



Legislative Budget and Audit
Nuna Development & Royalty Modification Overview
December 2, 2014

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Caelus History, Funding & Philosophy

- ❖ Privately-held Independent E&P company
- ❖ Established by Jim Musselman, 2011
- ❖ Previous Successful Business Ventures
 - Triton: Equatorial Guinea, discovered and developed 500 mmbo in 6 fields
 - Kosmos: Ghana, discovered and developed 1+ bbo in 4+ fields
- ❖ Acquired Pioneer AK assets in April 2014
- ❖ 80 Alaskan employees in town and on the North Slope
- ❖ >500 contract workers this Winter (100 – 300 historical average)
- ❖ >\$2 billion historical investment in Alaska (legacy Pioneer)
- ❖ \$100 million historical Royalty and Ad Valorem Tax paid in Alaska (legacy Pioneer)
- ❖ \$1 Billion in equity capital commitment from Apollo Global Management
- ❖ \$300 million 2nd Lien term loan + \$500 million unused reserves based loan revolver
- ❖ >\$500 million 2015 Capital Budget
- ❖ Exploration, Appraisal & Development Pace will be Swift but Careful
 - Oooguruk first lease to first oil was 6 years; fastest pace ever in Alaska
 - Nuna 1st oil will commence 2 years after project sanction
 - High resolution 3D committed to planned and contracted before the 2014 Areawide Lease Sale

- **Caelus Apparent High Bidder on:**
 - **126 Tracts**
 - **322,795 Acres**
- **\$15 mm in Lease Bonus on Caelus High Bids**
- **150 Sq Mile High Resolution 3D Winter 2015**



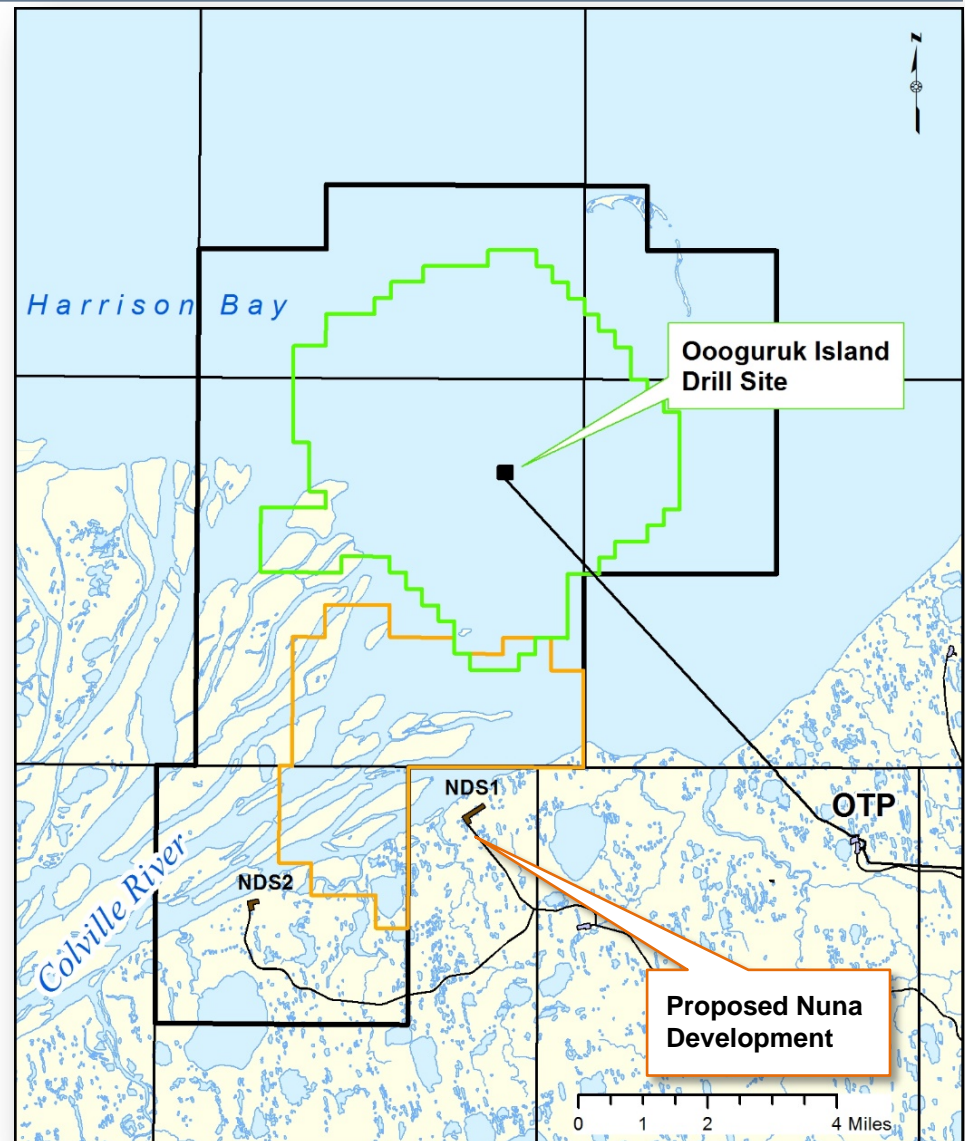
Oooguruk Unit Facts & Development Plans

Oooguruk Island Drillsite

- ❖ 100 MM BO recoverable reserves
- ❖ 70% w.i. and operator of Oooguruk
- ❖ 13,000 BOPD gross production
- ❖ \$250 million 2015 capital budget
- ❖ 36 of 48 ODS well slots consumed
- ❖ 2.4 mm lbs frac treatments required

