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
    o NS viscous oil
    o NS natural gas
    o NS offshore oil
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
  - Attract new investors

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

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

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

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

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

Most Attractive:
1. South Dakota
2. Texas
3. Illinois
4. Wyoming
5. Austria

Least Attractive:
133. Bolivia
132. Venezuela
131. Russia
130. Ukraine
129. Iran

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

Source: Frasier Institute 2010 Global Petroleum Survey

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

- 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

- 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.
The “Next Frontiers” Development:
- Smaller field exploration with regional processing
- Lower-permeability sands with new tech
- Oil source rock shales
- Viscous oil
- NS gas
- NS offshore

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

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