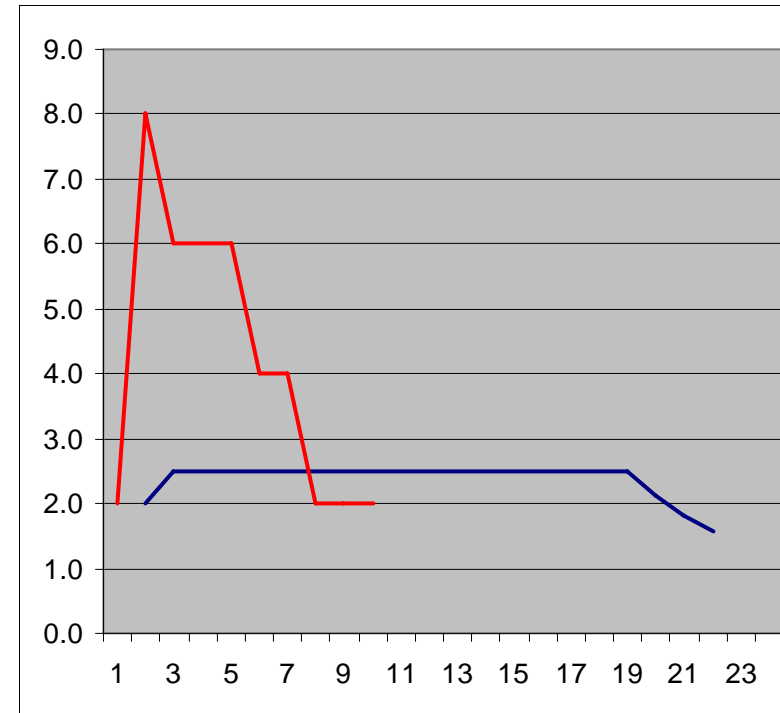

Payout

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 against 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

