

2/18/11

OVERVIEW:

**ALASKA OIL &
GAS EXPLORER
AND SUPPORT
INDUSTRY**

<TARGET><BILL></BILL><SUBJECT>2-18-11 OVERVIEW ALASKA
OIL and GAS EXPLORER AND SUPPORT
INDUSTRY</SUBJECT><COMM>HRES27</COMM></TARGET>

DOYON, LIMITED

**Presentation
to the
House Resources Committee**

February 18, 2011
Juneau Alaska

Jim Johnson

Overview

<input type="checkbox"/> Mission, Vision, Values, Goals	3
<input type="checkbox"/> Shareholders	4
<input type="checkbox"/> Corporate Strategies	5
<input type="checkbox"/> Operating Pillars	6
<input type="checkbox"/> Oil Field Services	7
<input type="checkbox"/> Land and Resource Development	8
<input type="checkbox"/> The Bottom Line	9

Mission, Vision, Values & Goals

Mission

...to continually enhance our position as a financially strong Native corporation in order to promote the economic and social well-being of our shareholders and future shareholders, to strengthen our Native way of life and to protect and enhance our land and resources.

Vision

Leader in All We Do

Values

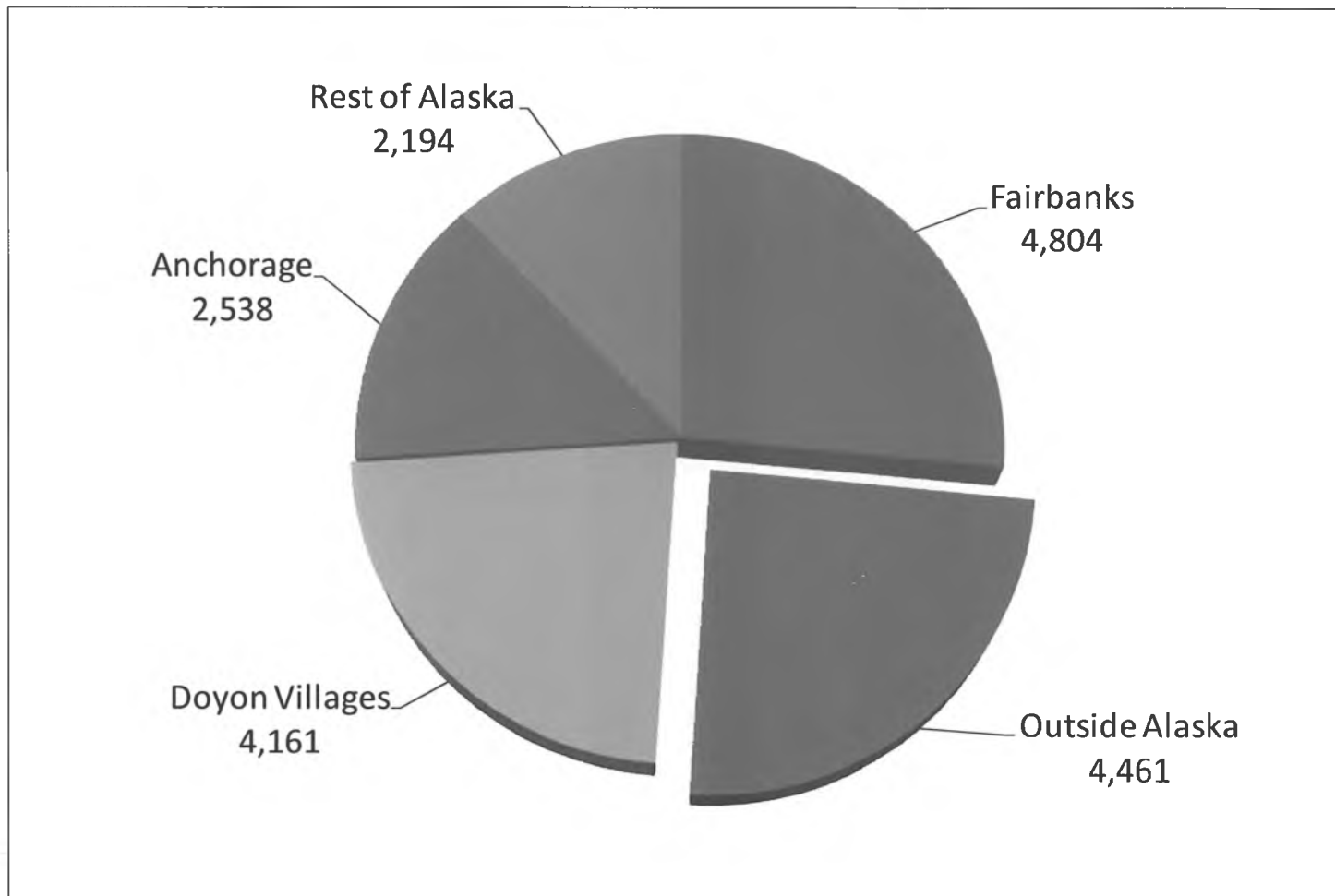
Financial responsibility, pride and respect in Native ownership, social and cultural responsibility, commitment to the long-term, honesty and integrity, commitment to excellence, respect for employees

Goals

Financial and People

18,158 Shareholders

13,697 Alaskans



Corporate Strategies

Select optimal mix of operating companies to maximize earnings and provide shareholder opportunities:

- Adopt focused rationale for ownership
- Exercise discipline in acquisition and divestiture activity

Add value to those companies by providing:

- Strategic and tactical guidance and oversight
- Cost-saving operational, financial and administrative synergies

Explore Doyon and other lands for oil and gas development opportunities using:

- Funds generated through operations
- State incentives

Increase value to shareholders through:

- Support for education and training (including internships).
- Career Development (including succession and mentoring).
- Retention and training
- Dividends, donations, and scholarships

*20 mil wages
6 mil dividends*

Operating Pillars

- Oil Field Services
 - Drilling
 - Security
 - Engineering
 - Facilities
 - Construction

- Government Contracting
 - Military Utility Management
 - Security
 - Construction
 - Logistics

- Land and Resource Development
 - Oil and Gas
 - Hard Rock Minerals
 - Sand and Gravel

Oil Field Services

	Doyon Drilling	Doyon Universal	Doyon Emerald	Doyon Industrial/ Associated
Ownership	Doyon 100%	Doyon 50.1% Sodexo 49.9%	Doyon 100%	Doyon 50.1% Associated Pipeline 49.9%
Services	Drilling <i>7 rigs all working NS</i>	Security, Facilities on North Slope and TAPS	Engineering	Construction
Primary Location	North Slope Anchorage <i>1 new one</i>	North Slope Remote Sites Anchorage Fairbanks Valdez	Anchorage	North Slope Fairbanks
Current Business Outlook	Exploration activity is down, focus on work overs and managed decline, restrictive regulatory environment	Exploration activity is down, focus on work overs and managed decline, restrictive regulatory environment	Stable	Exploration activity is down, focus on work overs and managed decline, support for pipeline integrity program
Employees				
	2007 314	1114		40
	2008 271	956		87
	2009 224	813		87
	2010 285	831	34	

~85% are shareholders

Land & Resource Development

ANCSA provided 12.5 million acres. We are:

- Serving as responsible stewards of the land
- Promoting, leasing and exploring Doyon land for hard rock minerals
- Investing in oil and gas exploration in the Interior
 - Nenana – State, MHT, Doyon lands *Ex well ~20 mil MHT lands plug significant seismic in 12*
 - Stevens Village & Birch Creek (Yukon Flats)– Doyon lands
- Leveraging our investments through data analysis, partnerships, and incentives
 - Doyon's efforts have resulted in over \$200M of investment in exploration and related activity in Interior Alaska

The Bottom Line

- Doyon is an Alaskan company that employs 1,500 Alaskans
- We must look to the future for business opportunities on behalf of our shareholders and our employees
- Vast oil and gas opportunities remain in Alaska
- Investment in oil and gas exploration and production is down
- Alaskans have lost jobs and revenues
- Our current oil tax policy inhibits investment in development, inconsistent with state constitutional requirement to maximize the benefit of our resources
- Doyon supports a state oil tax policy that fills our pipeline...producing jobs and revenue for Alaskans and Alaska

