Joint Alaska Senate and House Resources Committees

Hearing Testimony: J. Benjamin Johnson

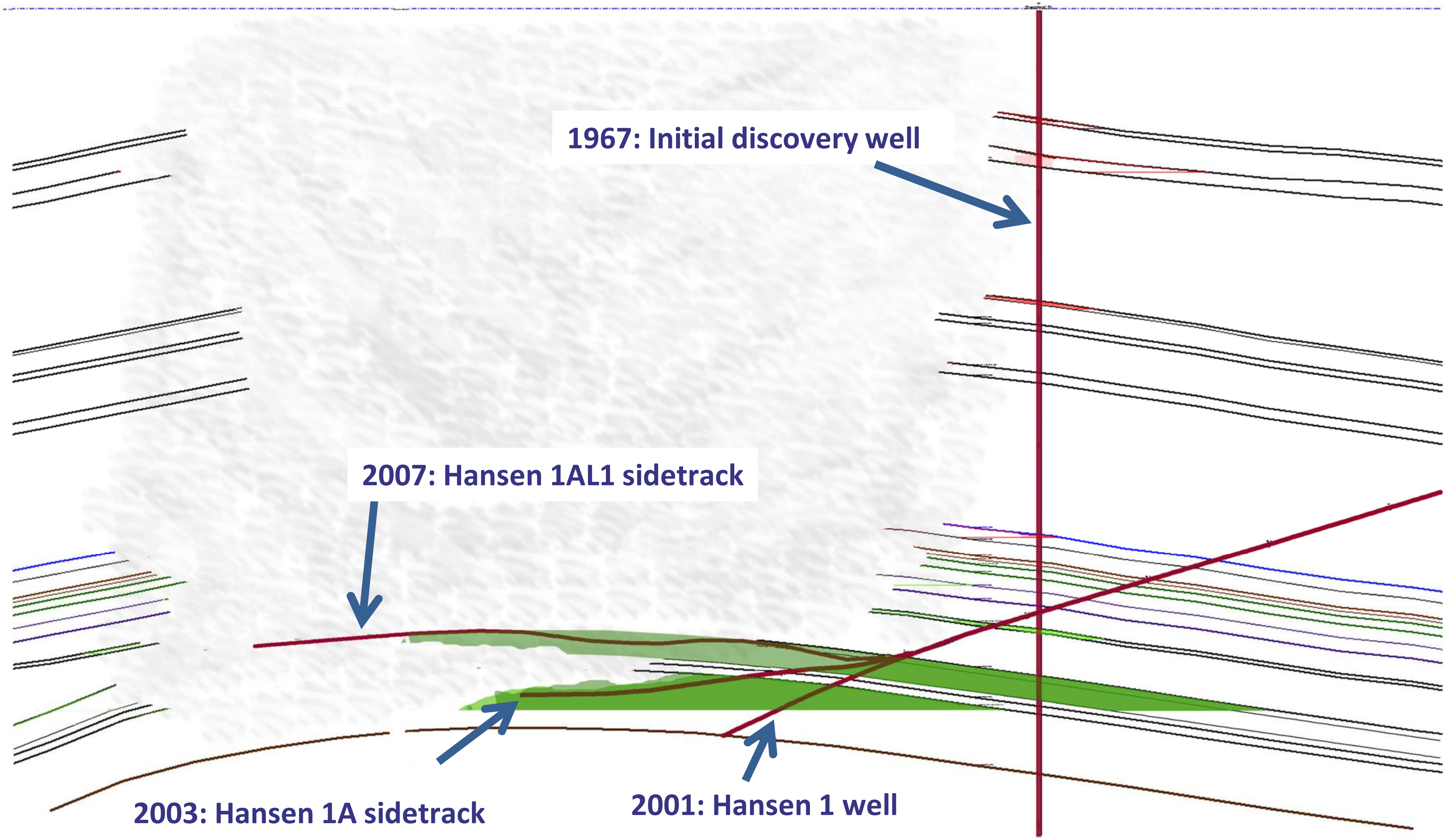
(Kenai - June 17, 2015)