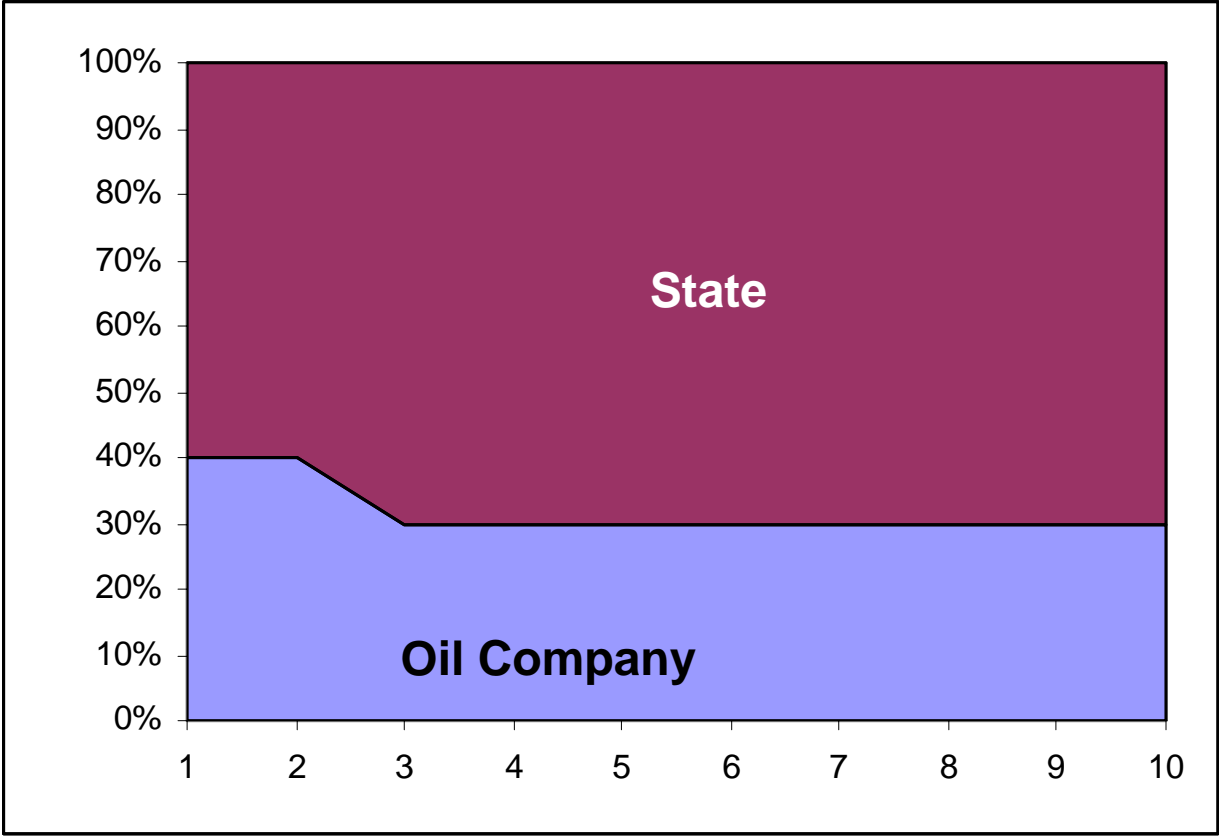
- **Assumptions**

- 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?**

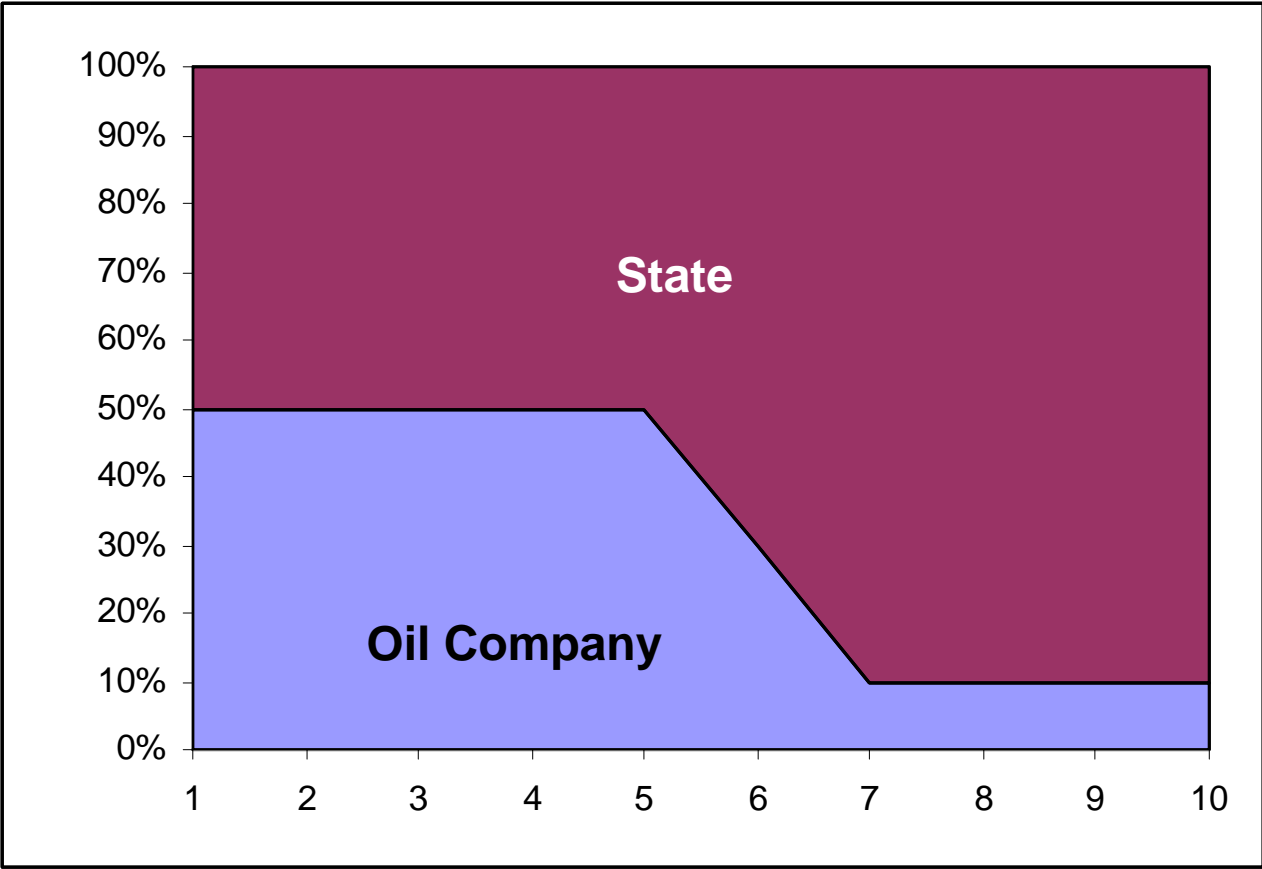
Case 1 – IRR 10%

