



Friday, April 08, 2016

Honorable Bill Walker
Governor of State of Alaska
Juneau, Alaska

Governor Walker:

Earlier this week our company had the difficult task of informing our employees, partners and contractors that due to the prolonged depression in oil prices and uncertainty in Alaska's oil tax system the company will need to make significant and immediate cost reductions. As a result, Caelus commenced efforts to reduce its workforce by approximately 25 percent and will suspend near-term drilling operations at Oooguruk. The reduction in force will take place over the next week while the Nabors 19AC drill-rig will go on standby by mid-May. Caelus currently employs approximately eighty Alaska based employees and utilizes many hundreds of contractors to run our overall Oooguruk unit operations.

The above actions are required to minimize our near-term capital expenditures and reduce our general and administrative expenses. These are the only remaining tools we can utilize to ensure solvency for the next several years, absent dramatic price recovery and stabilization. Notwithstanding any changes in our staffing or capital program, we will maintain our high standards for safety and environmental protection and excellence and keep a responsible vigilance on the maintenance of our wells, pipelines and production facilities. We will continue to produce oil at a rate of 11-15 m.b.o.p.d. from existing wells.

While extremely difficult, our actions reflect the reality of trying to operate a business in today's unstable price and political environment

As you are well aware, we came to Alaska as the new oil tax regime was implemented having purchased the Oooguruk Unit from Pioneer Natural Resources. During our short time in Alaska we have done exactly what we said we were going to do -- move swiftly but safely to explore for and produce new oil for Alaska. Since our arrival, Caelus has acquired ownership in over 400,000 new exploration acres, shot hundreds of miles of 3D seismic, built the Nuna gravel drill site and most recently drilled two exciting exploration wells at our holdings at Smith Bay. We truly believe that Caelus represents the type of company that represents the future of Alaska's North Slope.

We feel like the proverbial canary in the coal mine.



When combined with the price downturn, the constant barrage of anti-industry rhetoric and reflexive policy actions have only made a bad situation worse for our company and others looking to build a business in Alaska. The introduction of tax credit reductions and deferrals to the legislation have significantly damaged investor confidence on Alaska. At current oil prices, the level of government take on our field leaves us with nothing, yet under the current proposal that the state is trying to take an even larger piece! As the legislative experts stated, the government is seeking to extract value when there's no value to take. To put it another way, even though it is clear our industry loses money on every barrel we produce, this administration seeks to impose additional taxes and limit incentives.

The actions undertaken by this administration and the legislature are being watched acutely by outside investors. With the resulting erosion of confidence, it is nearly impossible for companies to obtain or attract new investment dollars in today's environment. Changes to the current tax credit system will:

- Caelus will have less capital to reinvest and planned projects will be delayed, reduced or eliminated financial markets will lose any and all confidence in Alaska as an attractive invest region,
- The State of Alaska will be successful in its quest to reduce near-term cash requirements but at the significant loss of future jobs, royalty, property taxes and the benefits they provide to the citizens,
- The new Alaskan oilfield players, like Caelus, will stop developing and expanding our business and enter a harvest mode in an attempt to recoup their failed investment as best they are able,

In short, we appreciate the significance of the struggle Alaska faces and understand the severity. We too are struggling. There is an opportunity to balance the current needs with long term stability. Policy instability will result in the failure and forced exit of those like us you have worked so hard to attract.

Caelus continues to see Alaska as a region with great resource and business potential. We continue to hope for oil price recovery and wiser heads in Juneau so that we can do what we do best, find and produce oil that will benefit Alaska and Alaskans alike.

Sincerely,

A handwritten signature in blue ink that reads 'James C. Musselman'.

James C. Musselman
President & CEO

Cc: The Alaska State Legislature