BlueCrest Energy Inc. Overview

- Privately owned
- Experienced management with backgrounds in major oil companies and in Alaska
- Sole current focus is development of Cosmopolitan resources
  - 30 employees and contractors currently employed in Alaska
  - 250 anticipated peak Alaska jobs during construction operations in 2015/2016
  - Approximately 100 planned full-time Alaska jobs during routine drilling and production operations
  - Projected taxes and royalties:
    - Over $300 million of Alaska royalty payments and taxes paid during the initial 10 years
    - Over $600 million of Alaska state royalty payments and taxes paid over the entire field life
    - Over $20 million of State and Borough property taxes paid during the initial 10 years
  - Planned spending for the remainder of 2015: $80 million
  - Planned spending for 2016: $120 million
- As a small private company, development capital is limited
  - Capitalized to date through private investors and management: over $200 million
  - Spent since acquisition in 2012: $144 million
  - Tax credits/rebates received to date: $21 million
  - Currently no third-party debt – however:
    - Now finalizing $150 million private loan facility for Cosmopolitan oil development
    - Now finalizing $30 million AIDEA loan for onshore drilling rig purchase

2012: BlueCrest acquired leases from Pioneer

Subsurface information available when BlueCrest purchased Cosmopolitan from Pioneer in 2012



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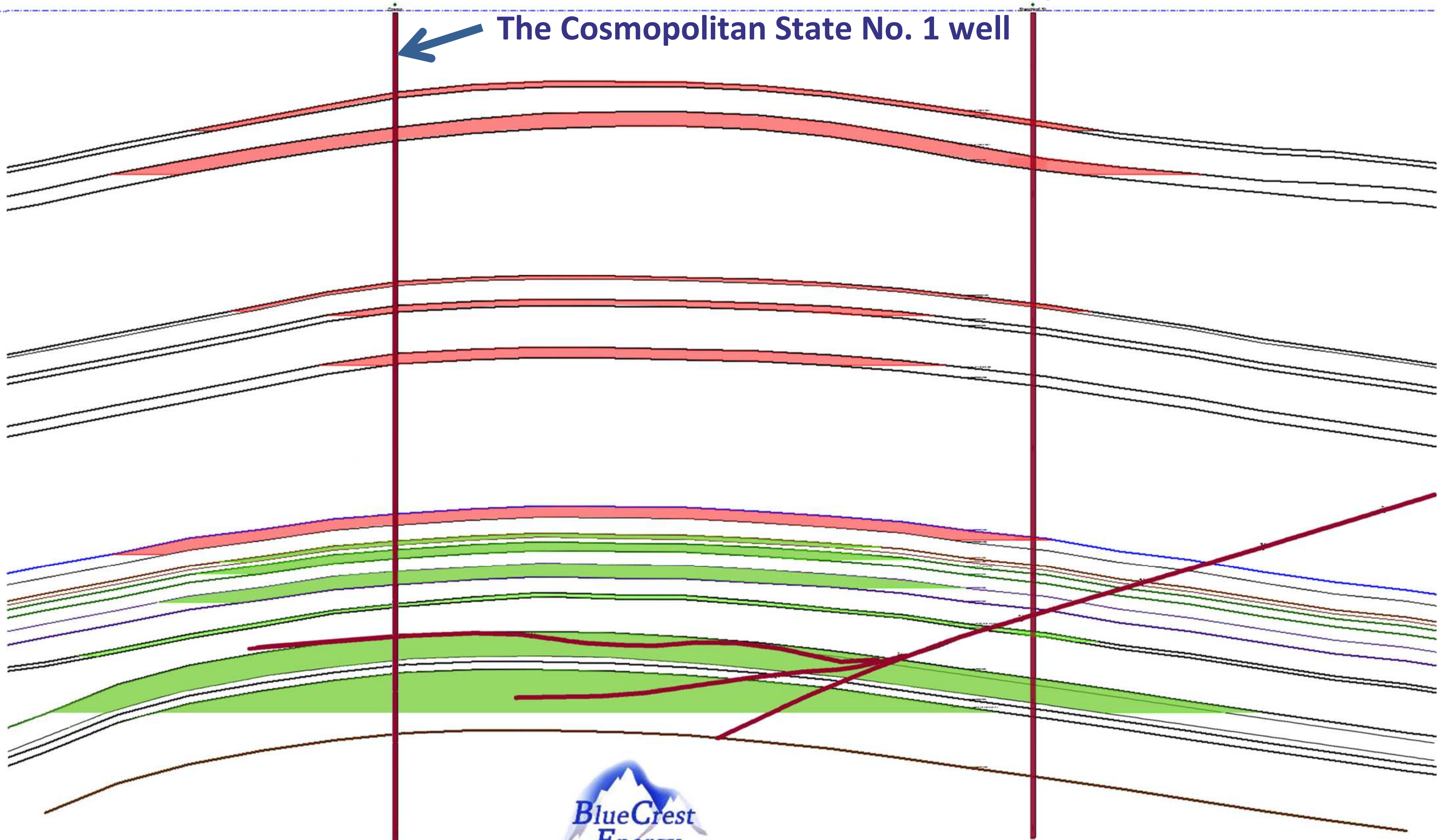
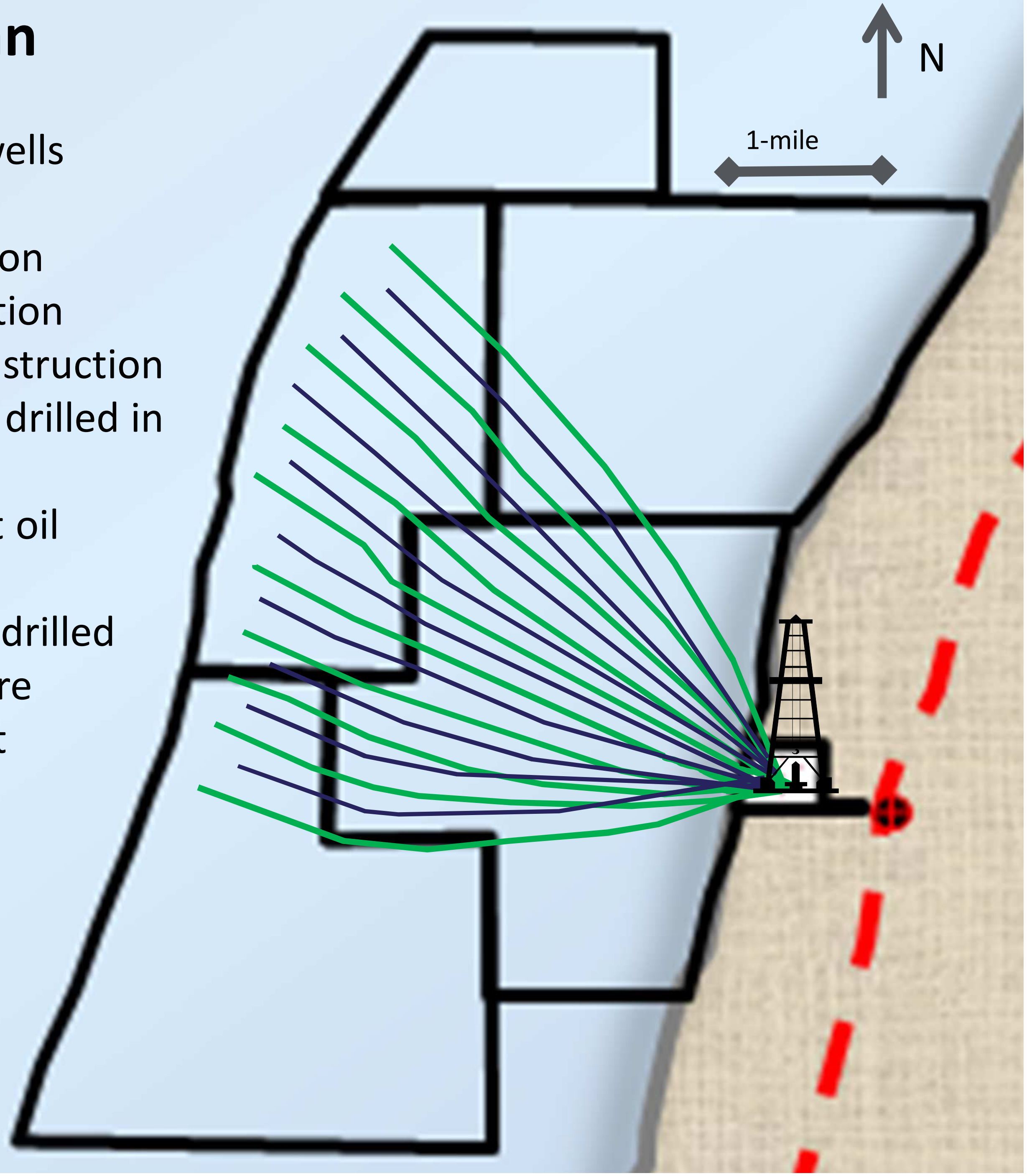
2013: BlueCrest drilled a vertical well from offshore