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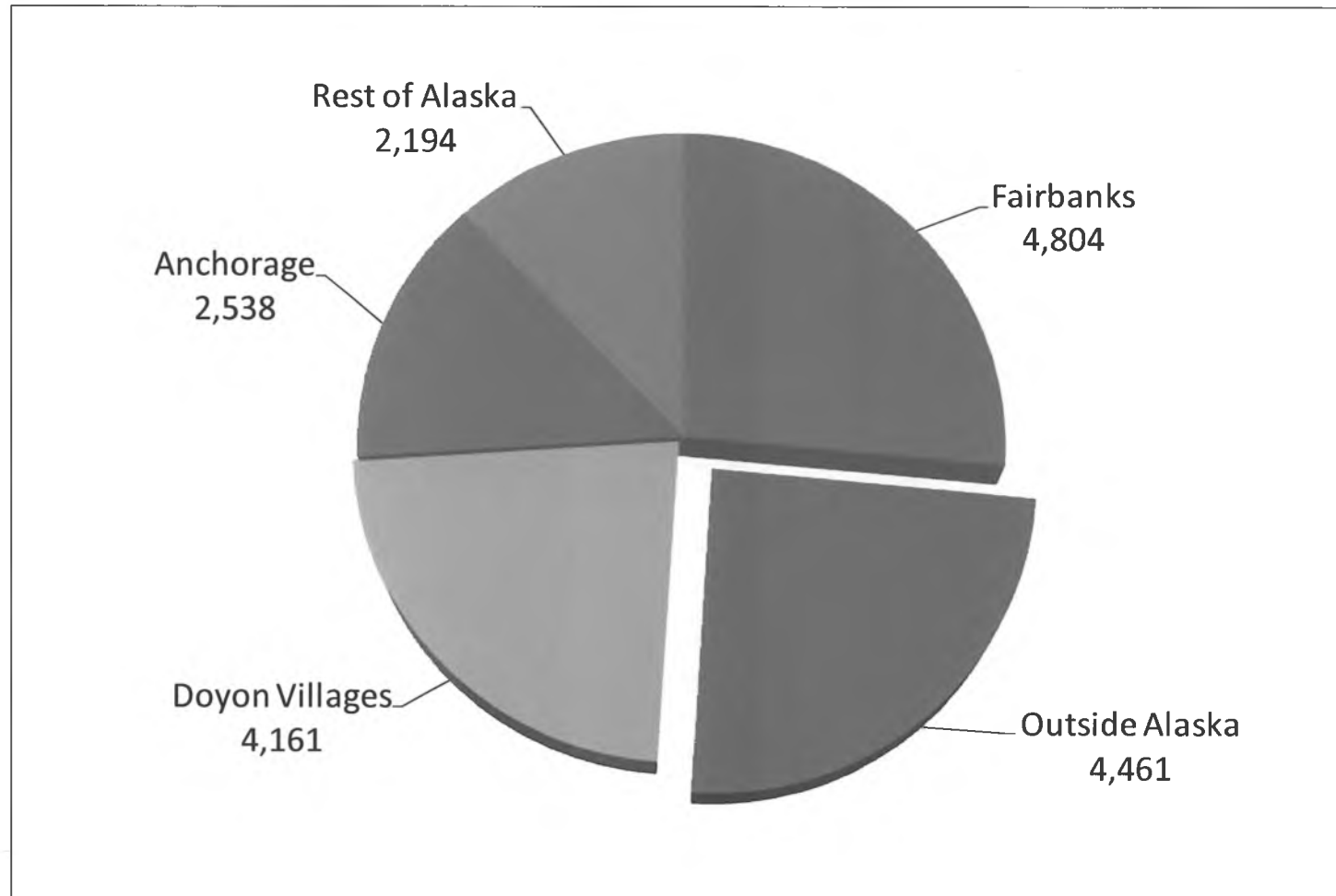
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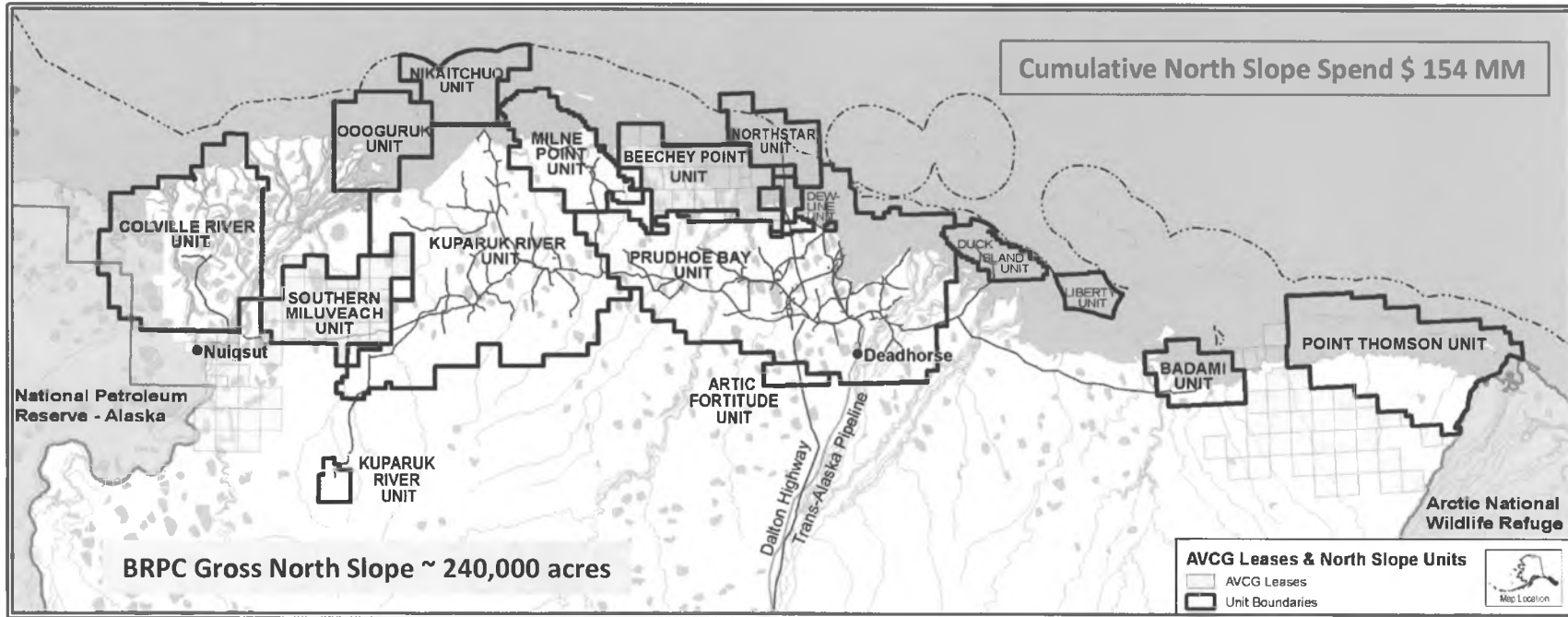
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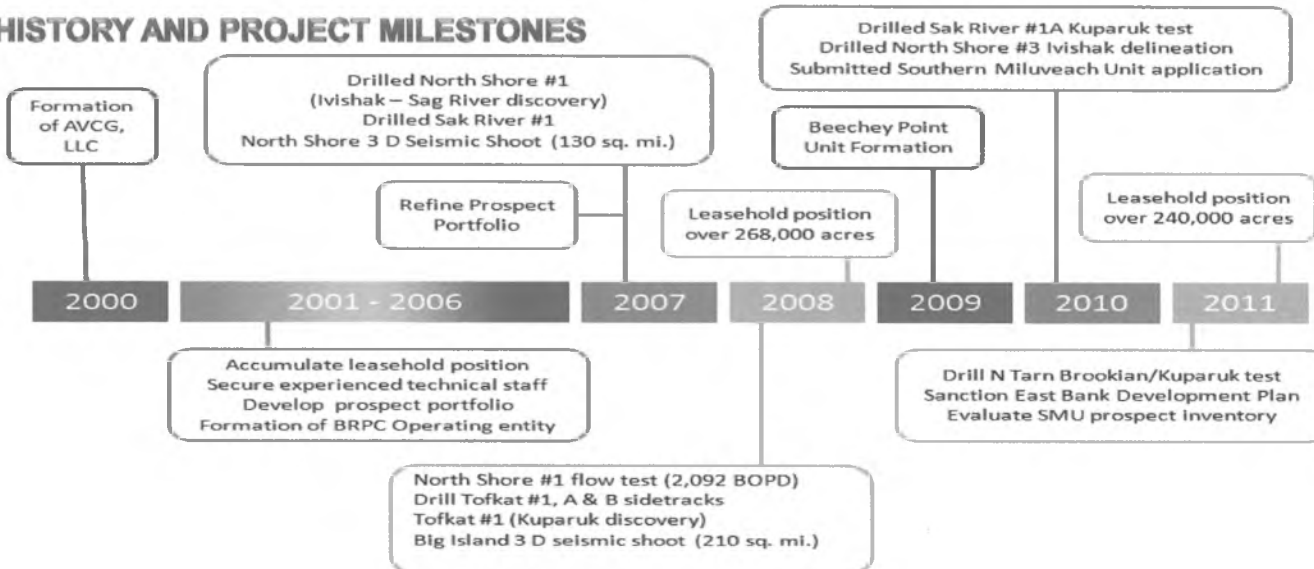
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10 YEAR HISTORY AND PROJECT MILESTONES





- ❖ WIO's represented by BRPC are committed to Alaska and currently have a \$ 154 MM investment that needs to perform
- ❖ Current business plan approved by our investors has a timeline which reflects first oil and revenues from production in mid 2013
- ❖ Each year we delay, has an adverse effect on the investments ROI and IRR
- ❖ Current economic models used by BRPC, marginally support an acceptable IRR on smaller targeted accumulations with an assumption that reserve base would expand to include other prospect potential in the project area
- ❖ An increase in tax rate and a reduction in capital credits would have a negative reaction when applied to current models most certainly moving the project to an un-economic portfolio position and would shorten our active participation on Alaska's North Slope
- ❖ Increased capital credits, lowering of the base rate and progressivity when applied to our model would assure an attractive IRR, and would foster a more aggressive prospect portfolio and in turn, provide encouragement to our WIO's for added funding for our NS projects.
- ❖ Elevate the interest level of other players with a watchful eye on Alaska



COMMON GOAL : Slow or level the decline of oil production and throughput in Alaska

Support proposed changes in HB 110 :

- ✓ Revise the progressivity surcharge to the "bracketed tax structure" with calculations made annually instead of monthly
- ✓ Cap the total tax at 50% when oil prices top \$92.50/bbl
- ✓ 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%

A "bracketed structure with reduced base rate and cap" would support BRPC's ongoing activity level in Alaska by providing a more favorable economic structure and near term effect on our eventual ROI and IRR with respect to our pursuit of smaller and normally marginal accumulations.

- ✓ 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 the planning and execution of an expanded work program and an increased level of activity and the associated employment base and support services required to perform relative project support

- ✓ Increase the tax credits for "qualified capital" investments from the current 20% to 40%

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

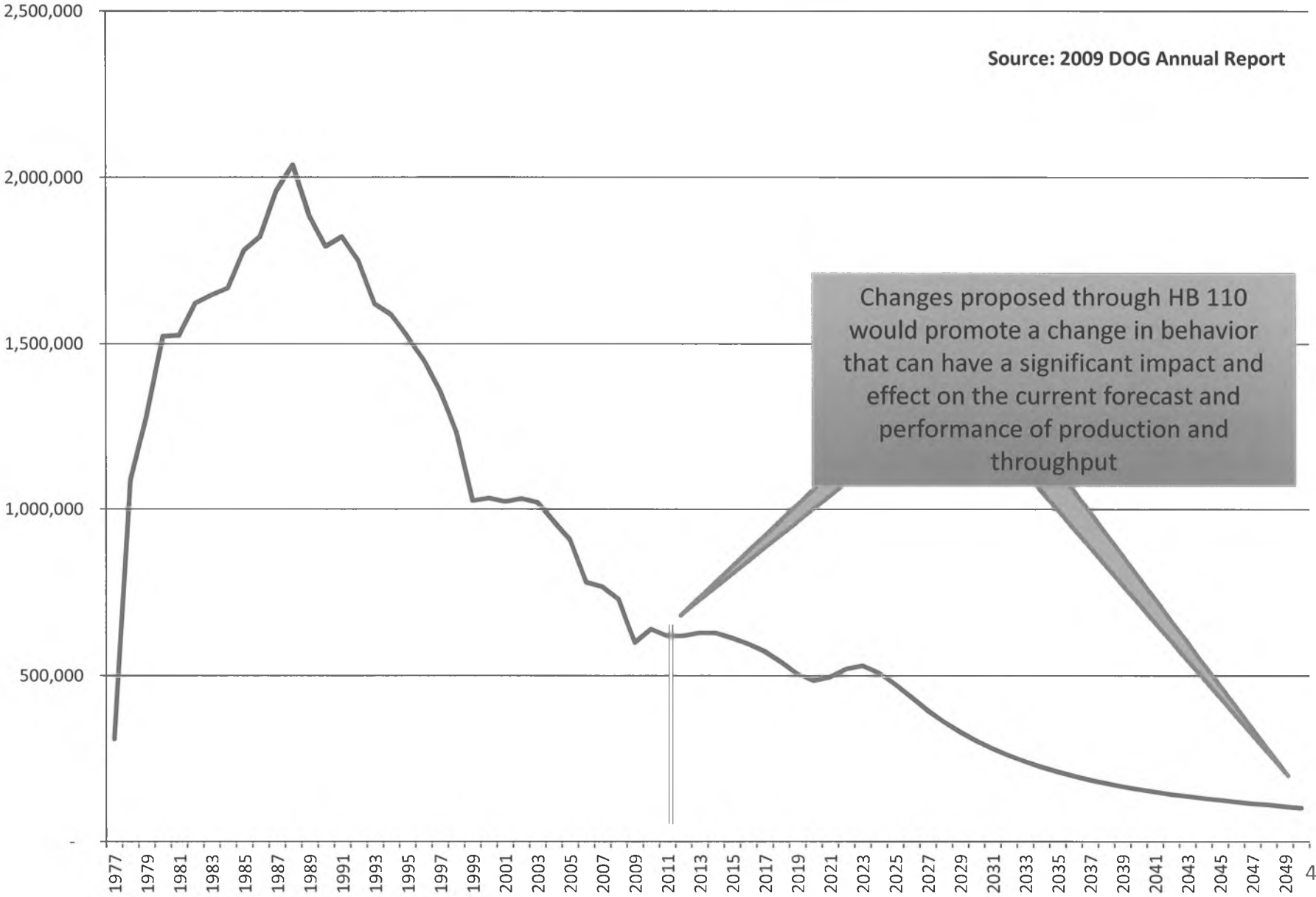
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Currently, we have a sanctioning proposal in front of our WIO's that projects first oil and revenues in 2013, under the current sundown of the Small Producers Credit, the development would be limited to a 3 year optimization of this credit and would propose an extension through 2021 to allow our first project maximum effect



