

Senate Finance SB 130 Testimony

April 13, 2016

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Caelus Energy Alaska: Key Facts & Information

- ❖ Privately-held E&P company focused exclusively on Alaska's NS
- ❖ \$2Bn capital investment in Alaska since 2002
- ❖ ~\$300MM 2016 capital budget
- ❖ Total Alaska workforce is equivalent to over 600 full-time positions
 - ~70 full-time Alaska employees
 - Nearly 400 contractors on the North Slope today
- ❖ Operational Highlights & Accomplishments:
 - 23MMBO gross cumulative production since 2008
 - 4MMBO gross annual production 2015
 - 2015 best safety record, 0.65 OSHA recordable injury rate
 - Longest Oooguruk well length to date: 23,209'MD (ODS N-7i)
- ❖ Direct Financial Benefits to the State:
 - \$67 MM paid in royalties to the State of Alaska
 - \$60 MM paid to the State of Alaska / NSB in property taxes
- ❖ Proven & Potential Reserves:
 - ~85 MMBO remaining at ODS
 - ~100 MMBO remaining at Nuna
- ❖ 350,000 undeveloped State of Alaska leases on the North Slope



North Slope Exploration & Development Program



Smith Bay Exploration 'Tulimaniq'



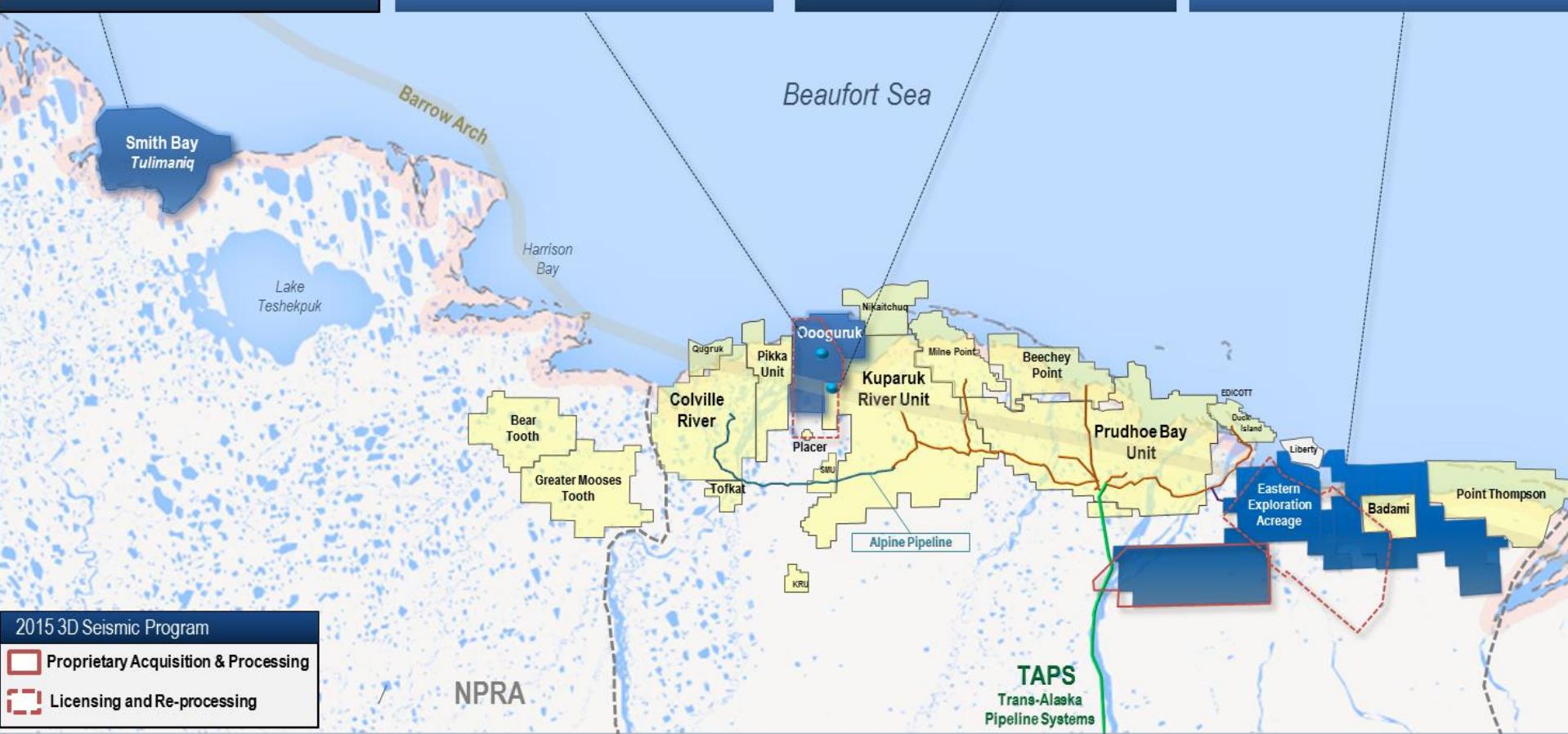
Oooguruk Unit (ODS / OTP)