Confirmed substantial additional oil and gas reserves



Oil development plan

- Extended-reach horizontal wells drilled from onshore
  - No offshore oil production
- Onshore drilling and production facilities currently under construction
- Initial oil development wells drilled in 2016
- Facilities completed and first oil production by April 2016
- Future water injection wells drilled to maintain reservoir pressure
- Total projected development spending through 2019: $690 million



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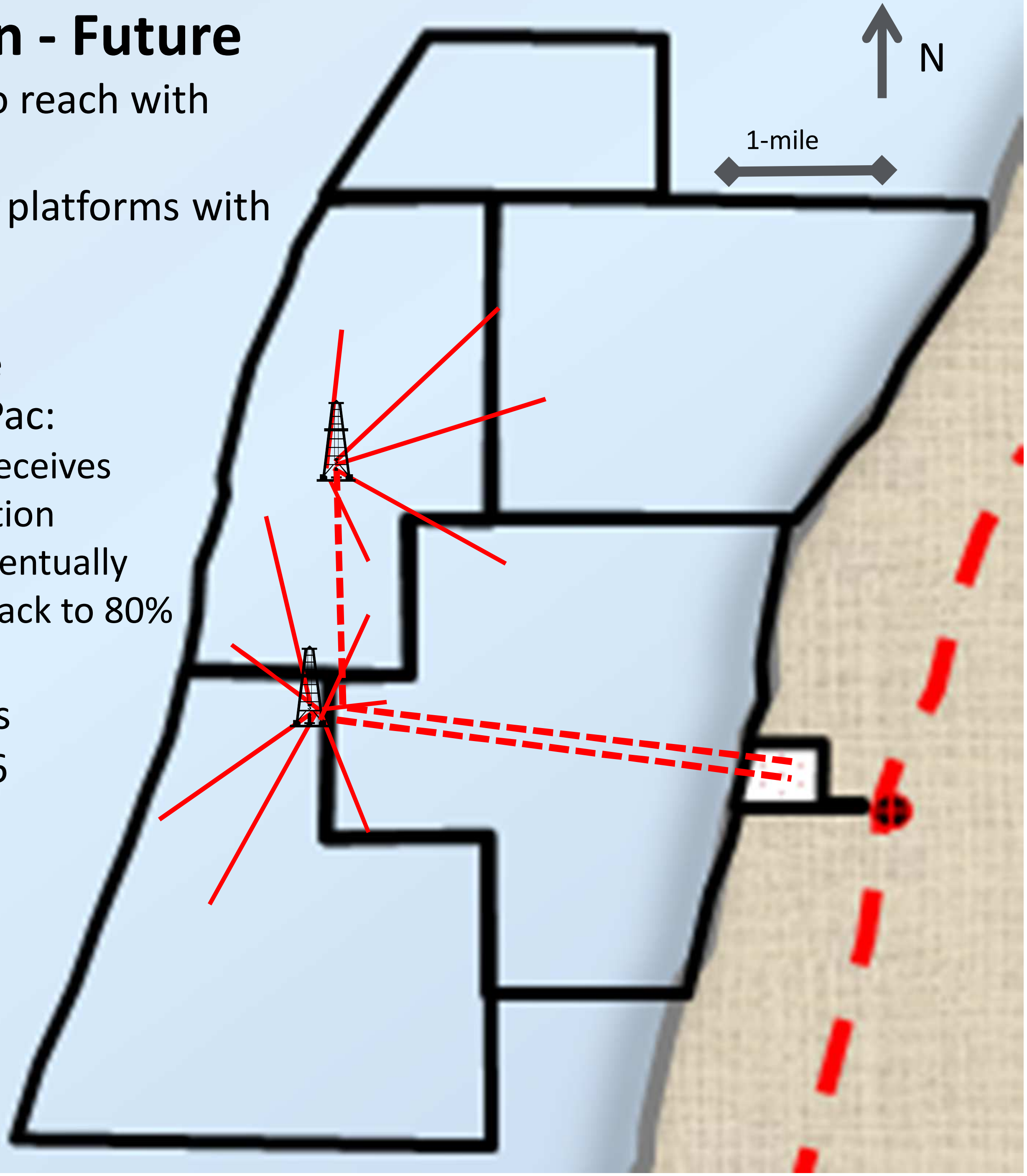
Gas development plan - Future