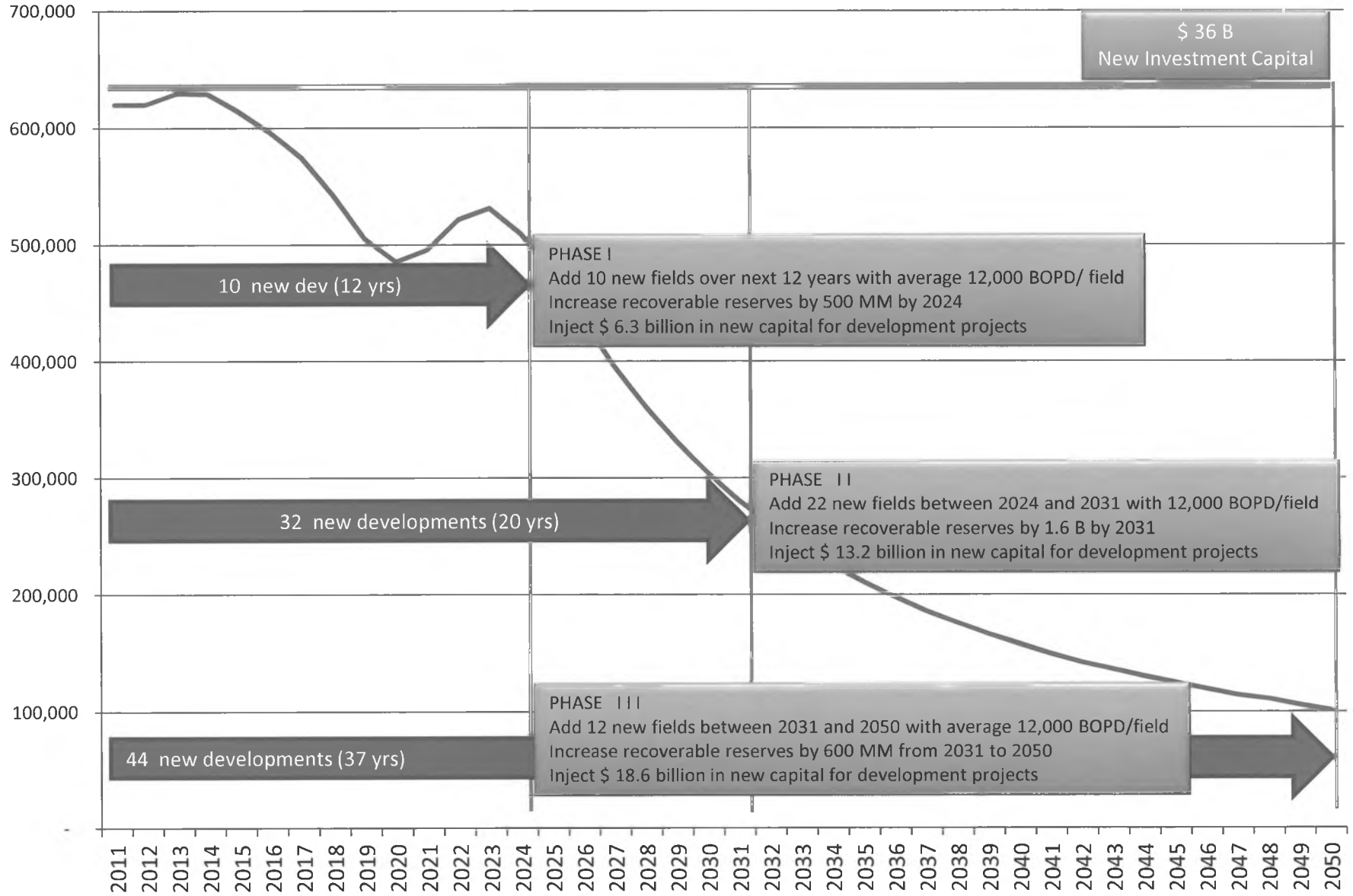
HB 110 - Opportunity to Change the Current Trend

Source: 2009 DOG Annual Report



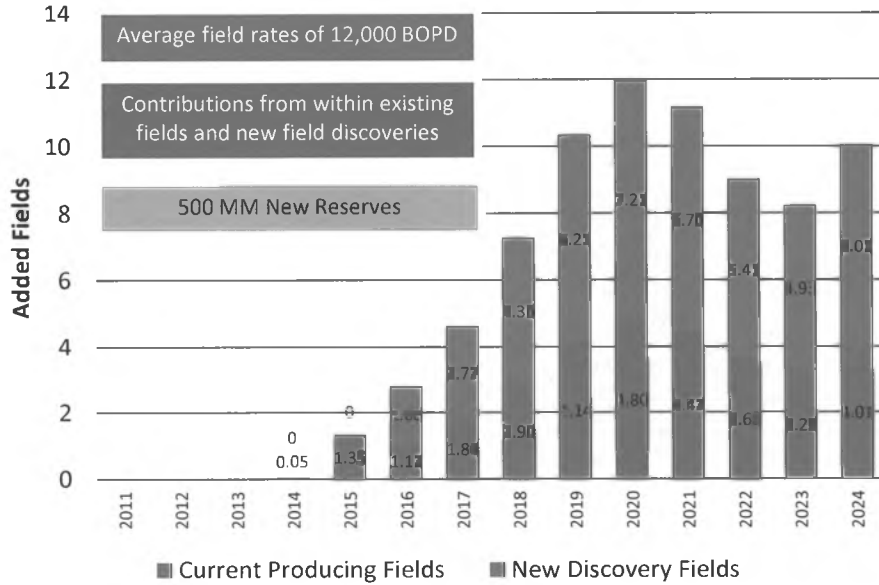


Current Forecast with Flattened Production Target

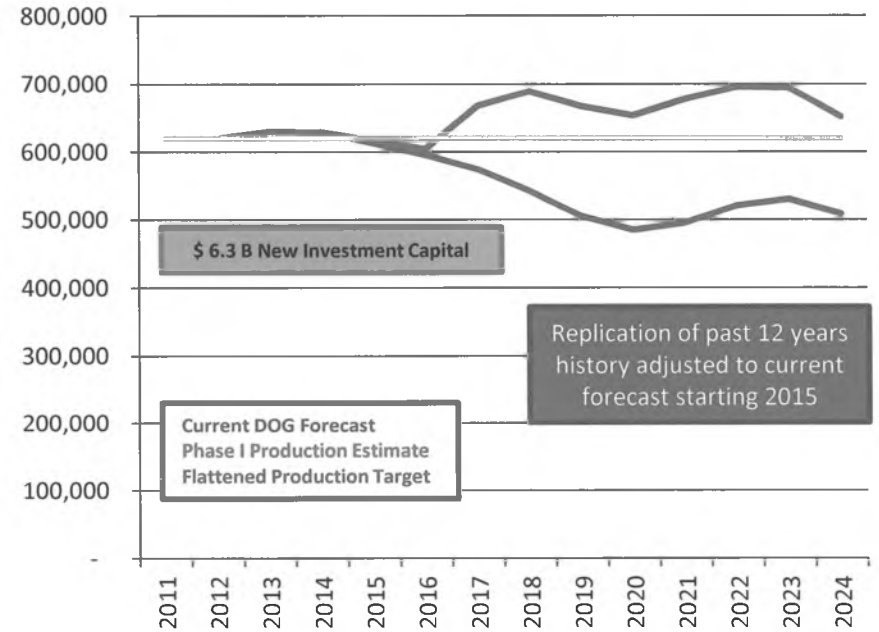




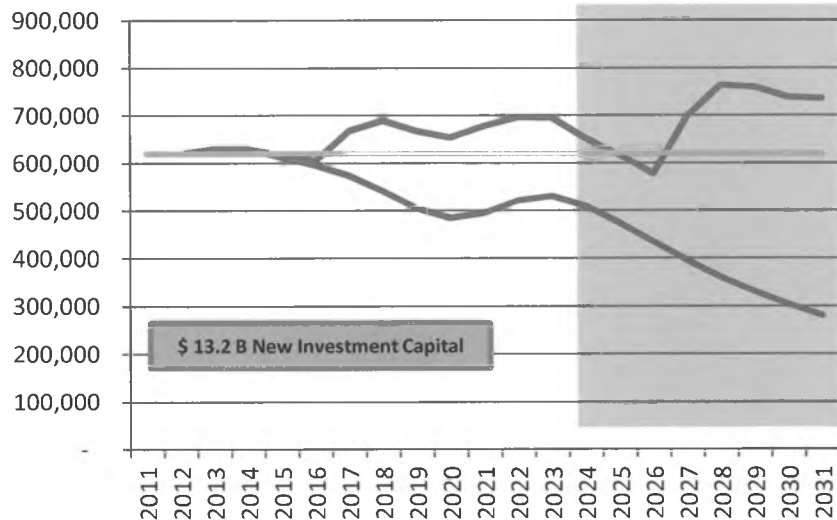
Required Field Additions to Flatten Decline



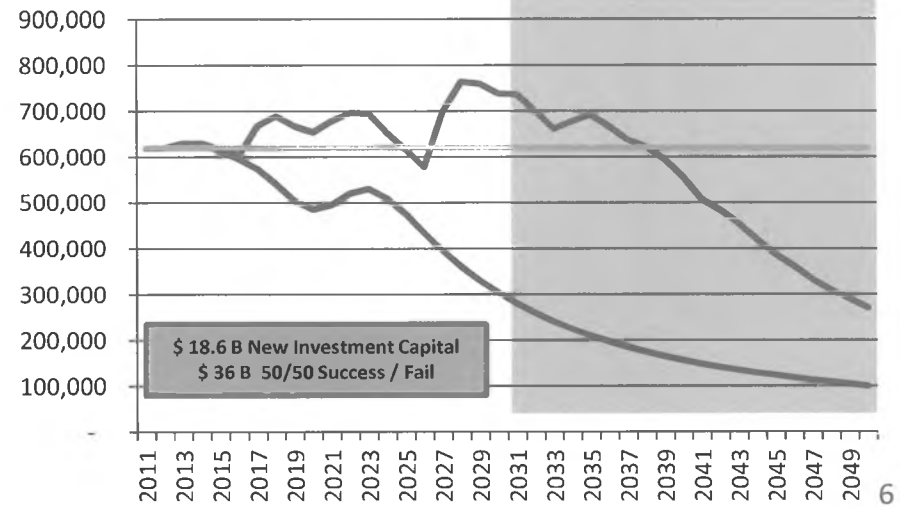
PHASE I - 10 New development projects over next 12 years

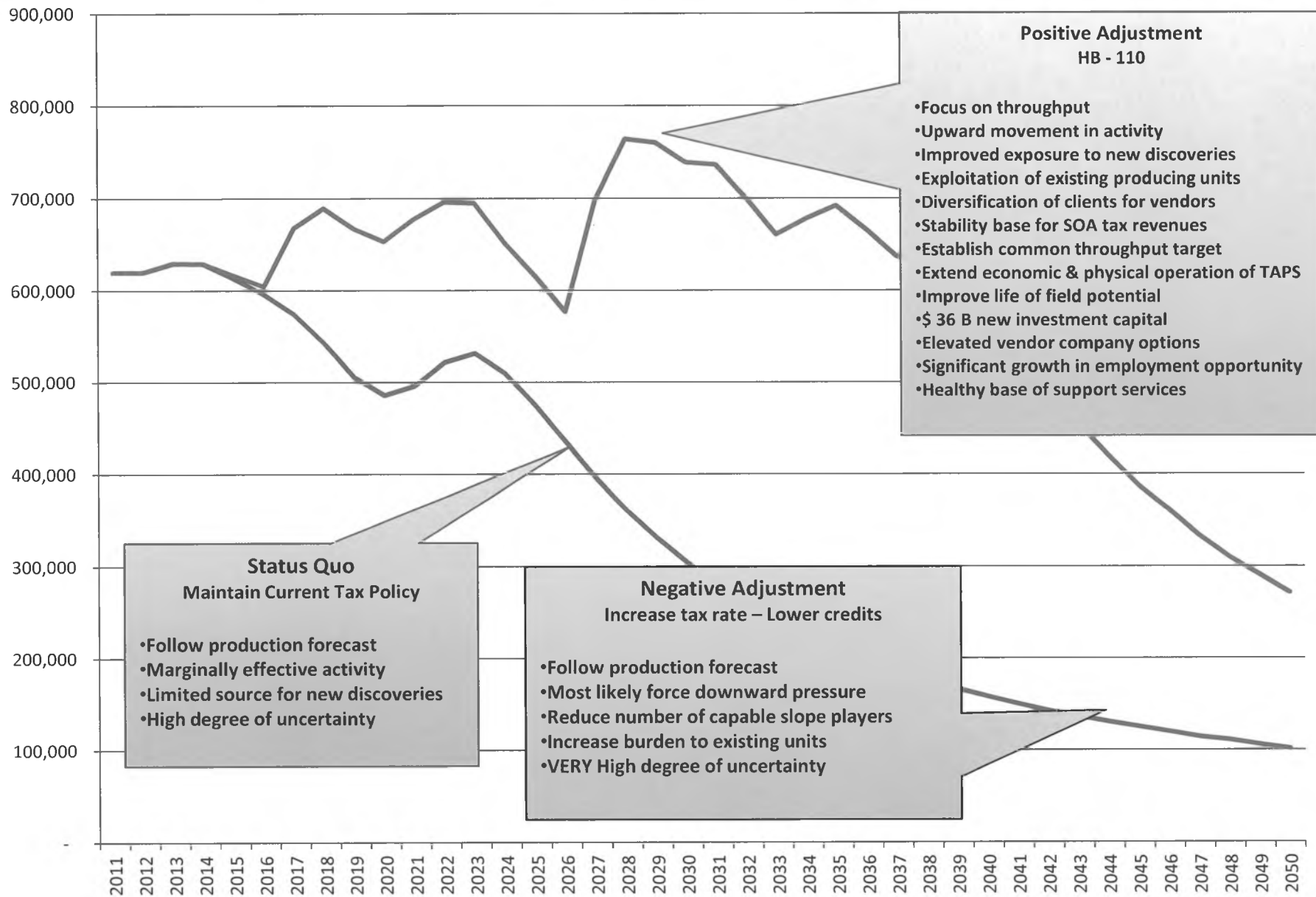


PHASE II - 22 New development projects 2024 - 2031



PHASE III - 12 New development projects 2031 - 2050





Status Quo
 Maintain Current Tax Policy

- Follow production forecast
- Marginally effective activity
- Limited source for new discoveries
- High degree of uncertainty