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



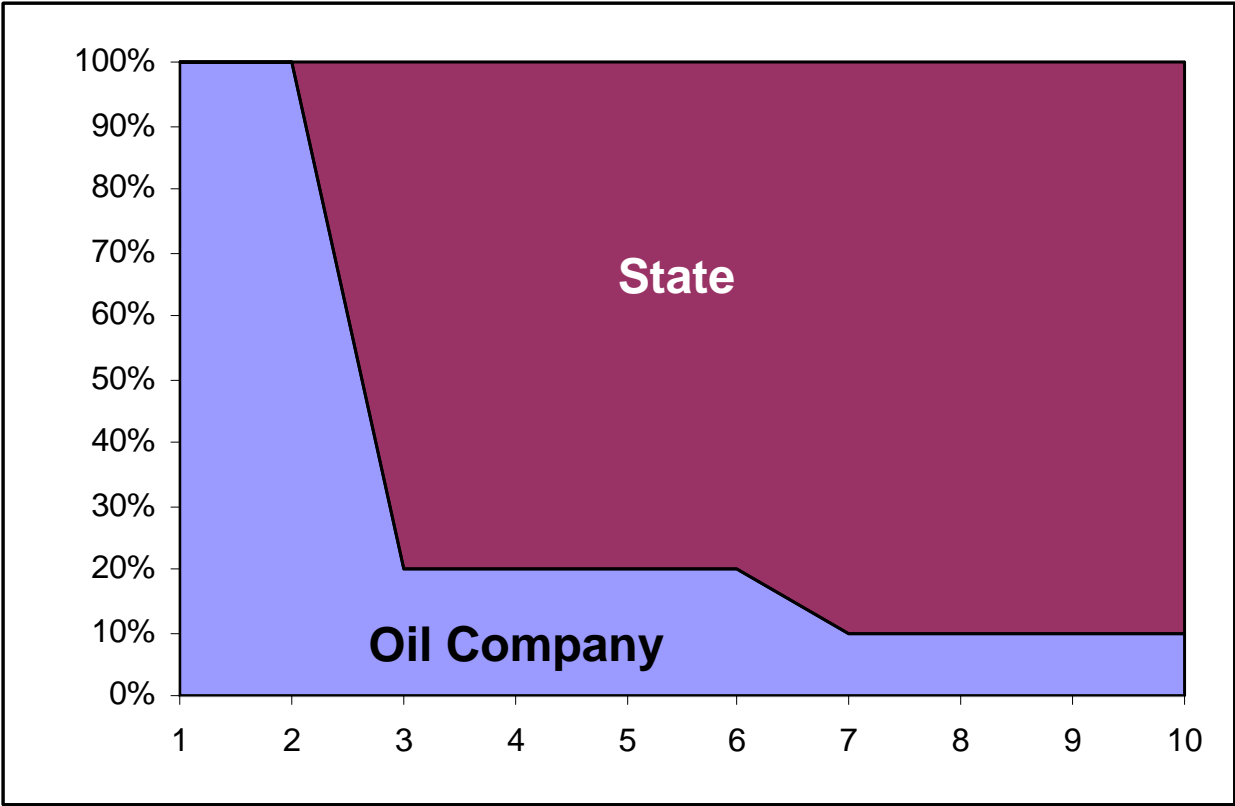
Case 2 – IRR 14%

- **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**