Nuna Drill Site

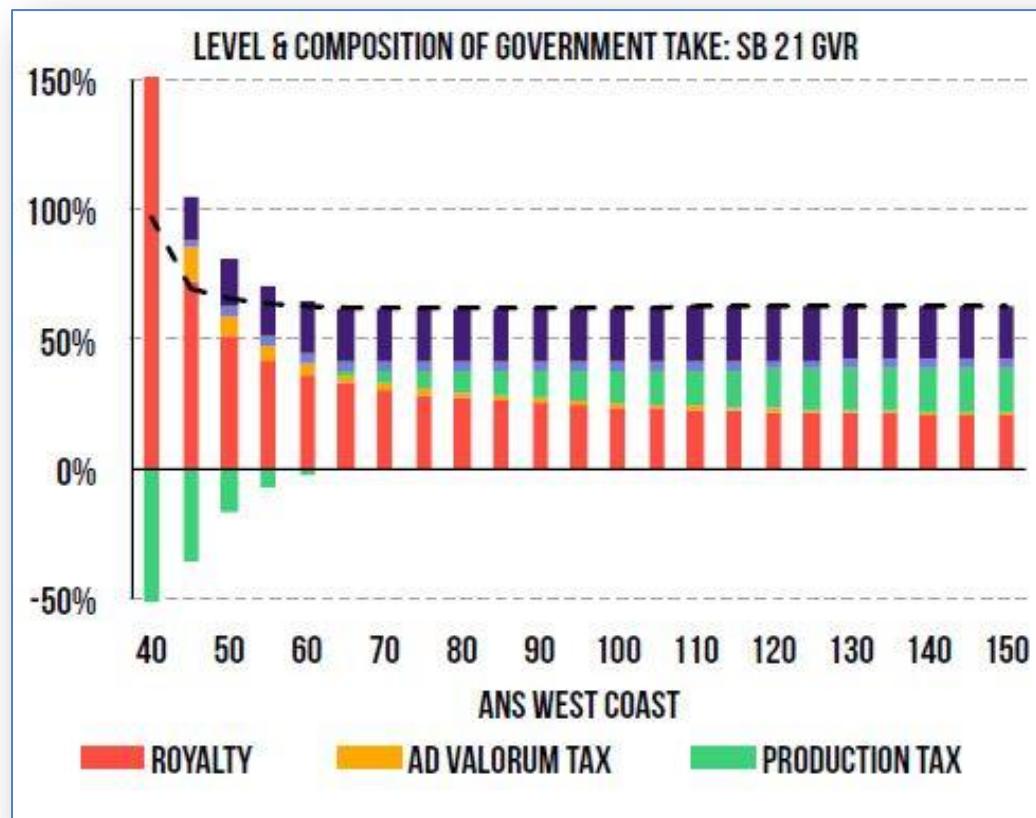


Eastern ANS Exploration Acreage



Alaska : An Attractive Investment Opportunity?