Negative Adjustment
 Increase tax rate – Lower credits

- Follow production forecast
- Most likely force downward pressure
- Reduce number of capable slope players
- Increase burden to existing units
- VERY High degree of uncertainty

Positive Adjustment
 HB - 110

- Focus on throughput
- Upward movement in activity
- Improved exposure to new discoveries
- Exploitation of existing producing units
- Diversification of clients for vendors
- Stability base for SOA tax revenues
- Establish common throughput target
- Extend economic & physical operation of TAPS
- Improve life of field potential
- \$ 36 B new investment capital
- Elevated vendor company options
- Significant growth in employment opportunity
- Healthy base of support services



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House Bill 110

Testimony by AVCG, LLC

Ken Thompson

Managing Director of AVCG, LLC

February 18, 2011

Agenda

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

- Introduction to Alaska Venture Capital Group (AVCG)
- AVCG's approach to working with the State
- 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 and oil source shales**
 - NS viscous oil
 - NS natural gas
 - NS offshore oil

AVCG & BRPC: Entity Comparison



Holding company

Subsidiary of AVCG, LLC

Own all leases

Technical services for AVCG

Assignments

JV companies as needed

ORRI

Production Revenues

Manage operations

office

Manage overall direction, strategy

staffing

BRPC budget, plan

misc. services

Staffing

Administrative services

Negotiation of all business deals

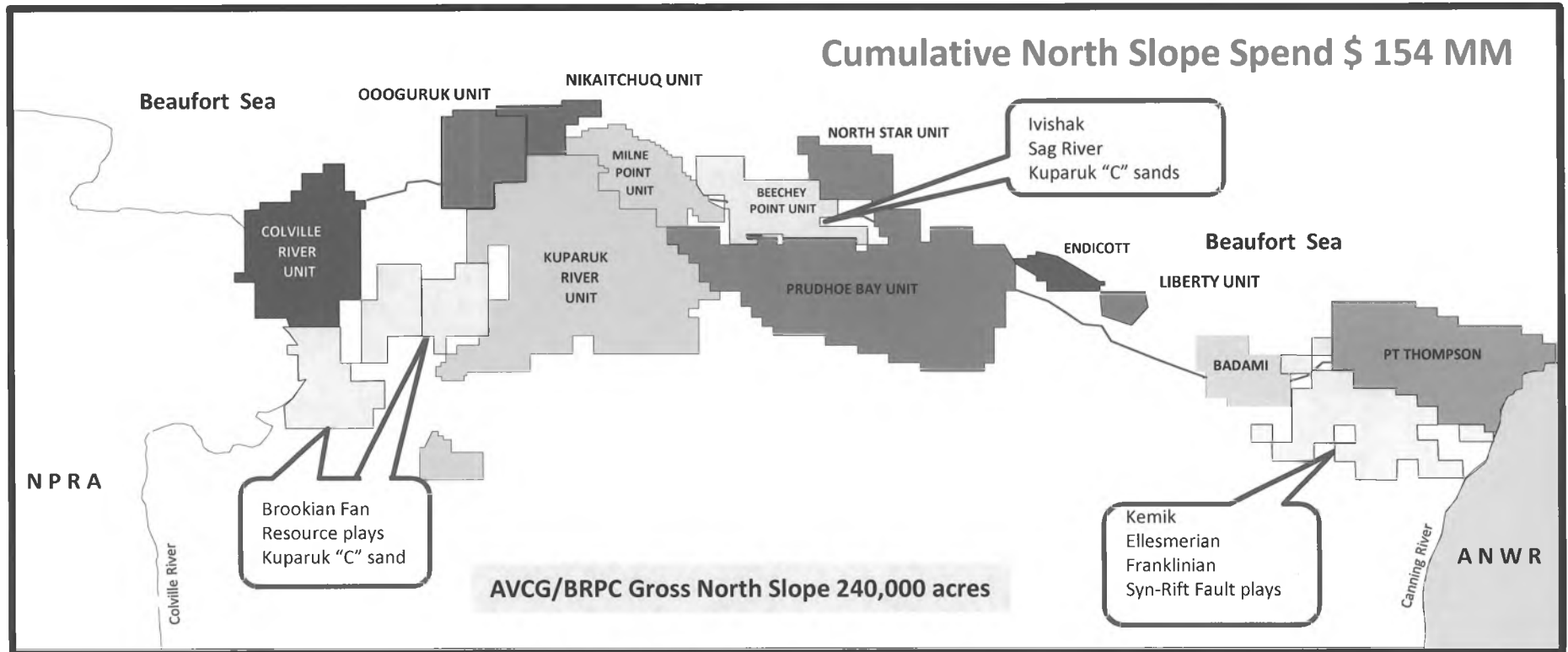
AVCG billings

Attract new investors

accounting

lease administration

AVCG JV Leasehold Portfolio



Western – 94,142 acres

Activity

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

Plan

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

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

Plan

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

Eastern – 89,800 acres

Activity

Purchased area 2 – D lines

Plan

Acquire 150 sq. miles of 3D seismic
Looking for partner on Shoot-to-Earn
Continue to progress 2D data
Monitor Point Thomson activities 4

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

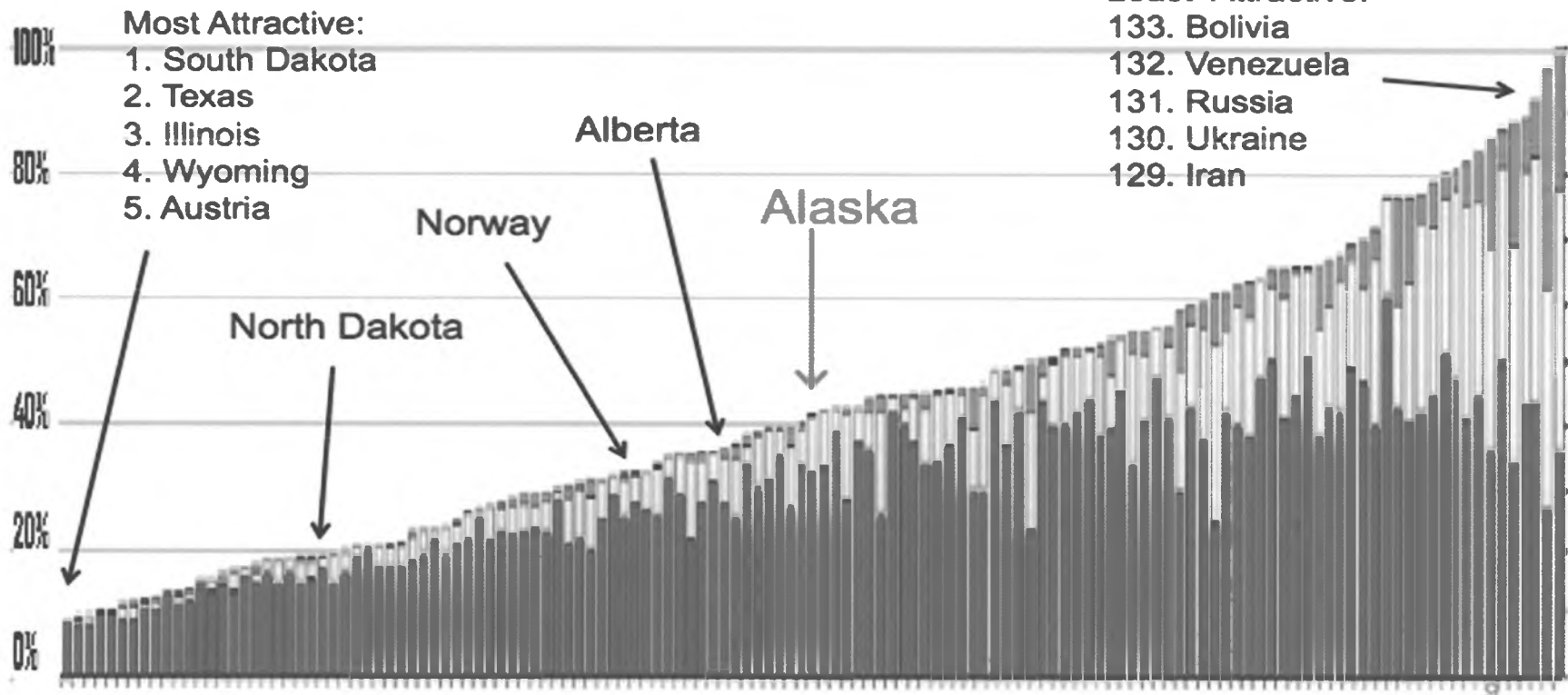
Attracting New Capital and/or New Investors To Alaska Are Keys To Increasing Activity That Will Level Production



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: Frasier Institute 2010 Global Petroleum Survey

Source: HB 110 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: HB 110 Dept of Revenue Presentation, 2/5/2011

AVCG's Recommendations To Assist In Achieving The Common Goal of "No Decline"**Support proposed changes in HB 110 :**

- ✓ **Revise the progressivity surcharge to the "bracketed tax structure" with calculations made annually instead of monthly**
- ✓ **Cap the total tax at 50% when oil prices top \$92.50/bbl**
- ✓ **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%**

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.

- ✓ **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

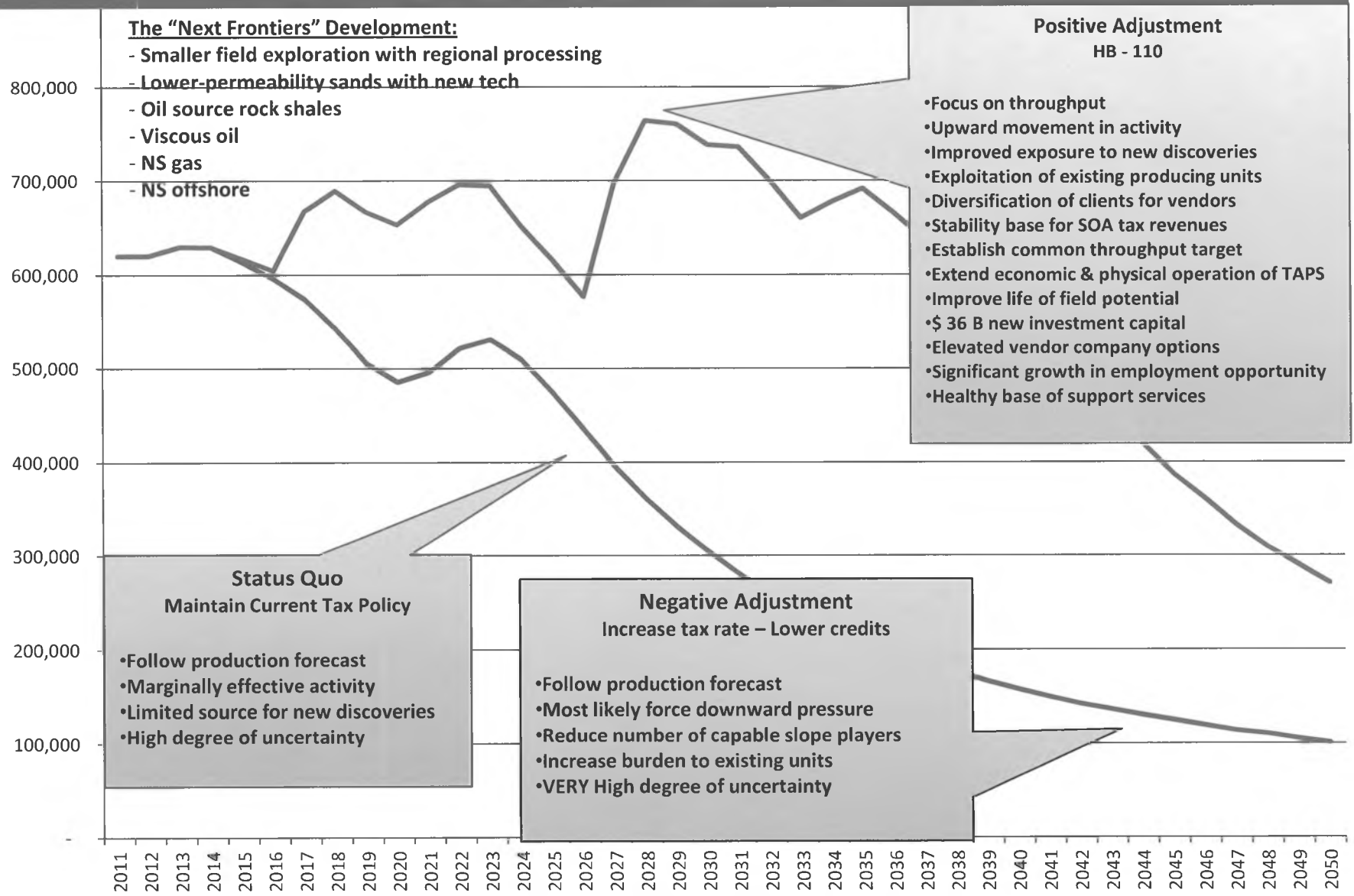
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AVCG LLC





Great Bear Petroleum LLC

***Presentation to the
House Resources Committee***

18th February, 2011



Introducing Great Bear Petroleum



Ed Duncan

B.S., M.A., D.B.A.

