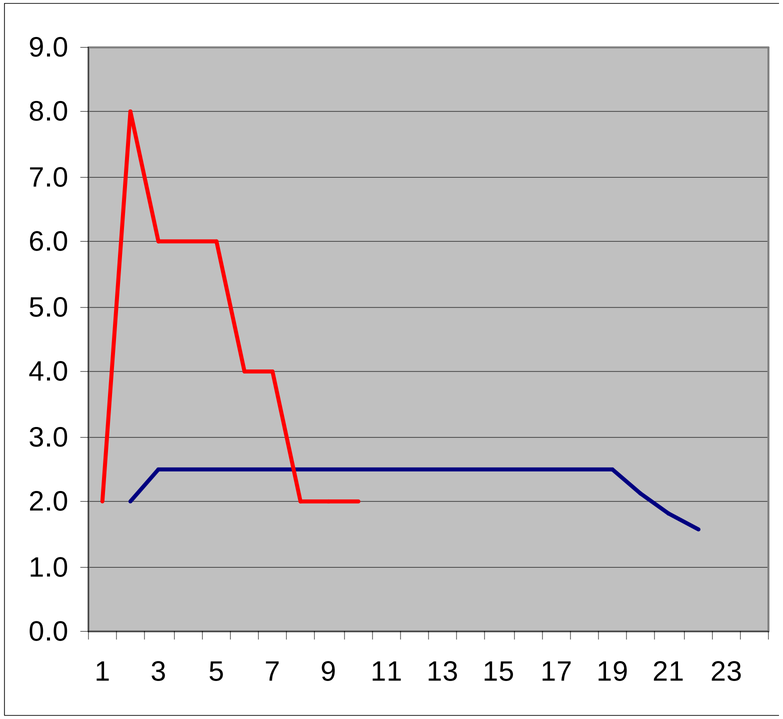
Payout

10-21-07

What is expectation as to the time to recover initial investment?

- **Simple answer – As soon as possible!**

- **Rule of thumb – from date of first production plus:**
  - Oil – 3 to 6 years
  - Gas – 5 to 9 years (combination of higher costs and lower BOE)



Other Countries - PSC

- **Production Sharing Contracts**
  - ➢ Recovery of costs is commonly known as “Cost Oil”
  - ➢ Range of annual cost recovery varies
    - Some put no cap on cost recovery
    - Others may cap cost recovery at say, 40% of revenue
  - ➢ To compensate for particular situations the recovery may be ‘tweaked’
    - Uplift
    - Share of First Tranche Petroleum (aka Royalty)
    - The “tweaks” are to provide some compensation for the time value ‘loss’ of longer recovery times

Other Countries – Tax & Royalty

- **Basically speed of deduction and credits**
  - Depreciation period
    - 1,3,10 years
  - Depreciation method
    - Straight line
    - Declining balance
    - Depletion (based on production to remaining reserves)
  - Credits
    - An additional deductions equal to a percentage of qualifying investment

Another key impact

- **The "Ring Fence" can provide very different value to the oil company**
  - Consolidated by taxing district (e.g. the entire State of Alaska)
    - Immediately write off aqainst other income streams
    - Progressive systems provide possible increased benefit
  - Ring Fenced say by individual field or reservoir
    - Usually have to wait until a discovery is turned into a development and revenue starts before the oil company can begin to recover their costs

Attractiveness of Exploration Credits

Alaska Exploration Investment Credits

- **One of the stated goals is to attract new exploration, new investment**

- **How does Alaska compare to other regimes?**
  - ➢ Compares very favorably on a global basis
  - ➢ State / Feds effectively becomes a major ‘investor’

- **Comes close to leveling the playing field between incumbents and new entrants**
  - ➢ A feature that is not available in most countries
  - ➢ Usually there is a high barrier to entry

Alaska is offering…

- **Depending on parameters such as start date and distance from other existing oil and gas units and wells, investors can:**
  - Earn credits of 20% up to 40% of qualifying expenditures
  - Deduct money spent against current state and/or federal income tax liability
    - If no current PPT/ACES income can request and receive loss carry forward credits
  - Achieve favorable potential outcome after State/Federal Income Tax impact is considered
    - Contractor share – 21 to 36%
    - State/Federal share – 64 to 79%