- Gas zones are too shallow to reach with onshore wells
- Requires two small offshore platforms with drilling by jack-up rig
- Dry-gas only
  - No oil production offshore
- Farmout planned with WesPac:
  - Wespac funds 100% and receives 100% of initial gas production
  - BlueCrest operates and eventually increases gas ownership back to 80%
- Cosmopolitan gas deliveries prioritized for Alaska’s needs
- Development begins in 2016
- Production begins in 2018 - in time to avert local supply shortages beyond 2018



Cook Inlet Oil and Gas Characterization

- Proven prolific basin
  - More than 1.3 billion barrels of oil and 7 TCF of gas produced to date
- Little exploration activity and no discoveries of large fields in decades
  - Large structures have been found
  - Good potential for new discoveries, but high risk and cost
- Easier access than North Slope, but Cook Inlet still has limited infrastructure compared to Lower 48
- Lower costs than North Slope, but still much higher than Lower 48:
  - Cosmopolitan State #1 (7400' vertical offshore exploration well) cost $45 million
    - Recent offshore Vermillion (GOM) 8,000' exploration well cost $8 million*
  - Cosmopolitan onshore 5000' horizontal development wells will cost approximately $30 million each
    - Permian Wolfcamp 9,000' horizontal wells typically cost $8-9 million each*
    - Bakken 10,000' horizontal wells typically cost $7-9 million each*
    - Eagle Ford 8,000' horizontal wells typically cost $6-7 million each*

* Source: Citi internal analyst report

Considerations for Alaska O&G Industry Future

- Alaska exploration and development projects are expensive but offer large resource potential
- Major oil companies:
  - Well-suited for ultra-large development projects
- Well-run independent companies:
  - Well-suited for exploration and development of smaller projects
  - Strong technical ability
  - Efficient operations
  - Innovativeness
  - Nimbleness
  - Willing to pursue smaller projects
  - Limited internal capital

Considerations for Alaska O&G Industry Future (continued)

- Most (but probably not all) new Alaska discoveries will be smaller (likely too small for majors' focus)
  - Typical evolution of basin development throughout the world:
    - Usually started by majors with largest fields
    - Independents typically fill in behind the majors and re-invent the resources
    - Permian Basin Example:
      - One of oldest and most prolific basins in the world, estimated to hold 20-25% of all US oil
      - Majors sold most of their assets to independents in 1970's – 1990's, "too mature"
      - Permian basin produced 2 million BOPD in the 1970's but declined to 850,000 BOPD in 2005 as majors left
      - Independents employed new technology (horizontal drilling and fracking)
      - Mostly through actions of independents, current production is now over 1.3 million BOPD
- Future Alaska investments must compete with opportunities in other areas
  - Since capital to smaller companies is limited, investors strongly prefer to invest where they can make the highest return

Importance of Alaska's Tax Credit Programs

- Credits help offset the higher Alaska costs and encourage more Alaskan investments
- Credits are a critical factor in obtaining private investments required to develop the resources
  - Confidence that the credits will continue into the future is required for commitment now to long-term development
- Impact on BlueCrest
  - BlueCrest would not be here without them
    - Credits were critical factor in obtaining investment funding
  - BlueCrest could not continue full Cosmopolitan oil development without them
    - Budgets for development over the next 5 years include credits that offset costs
    - Private capital is limited, loss of credits would necessitate reduction of development

Continuation of the tax credits can be a good investment

Example: Cosmopolitan oil development

- Projected future tax credits would amount to approximately $190 million through 2019
  (approximately 35% of total Cosmopolitan spending during that time)
- State royalties for oil and gas produced from those wells would be more than $600 million (assuming $65 average oil price received)
  - 200% Return on Investment
- Local oil and gas produced can be used by Alaskans to lower energy costs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