example Cook Inlet Full Field Development

Net Cash Benefit to State from Continuation of Current Tax Credit Law 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

Source:
 Director Ken Alper 2/19/2016 letter to Rep. Seaton.
 50 MIMBO gross oil, 30-year field life
 Maximum oil rate 16,900 BOPD
 Current tax laws applied with no changes (incl continuation of tax credits)
 Values shown are net of the tax credit payments by State (~\$300 million)



Continuation of 023(a) and 023(l) Credits

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

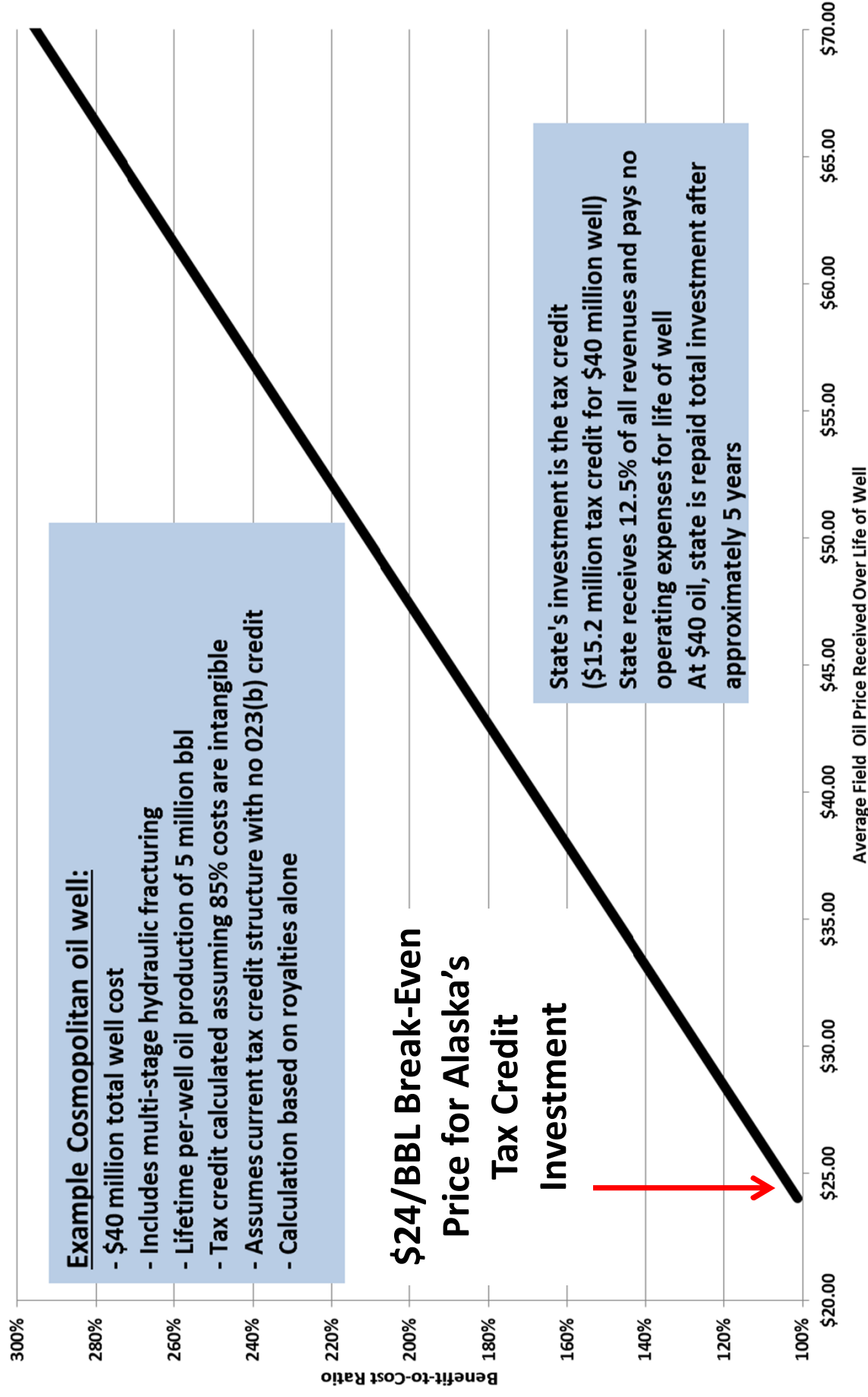
Termination of the 023(l) credits will result in a significant reduction of BlueCrest's ability to continue drilling at Cosmopolitan.

Continuation of the 023(l) credits facilitates Cosmopolitan continued drilling at ~\$10/BBL lower oil prices.

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)



Per-company limitations 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 if previously-filed credits are not paid**
- **A strong disincentive for future investments**

Effective Date for Changes (July 1, 2016 – July 1, 2017)

BlueCrest has already contracted for work that will take place over the next year. Funding of that work was based on current tax laws/credits.

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!**