Example

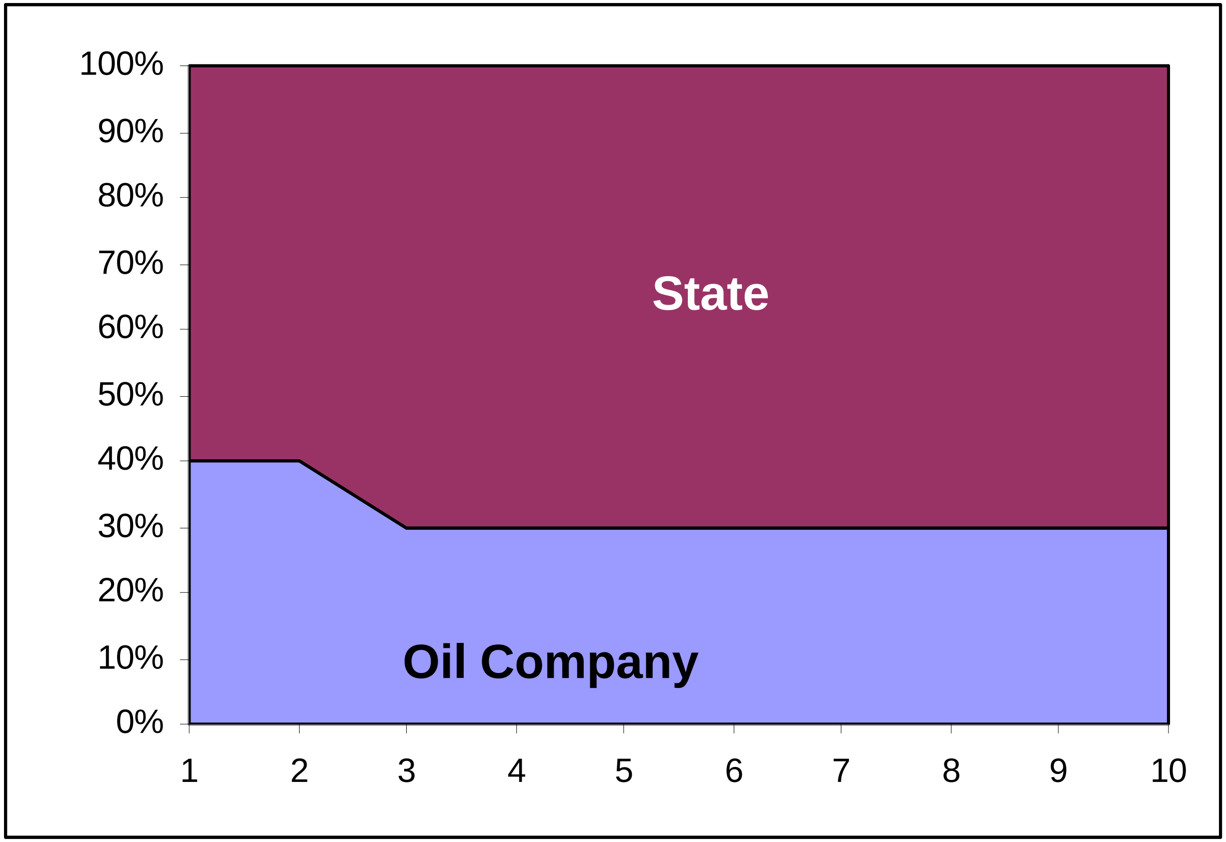
Example of timing of take

- **Assumptions**
  - Investment of 20
  - 10 years of flat cash flow = 100
    - 10 per year
    - Overall State gets 68, Oil Co gets 32

- **How does timing impact IRR (Internal rate of return), IOC NPV and State NPV?**