President and Chief Operating Officer

- Began his career working regional exploration plays in North Alaska
- Mapped, leased and named the Kuvlum prospect in Camden Bay, planned and managed wellsite operations on the Kaktovik -1 well in the ANWR and mapped and leased the Pt McIntyre field leases
- Over 30 years of experience as a Petroleum Geoscientist and Business Development Manager involved in the evaluation of new business across many of the world's petroleum provinces
- Member of the American Association of Petroleum Geologists



Karen Bryant Duncan

BBA, J.D.

VP – Corporate, General Counsel & Secretary

- A practicing lawyer in the State of Texas since 1987
- Worked at large national law firms for most of her career, achieving partner status
- Over a decade of in-house experience working as corporate counsel for publicly traded corporations
- Karen's expertise is corporate, securities and oil and gas law

Ryan Moynagh

LLB, CFA, LIFA

VP – Finance & Chief Financial Officer

- Independent strategic and commercial advisor to oil & gas sector
- Former Investment Banker in Merrill Lynch's Energy & Power Group, based in New York, London and Singapore
- Graduated first-in class in Law and Accounting (First Class Honours), Queens University
- Wharton Business School Executive MBA graduate

Robert Rosenthal

BSc, MSc

VP – New Ventures

- Over 30 years experience in the global oil and gas industry
- Career in Alaska spans nearly 20 years
- Directly involved in discoveries of approx. 1 billion barrels of reserves as world class source rocks
- Responsible for the implementing BP's new exploration strategy in 1990
- Drilled first ever Caney/Woodford well

Mario Traviati

BSc, MSc

VP – Business Development & Investor Relations

- Former head of Energy Research Asia Pacific at Merrill Lynch
- Excellent contacts at senior levels with governments and corporates across Asia-Pacific, the Sub-Continent & the Middle East
- Formerly an Explorationist with Woodside Petroleum which discovered the vast resources of the North West Shelf



Competition for Capital

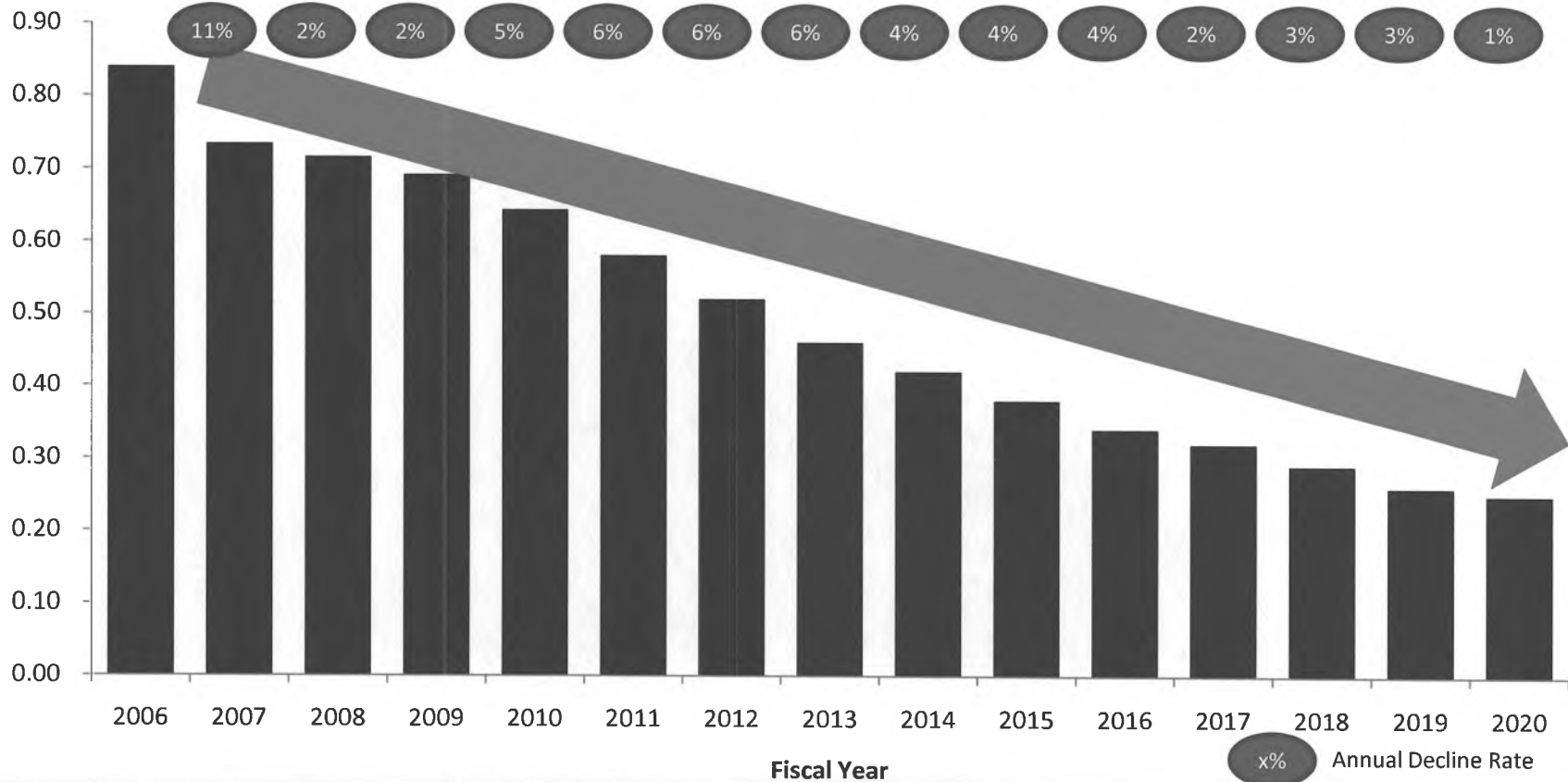
- Capital is mobile and will source out the best risk-adjusted economic returns, regardless of geography.
- Globalization has reduced sovereign risk which used to be the major impediment to investment.
- Government policies that either support or restrict investment will be an important determinant of how companies and countries fare in securing investment capital.
- Greater accessibility of technology and operating capabilities has made deepwater and unconventional resources viable competing investment opportunities
- **In the United States, the quest for capital investment has taken the appearance of State versus State competition for the oil and gas industry's attention.**

Alaska is competing both domestically and internationally for investment capital.



Alaskan Legislation Has Not Addressed Production Decline...

ANS Production (MBOPD)



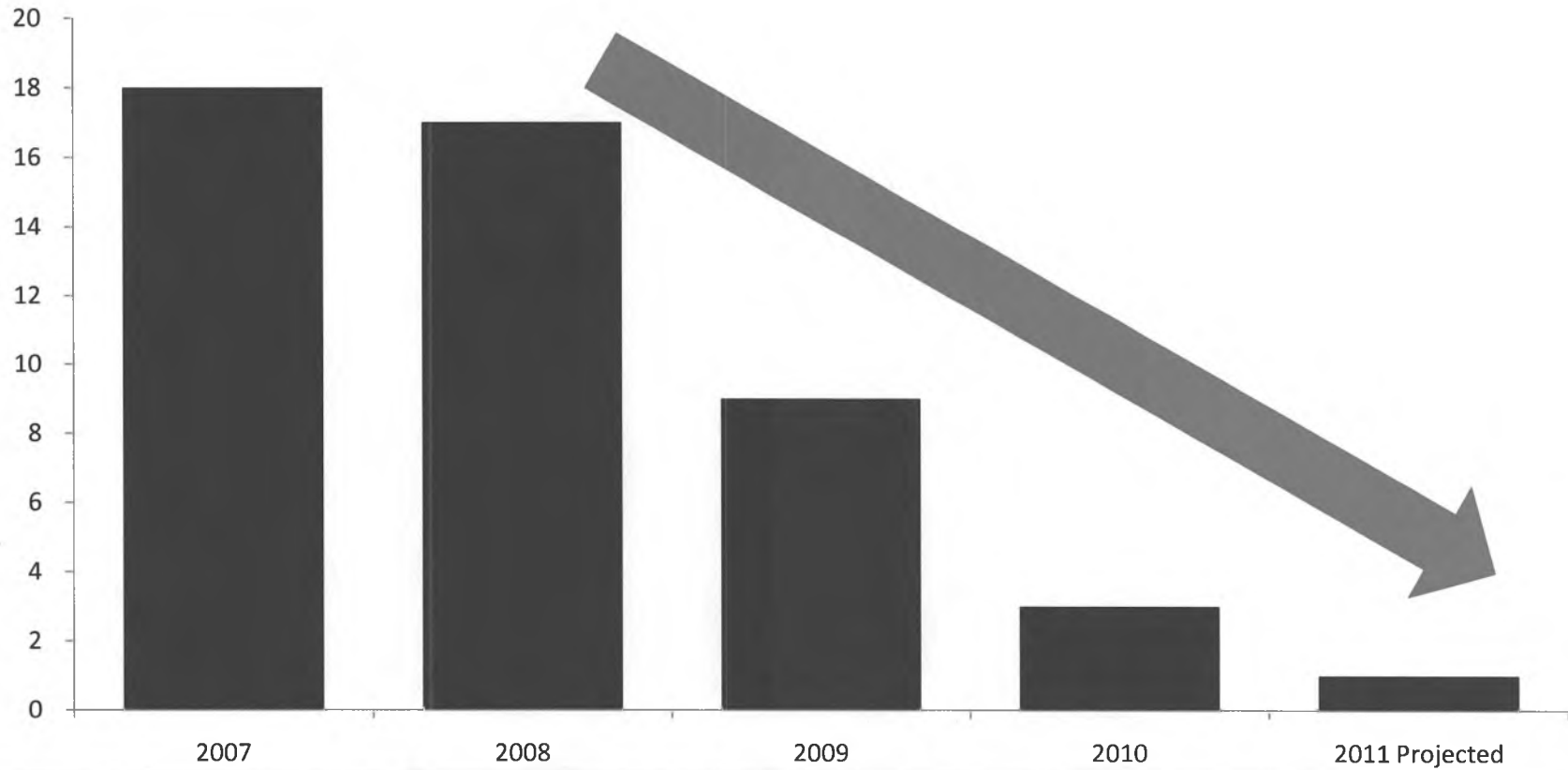
New investment in Alaska is super critical if current production declines are to be arrested or reversed.