World Class Resources?	Yes
Access to Substantial Leasehold of Interest?	Yes
Access to G&G Data and Information	Yes
Expert Contractor Community?	Yes
Hospitable Regulatory Environment?	Yes
Access to Existing Infrastructure?	Yes
Favorable Logistics?	No – remote, harsh conditions, seasonal limitations
Favorable Fiscal Regime?	Yes, under SB21. No, under proposed system changes
Stable Fiscal Regime?	No, 5 significant changes in a decade
Lender & Equity Provider's Confidence?	Historically low participation & experience Confidence in stability is low Apollo has backed Caelus Other equity providers are “watching” Bank of America committed but spooked by change ING backed out when changes began Wells Fargo disengaged when changes began



“At \$40 per barrel and below, (the government) is taking so much value, when there is not value to take”

~Janak Mayer, enalytica,
House Resources Committee
Feb. 25, 2016

CURRENT BILL PROVISION(S)

❖ CS SB 130 (RES) AM

- LIMITS GVR to 5 years
- CAPS earned credits to \$85 MM per company
- Min Tax: No change from current law

❖ CS HB 247 (FIN) AM*

- LIMITS GVR to 7 years
- CAPS earned credits to \$100 MM
- NEW Alaska hire provision of 80%
- HARD 2% floor

*TBD

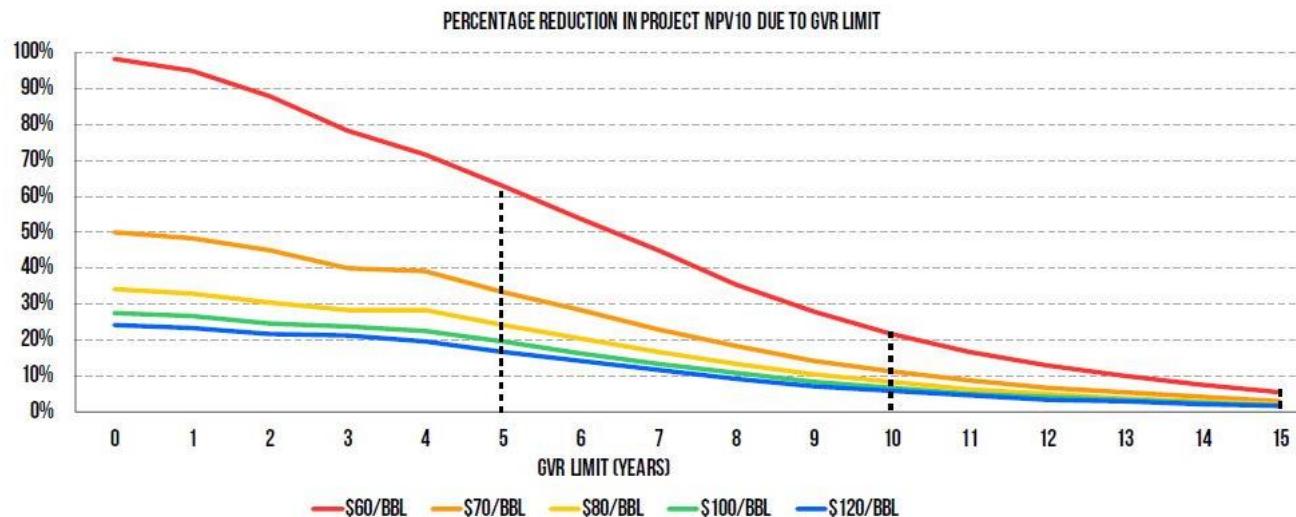
5-YEAR GVR LIMIT HAS MAJOR IMPACT ON PROJECT VALUE

Project is marginal at \$60/bbl; elimination of GVR can **wipe out** all value at that price