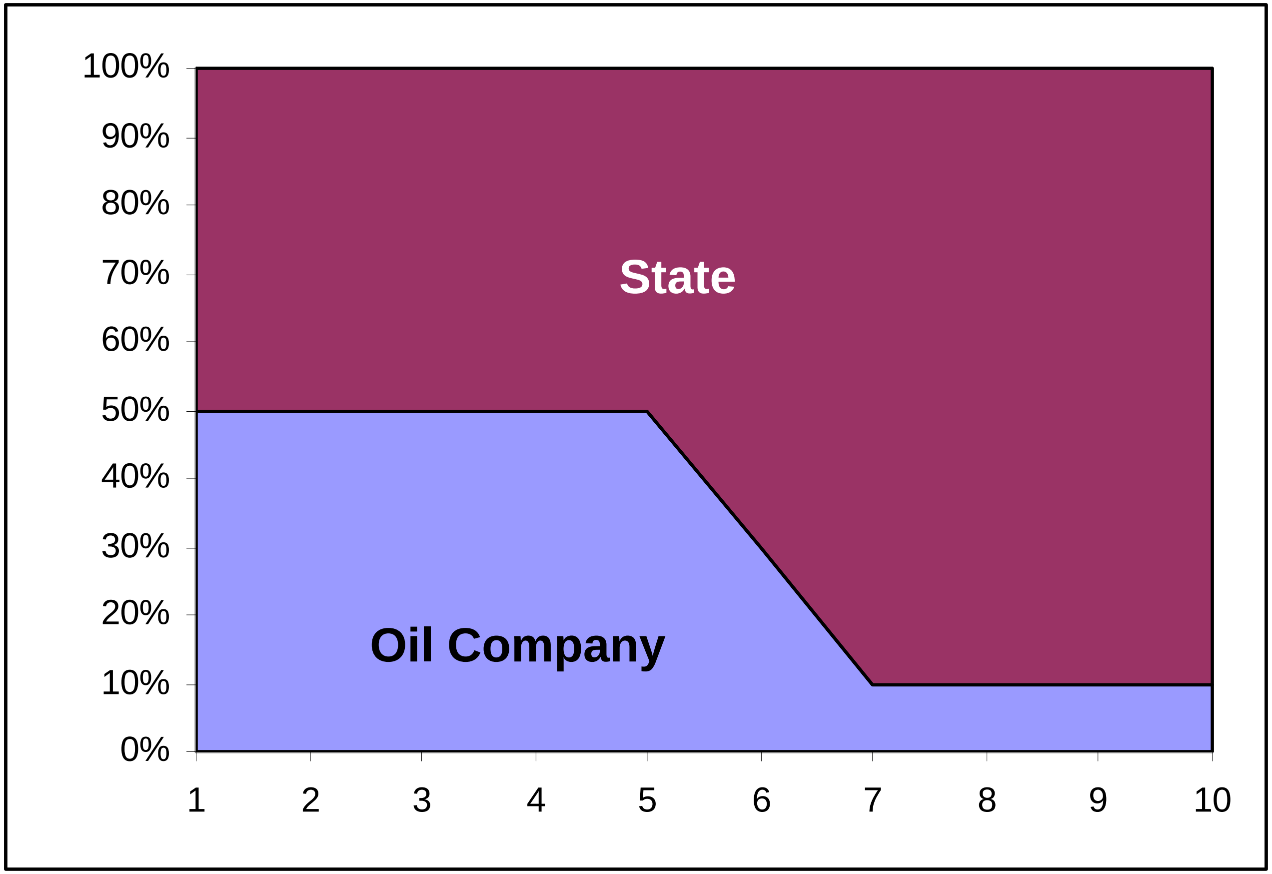
Case 1 – IRR 10%

- **IOC NPV10 = 0 State NPV5 = 52**



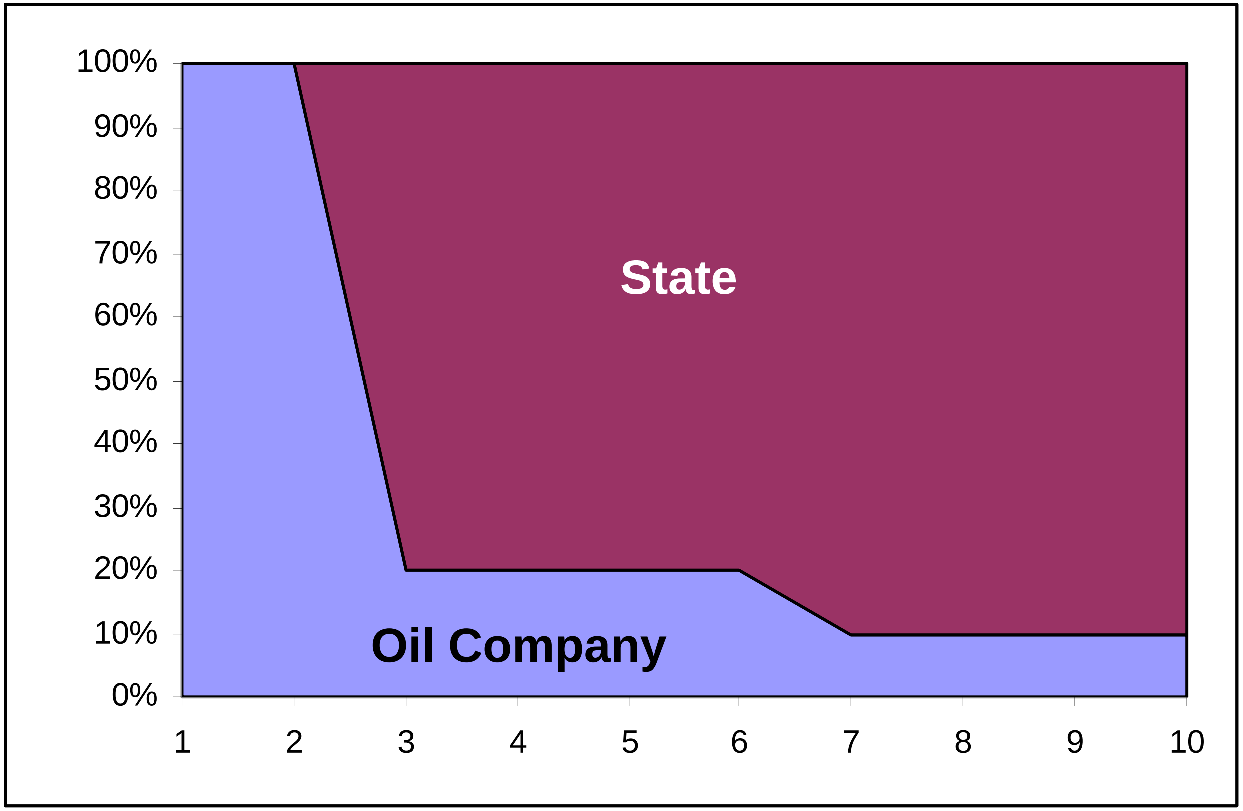
Case 2 – IRR 14%

- **IOC NPV10 = 2.2 State NPV5 = 50.7**



Case 3 – IRR 19%

- **IOC NPV10 = 4 State NPV5 = 49.5**



Case 4 – IRR 26%

- **IOC NPV10 = 5.7 State NPV5 = 49.3**