Source: Fall 2010 Revenue Sources Book



...Nor Has It Encouraged New Exploration

Exploration Wells Drilled, North Slope

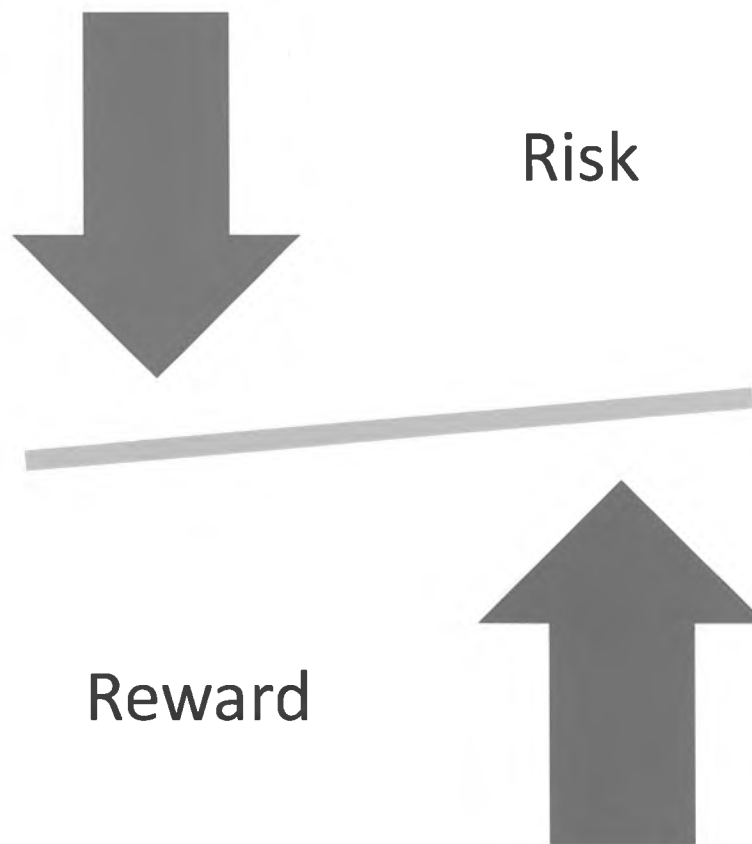


Exploration activity has virtually collapsed. No exploration means no possibility of new discoveries.



Effective Fiscal Systems Balance Both Risk & Reward

- Provide potential for a fair return to both the State and to companies, balancing risk and reward.
- Ensure a stable business environment and minimize Sovereign risk.
- Promote healthy competition and market efficiency.
- Allow enough flexibility to accommodate changes in perceived prospectivity and economic conditions.
- Avoid complexity and limit administrative burden (on both the State and the companies).
- **Ultimate test of success is activity levels post policy introduction.**

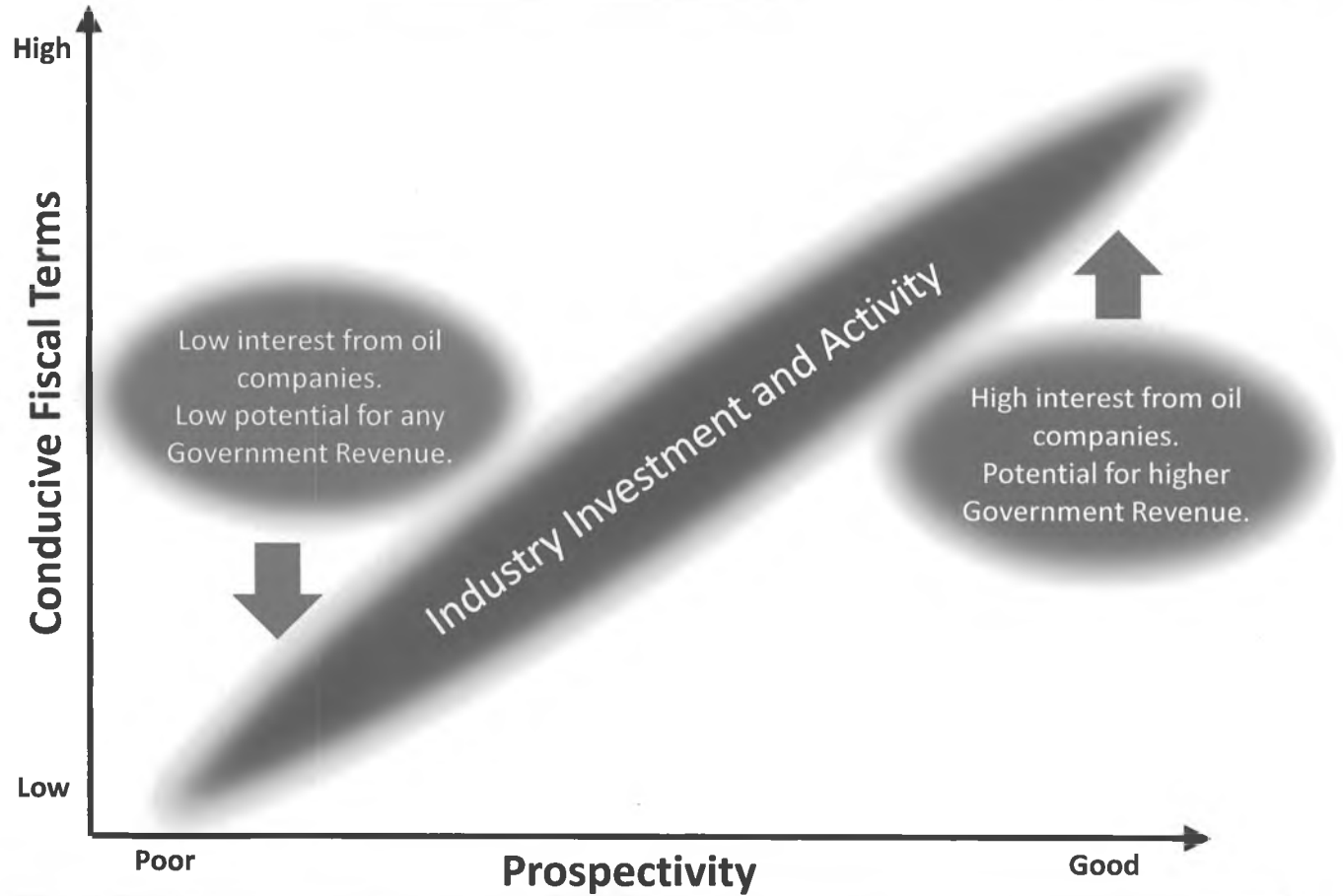




Great Bear Petroleum LLC

Tough Fiscal Terms Suppress Activity

- The most important factor in exploration investment is **Prospectivity**, or the likelihood of discovering oil or gas in commercial quantities. The industry will focus **where the rocks are good**.
- Effective **Conversion** from **Prospectivity** to **Commercial Production** ultimately controls the terms and the size of Government Revenue.
- Fiscal Terms will influence the **Conversion Efficiency** from Prospectivity to Commercial Production ultimately controlling Government Revenue.

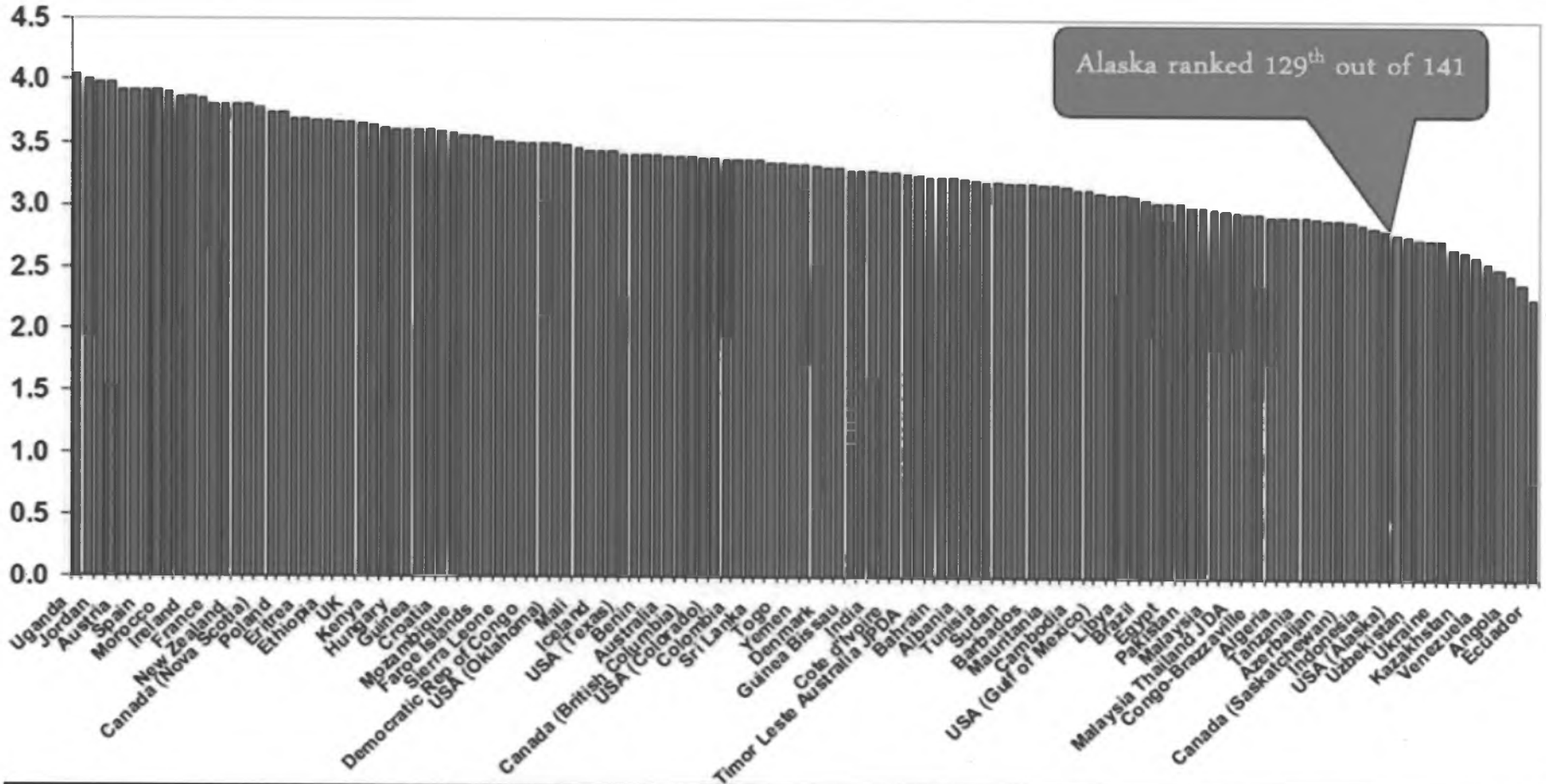


Conversion from prospectivity to production can be suppressed by a non-competitive fiscal environment.



Great Bear Petroleum LLC

Alaska's Fiscal Terms Rank #129 of 141



Alaska's fiscal terms are in questionable company.

Source: Wood Mackenzie



Recognition of Alaska as a Global Oil and Gas Producer has Declined

- The easy conventional oil has been found.
- Remaining large volume potential in **unconventional plays**, e.g. heavy oil, shale oil & gas, CBM.
- Costs will continue to rise on per barrel basis and economic returns will decline due to
 - Field sizes getting smaller
 - Challenging operating environment
 - Exploration for new play types becoming riskier
 - Identified plays such as “shallow heavy oil” and “oil and gas shale” are expensive
- **The ability to deliver unconventional resources to market rests primarily on commercial risk rather than technical risk factors.**
- Discovery and development of Alaska’s remaining potential would be significantly enhanced by improvements in Alaska’s fiscal terms such as those terms in **HB 110**.



The Developing World is Increasingly Less Risky



Emerging market risk premiums continue to decline, as globalization moves at pace.