Because most tax liability occurs after end of major spending, **short GVR limit provides little benefit**

5-year GVR limit destroys over **60% of project value** at \$60/bbl, relative to status quo

Impact of 10 year limit much lower; 15 year limit preserves almost all of status quo value



Source: ~Janak Mayer, enalytica,
Senate Resources Committee
April 12, 2016

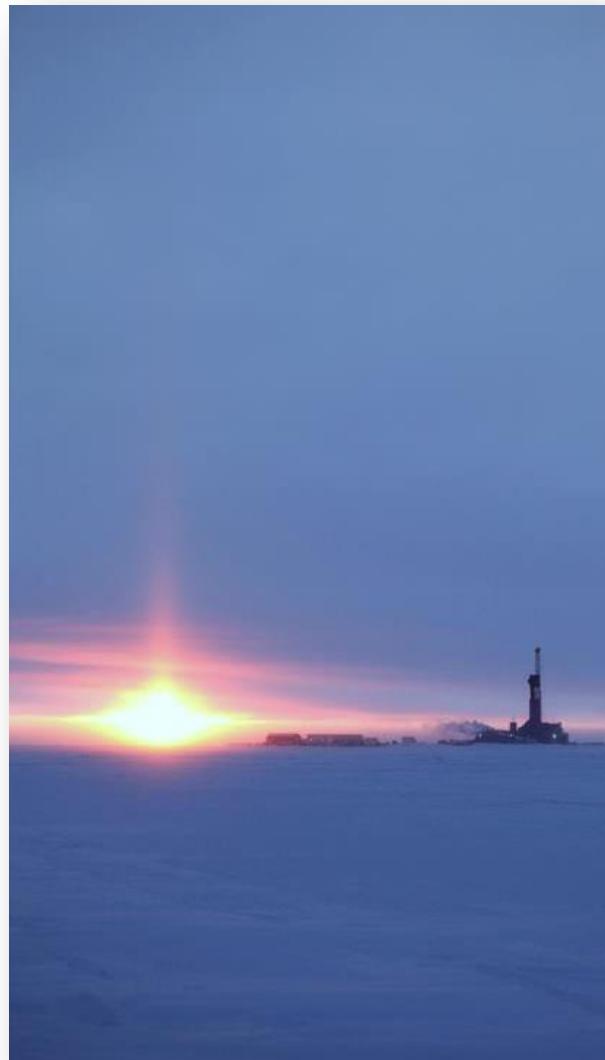
Nuna : A Project on the Bubble

First oil Late 2018 IF Prices recover & confidence in favorable / stable fiscal terms exist

- ❖ Caelus holds 100% interest
- ❖ 100+ MMBO 2P reserves
- ❖ 20,000 to 25,000 BOPD peak production in 2021

Economically Benefits Alaska

- ❖ 300 FTE contractor construction jobs for two years
- ❖ 300 FTE contractor drilling jobs for 4 to 5 years
- ❖ \$1.75 Bn in future payments to the State of Alaska
 - ~ \$900MM in future royalty payments*
 - ~ \$500 MM in future NPSL payments*
 - > \$250 MM in future production tax payments*
 - ~ \$100 MM in future Ad Valorem taxes
- ❖ <\$250MM in future NOL cash payments from the State of Alaska



* Values are undiscounted based upon a Flat \$70/bbl Brent Price Assumption

Closing thoughts

❖ Alaska has Great Resource Potential

- Alaska needs more exploration & production companies to fully develop its petroleum resources
- Caelus continues to be very optimistic on Alaska
- SB 21 is a balanced system that is working for Alaska

❖ Recommendations

- GVR
 - 10 – 15 years
- Credit caps
 - > \$100 mm
- Minimum Tax Floors
 - Allow small producers to use credits against
- Thoughtful policy considerations:
 - Will policy increase production?
 - Short- and Long-Term Vision



Thank you

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