Source: Bloomberg

(1) A comprehensive emerging debt benchmark covering featuring US denominated securities from 27 emerging market countries

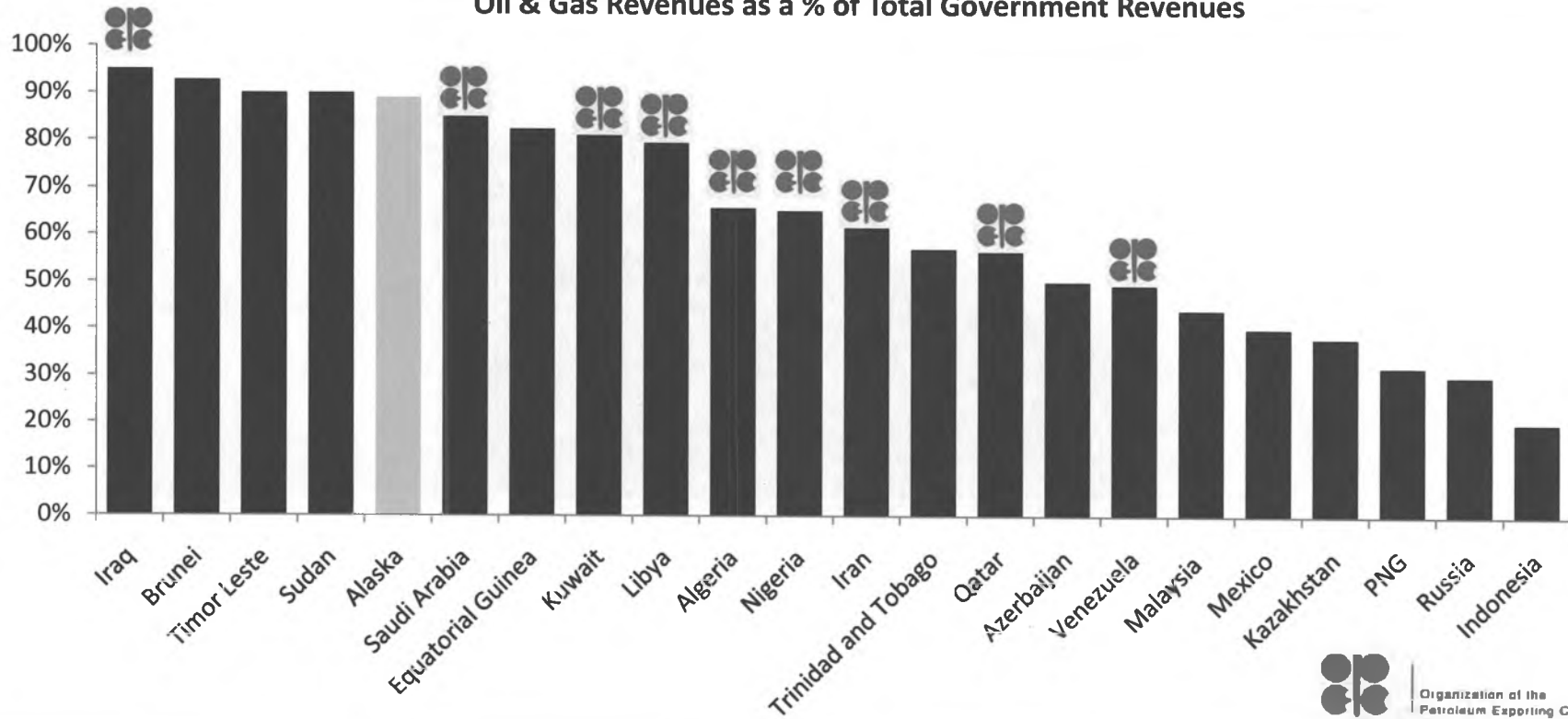


Great Bear Petroleum LLC

Alaska's Economy is Almost Totally Reliant on Oil

Alaska is as dependent as most OPEC nations on the health of its oil & gas industry. However Alaska does not currently have a comparable reserve base.

Oil & Gas Revenues as a % of Total Government Revenues



Alaska must promote & nurture its industry, as the implications of failing to attract new investment could be devastating.

Source: U.S. Energy Information Administration, IMF, Revenue Watch Institute, PNG Department of Treasury, Chatham House



HB 110: Major Impacts on Great Bear Petroleum

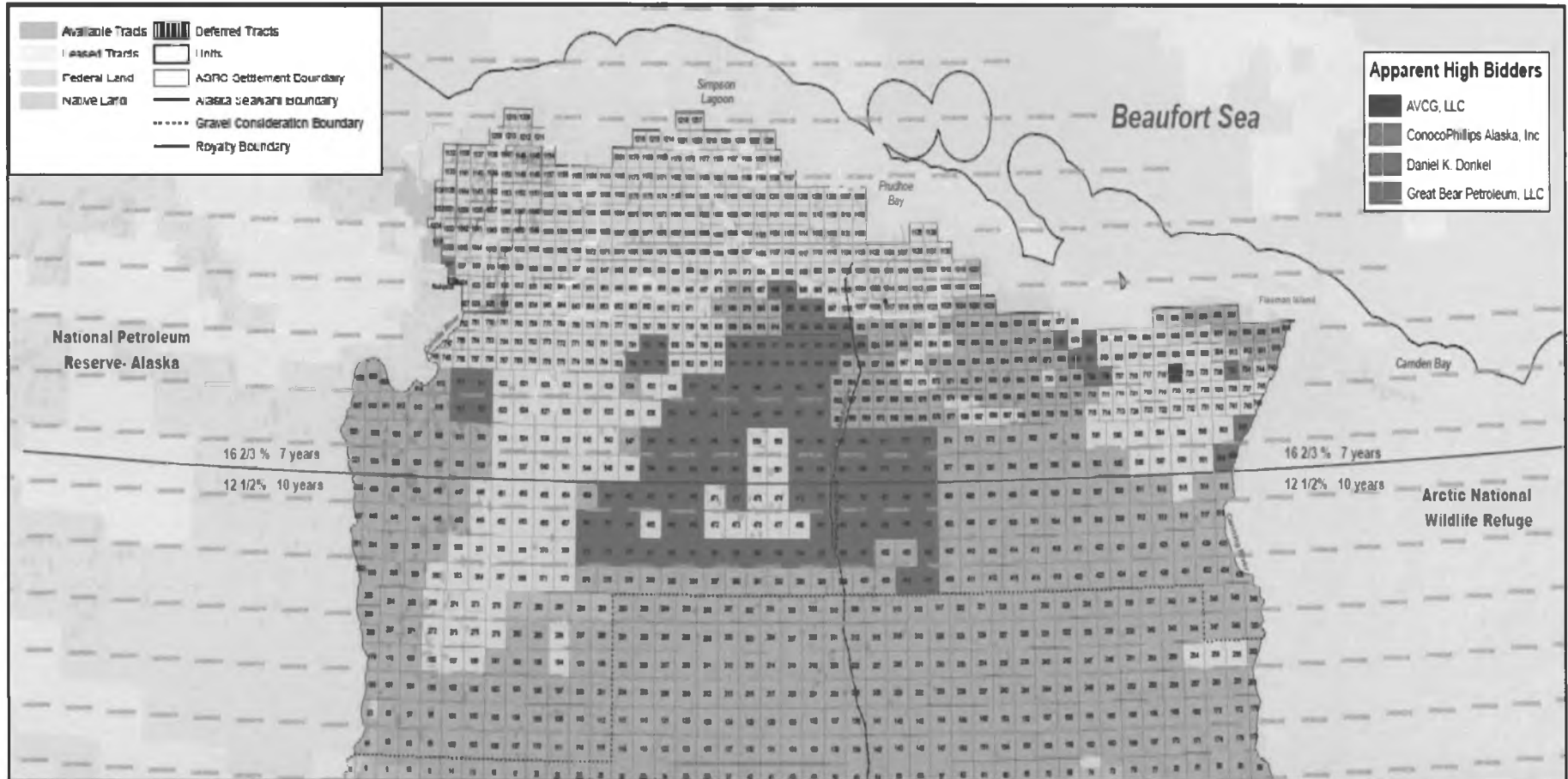
- Extension of tax credits to the North Slope
- Tax credits can be claimed in a single year versus two years
- Reduction of production tax burden improves our commercial model reducing the risk to critically needed capital investment for full development

Great Bear's ability to deliver on its strategy is dependent on the commercial environment within the State of Alaska.



Great Bear Petroleum LLC

High Bidder on 537,500 Acres in the 2010 North Slope Areawide Lease Sale



Great Bear's is targeting unconventional oil and gas from the source rocks beneath the North Slope providing a long term strategy for Alaska.



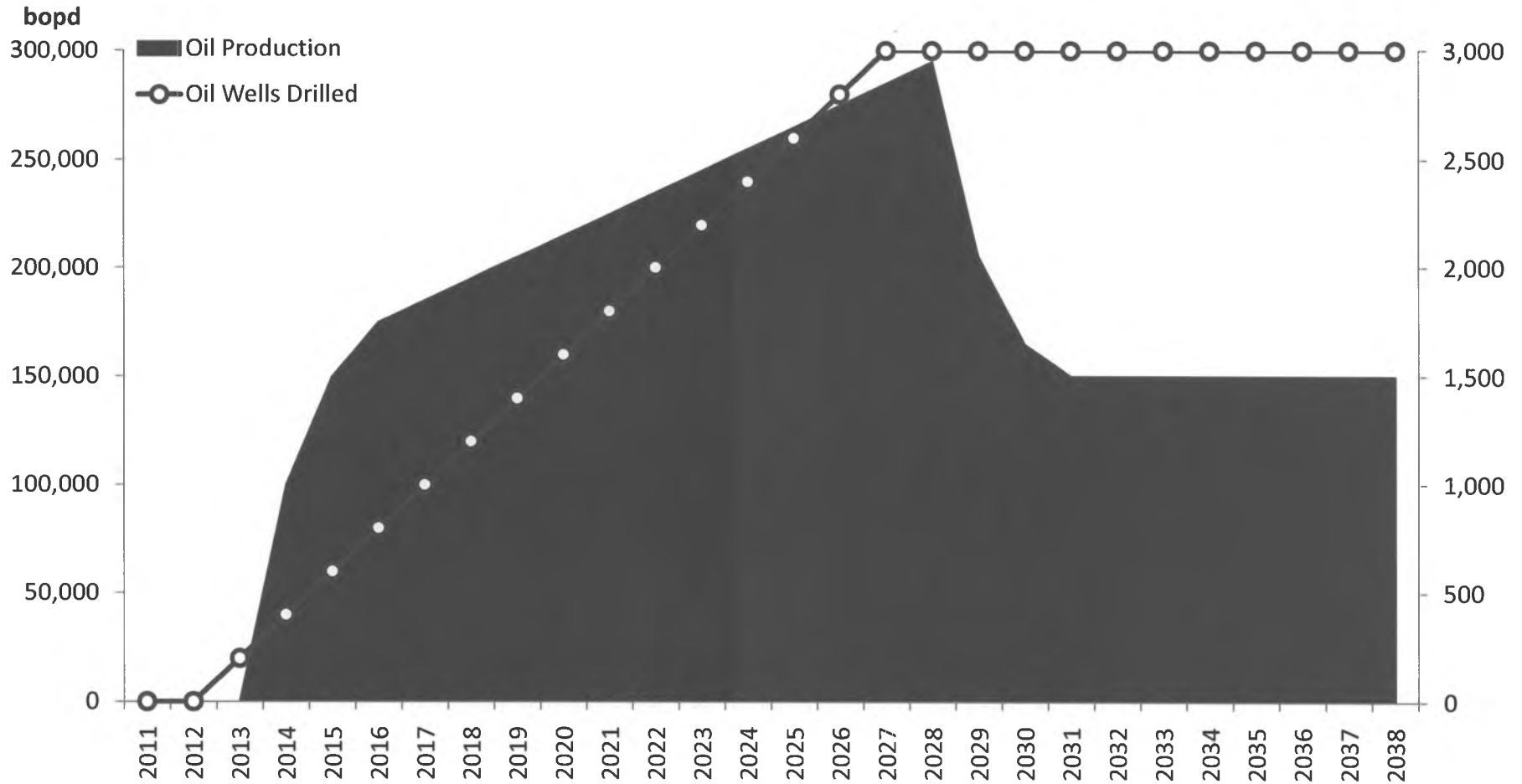
Great Bear's Vision

- Great Bear is leading the industry toward **development of unconventional oil and gas** resources from known, prolific source rocks on the North Slope.
- Development of this resource can secure the energy and economic future of Alaska for the next 50+ years.
- Great Bear is targeting near-term oil production delivery to TAPS.
- Longer term gas resource development will require a broader North Slope gas development strategy including LNG exportation.
- We will employ proven drilling and completion technologies developed in the Lower 48.
- We are committed to working with the State, the communities and our peers to shorten development timelines. We are singularly focused on the Alaska business development.
- We are committed to operating in a safe, environmentally responsible manner and desire to be recognized as a great corporate citizen by the State and the communities where we do business.
- We have an aggressive program that supports **250 wells per year for 20 years** starting 2013.
- We believe we can deliver **minimum steady state oil production of approximately 150,000 barrels of oil per day** with a significantly higher peak production rate. We believe we can reverse the States decline and grow production.

Great Bear's ability to deliver on its strategy is dependent on the commercial environment within the State of Alaska.



Great Bear Petroleum Potential Oil Production Profile



Assumptions:

200 wells per year over 15 years, commencing 2013. EUR per well 700,000 bbls.
 Wells average 500 bopd for year 1, 250 bopd year 2, 125 bopd year 3 then held steady at 50 bopd for 20 years.
 Year round "roads to resources" access for operations



Conclusions

- Current policy has not addressed declining production nor reinvigorated exploration activity.
- **HB 110 focuses on encouraging increased oil production immediately** and will aid Great Bear in attracting critical capital to deliver on its stated strategy.
- HB 110 encourages and supports new exploration activity. Alaska's future lies in the **discovery and development of new, long term oil production** into TAPS and **development of globally significant gas resources.**
- HB 110 and further direct investment by the State in supporting development infrastructure, such as "roads to resources" will encourage the commitment of the required investment capital to support the development of these higher cost, higher risk but **long term resources.**
- **Great Bear believes that reasonable solutions can be agreed and implemented** providing much needed long-term stability to the State.

Fiscal Enhancement is necessary to improve Alaska's relative attractiveness as an investment jurisdiction.

Subject: FW: Invitation to House Resources Committee hearing on Friday, February 18th

From: Greg Vigil [<mailto:Greg.Vigil@savantalaska.com>]

Sent: Thursday, February 17, 2011 8:43 AM

To: Louie Flora

Subject: Re: Invitation to House Resources Committee hearing on Friday, February 18th

Dear Louie,

Thank you for the invitation to present an overview to the House Resources Committee on Friday, February 18th.

Savant Alaska, LLC will not be participating in the hearing in person or by phone. We are however in favor of HB 110 and believe it will encourage additional oil and gas investment in the state of Alaska. This is especially true at a marginal property like Badami, where we are producing approximately 1500 gross bopd.

Sincerely,

Greg Vigil, EVP

Savant Alaska, LLC

7501 Village Square Drive, Suite 204

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Co-chairs Seaton and Fiege and Members of the House Resources Committee:

My name is Doug Smith and I am President and CEO of Little Red Services an Alaskan oil field service company employing just over 100 Alaskans. We operate on the North Slope providing well services with our fleet of high pressure pump trucks with fluid heating capabilities known as Hot Oil units. I also serve on the board of the Alaska Support Industry Alliance.

I appear before your committee today to express my support of House Bill 110, the Governor's bill to restructure the way taxes are levied upon the oil and gas industry in Alaska. Meaningful reform to ACES is necessary at this time to encourage additional industry investment in Alaska. Investment by the producers is critical for small companies, such as mine, with Alaskan employees who reside from Sitka to Two Rivers.

I have worked in the oil industry in Alaska for over twenty years under different oil and gas tax structures. In the past five years we have gone from a gross tax structure to a net tax structure under the PPT. The PPT was amended under ELF and then discontinued when ACES went into effect in 2007. In Alaska we need a long term predictable solution that encourages investment by producers and creates jobs for Alaskans. The oil and gas industry is already subject to the relentless ebb and flow of the marketplace and a myriad of regulatory entanglements. In order for our oil and gas resource development to thrive here, we must be granted the stability by the legislature to work in a business environment that is fiscally hospitable to responsible development.

As an Alaskan employer working in the oilfield services industry, I am confronted daily with the ramifications of the current tax structure. Due to the decline in investment and infield production related activity resulting from the tax structure currently in place, small Alaskan companies are losing revenue and our employees are losing jobs. Since 2008, Little Red Services has seen a 20% drop in demand for services realized by a reduction of over 6,000 hours of hot oil truck use. For our company this resulted in an annual revenue loss of nearly \$2 million dollars and forced the layoff of 11 Alaskan employees.

"If oil is taxed at too high a rate there's a risk that crucial investments don't get made in the state's most important industry."¹ I can tell you, without question that this is the case, but those are not my words. Senator French and Representative Gara, both proponents of the current tax structure acknowledged this in their ~~AND~~ ^{ADN} compass piece this past December. They also said that "any reasonable tax relief proposal that will lead to more Alaska jobs and more Alaska oil will get serious consideration from this legislature." Through the co-chairs, members of the committee, it is clear that House Bill 110 is not meaningless pandering to the oil industry. It was developed through careful economic review after the ACES plan has been tested for three years. Yes, it is true that the State has put millions of dollars into budget reserves from taxes levied against producers. It is also true that oil and gas service industry employees struggled as investment stalled. Even among the members of this committee there is proof of that. What HB 110 aims to do, following the recommendations made by the Department of Revenue in 2010, is to evolve the current tax structure, though meaningful reform, in an effort

¹ <http://www.adn.com/2010/12/04/1589367/lowering-oil-taxes-doesnt-guarantee.html>

to stem the tide of job loss and encourage investment in what is universally acknowledged to be Alaska's most important industry.

Opponents of reform argue that employment is up under the ACES structure. In reality, exploration, development well, and production related jobs are down. While responsible development is a booming industry across the United States, Alaska has, as of December 2010, an 8.1% rate of unemployment behind states such as Wisconsin, Oklahoma, Wyoming, Hawaii, and the Dakotas.² While work camps are being built and filled with workers to meet oil and gas development needs in North Dakota, only one exploration well is planned for Alaska's North Slope this winter and development wells are down 16% from 5 years ago. Production is declining sharply in our proven fields is down and the decline is accelerating. From 2001 to 2006 the ANS production declined 163,000 bbla per day or 16% and from 2006 to 2010 the decline increased another 217,000 bbls per day or 25%. The TransAlaska Pipeline is now operating at only one-third capacity and our state's tax policy discourages efforts to slow or reverse our decline trend. In 2010, Alaska's most active explorer, ConocoPhillips, did not drill a single exploration well for the first time in 45 years.

² Bureau of Labor Statistics Local Area Unemployment Statistics Unemployment Rates for States December 2010
<http://www.bls.gov/web/laus/laumstrk.htm>

We do not come before you today asking for corporate welfare, nor do we enter this debate lightly or without careful consideration of long-term revenue for our state. The legislature is mandated however by our state's constitution to provide for resource development to the maximum benefit of Alaskans. Alaskans today are not realizing that maximum benefit in an environment where the major producers are performing NO exploration and the pipeline is running at only one third of its intended capacity.

In an environment where industry is provided competitive investment opportunities it is incumbent upon the members of that industry to hold themselves and their colleagues accountable to re-investment of profits in Alaska. This improved investment climate would serve to benefit Alaskans through continued development, increased employment, and strong civic engagement. The activity of our oil and gas industry reaches every Alaskan and many times through the nonprofit organizations. In 2010 forty-four major oil and oil support companies contributed \$3.7 million dollars to United Way of Anchorage or 49% of the total raised by the private sector. My company, tiny by comparison, donated nearly \$70,000 in charitable contribution in 2010.

I commend the governor for his understanding of the oil and gas industry business environment, its key role in our future and for his leadership on this reform. I am pleased today to deliver to both the Governor and the legislature a letter signed by myself and ⁴⁰XXX employees of my company urging you, as members of the legislature to support HB110.

I thank you for your time and I appreciate your service to our citizens.

Thank you.



January 28 2011

The Honorable Sean Parnell
Governor, State of Alaska
Alaska Capitol Building, Third Floor
P.O. Box 110001
Juneau, AK 99811-0001

Re: B No. 49 and HB No. 110

Dear Governor,

Thank you and the Administration for stepping into the lead to make Alaska a more exploration and production friendly place to do business. I have read the subject bills, but before I comment on them, I'd like to introduce UltraStar. I know you are quite familiar with the principals in UltraStar, but some of the copied recipients of this letter may not know us as well as you, so I beg your indulgence to write a paragraph about our little company.

UltraStar was formed in 2001 by Dale Lindsey of Seward, John Winther of Petersburg, and me. Dale was born and raised in Seward, and he and his widow, Carol, built a small fuel delivery service into the largest marine and land fuel distributor in the State. John was born in Fairbanks, raised in Juneau, and now lives in Petersburg, from where he manages a fleet of longliner vessels that fish cod and black cod in the Bering Sea and Gulf of Alaska. I was born and raised in the oilfields of Wyoming, and worked in project engineering, construction, and operations and executive management for ARCO for 30 years, 20 of which were spent working in various capacities on Prudhoe Bay, Kuparuk, Lisburne, Pt. McIntyre and West Sak. I moved my family to Anchorage in 1985. UltraStar's business plan is to acquire North Slope Leases close to existing infrastructure, develop projects on the leases, and prove up commercial reservoirs with the drill bit. To my knowledge, we are the only 100% Alaskan owned company that has drilled wells on the North Slope. We have another well and sidetrack planned for the first quarter of next year.

I am pleased to add UltraStar's name to the growing list of independents that support your efforts to change ACES. We firmly support both SB 49 and HB 110. Both not only lower marginal tax rates, but eliminate the requirement that credits be paid over a two year period, which goes a long way toward "leveling the playing field" for start-up companies like ours with no current production.

3111 C Street, Suite 500
Anchorage, Alaska 99503

907-258-2969
Fax: 907-258-5092

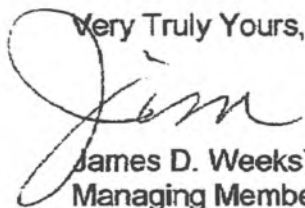
As much as we like the direction these pieces of legislation are going, we feel that if ACES is going to be re-opened, one other issue should be addressed, and that is the Small Producer Credit. This is a credit of \$12 million per year for companies producing less than 50,000 barrels of oil equivalent per day, and is due to sunset in 2016. My suggestion is to recognize the lead times associated with finding, developing and producing reserves on the North Slope, and extend that sunset date. First, we must acquire leases, then seismic, then evaluate the seismic and develop drillable prospects. If the drilling finds commercial quantities of oil, then facility access terms and conditions need to be negotiated and established with the owners of the likely production facility where the oil, gas and water will be processed, and roads will likely need to be built and the well(s) need to be connected to that facility. If the commercial accumulation is large enough, stand alone facilities may be a more appropriate approach to get production on line. Finally, some how or another, production can commence, and the cash flow meter can start (hopefully) turning the other way, or at least slow down. Unfortunately, UltraStar has yet discovered commercial oil, but it has taken an average of 6 years per well to get to the point where we were drilling.

Rather than have a specific year when the Small Producer Credit provision expires, I recommend that it stay in place for each reservoir or unit until payout of the exploration, delineation and development costs necessary to get oil flowing. I believe this would be a much stronger incentive than a date certain year. New leases acquired last year have no chance of realizing this credit.

Lastly, it mystifies me why some in the Legislature want to take all the precious time in this short session having studies done to determine the competitiveness of Alaska. The major producers have had those studies done, probably by the same consultants the Legislature would use, and the answer given to the Legislature by the same consultants will be the same as the conclusions given to the major producers—Alaska is DEAD LAST in the world. I can't speak for the major producers, but my guess that any one or all of them will be willing to share the details of the studies they commissioned with any Legislator who has an interest.

Thanks again for jumping out front on this issue that is so important for jobs and stabilized oil production in the State.

Very Truly Yours,



James D. Weeks
Managing Member

Distribution: Page 3

From: Ed Kerr [ed@armstrongoilandgas.com]
Sent: Thursday, February 17, 2011 9:13 AM
To: Louie Flora; Linda Hay
Subject: HB 110

Categories: Red Category

TO: The Honorable Paul Seaton, Co-Chair of the House Resources Committee

The Honorable Eric Feige, Co-Chair of the House Resources Committee

Dear Chairmen:

Thank you for the opportunity to address the House Resources Committee regarding HB 110 and the potential impact on our Alaska Operations. Due to prior commitments I am sorry that I cannot address the committee in person. I hope to visit with each of the committee members individually during this session to express my support for HB 110.

HB 110 will have a significant impact on our capital expenditures and future activities in Alaska. The improved fiscal terms as proposed by HB 110, particularly the portions of the bill that apply to activities outside of existing units, will give us the needed incentive to not only drill multiple new wildcat and delineation wells, but the motivation to drive certain projects to development. The future of Alaska lies in the development of its oil and gas resources that have laid dormant for too long. HB 110 will be the catalyst to bring forward the development of a vast resource base that has not been developed due to date.

Armstrong Oil & Gas, Inc. and its affiliated companies have been one of the prime movers in generating new projects on the North Slope. The two most recent projects that have been developed on the North Slope are the Ooguruk field operated by Pioneer Natural Resources and the Nikaitchuq field operated by ENI. These projects were originated by our company. Currently, through our affiliate 70 & 148, LLC, we are one of the largest leaseholders on the North Slope.

Our project list has more than a dozen ideas outside of existing producing units that we are hoping to drill and test over the next

several years. If successful, these new projects will add much needed new oil production through TAPS as well as provide numerous significant high paying jobs for Alaskans. In many cases we know the oil is in place. The improved fiscal terms as provided in HB 110 will greatly affect whether these projects will get developed.

Please do not hesitate to contact me if you have any questions.

Ed Kerr
Vice President of Land and
Business Development
(t) 303 623-1821
(f) 303 623-3019

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