Proposed Nuna Development Overview

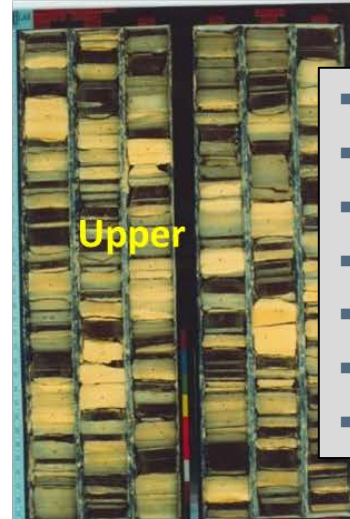
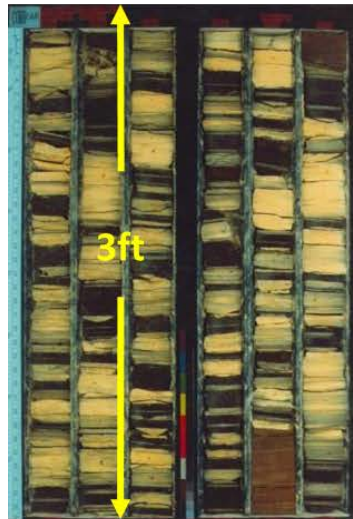
- ❖ ODS pilot project
- ❖ 2012 Nuna-1, ~ 2,500 BO
- ❖ 2013 NDST-2, retest Nuna-1
- ❖ 50 – 100 MM BO recoverable reserves
- ❖ 100% Caelus w.i.
- ❖ First commercial Torok development
- ❖ 30 Wells in Phase I of development



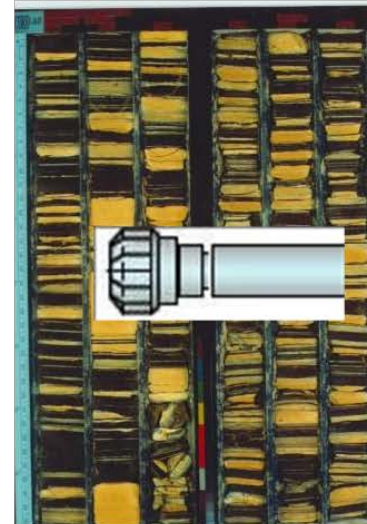
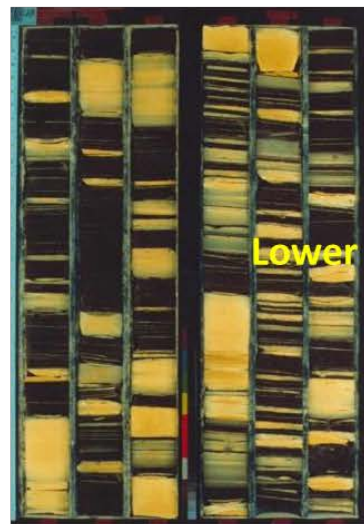
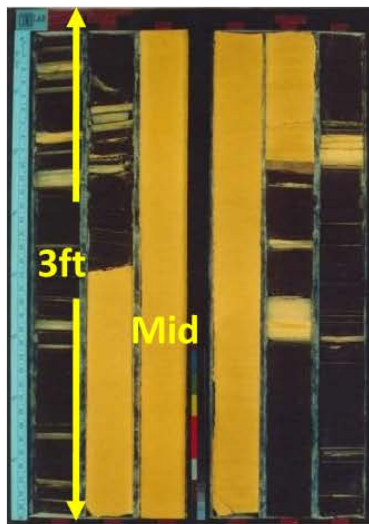
The Easy Oil is Gone - Nuna Project is Challenged



Core Photo from Kalubik #2 (ARCO, 1998)



- Thinly laminated sands
- No vertical permeability
- Low porosity
- Moderately high viscosity
- Moderately low oil quality
- High initial water cut of 40%
- High drilling capital requirements



Preliminary Findings & Determination on Nuna Royalty Modification

Application Timeline:

- ❖ January 2014 Discussions and exchange of information begin
- ❖ July 2014 Formal application filed and accepted as “complete”
- ❖ October 2014 Preliminary Finding and Determination issued by DNR

Facts and Preliminary DNR Determination:

- ❖ 5 percent royalty until Caelus has achieved a Gross Revenue Target (GRT) of \$1.25 billion
- ❖ Royalty modification “is in the best interest of the state”
- ❖ 75% of subject leases are burdened by 12.5% royalty plus 30% net profit interest
- ❖ Prolongs economic life of a field **and** “state economically benefits from project”
- ❖ Absent royalty modification the development may be delayed or likely shelved
- ❖ Cost of delay exceeds the loss of expected state revenue resulting from modification

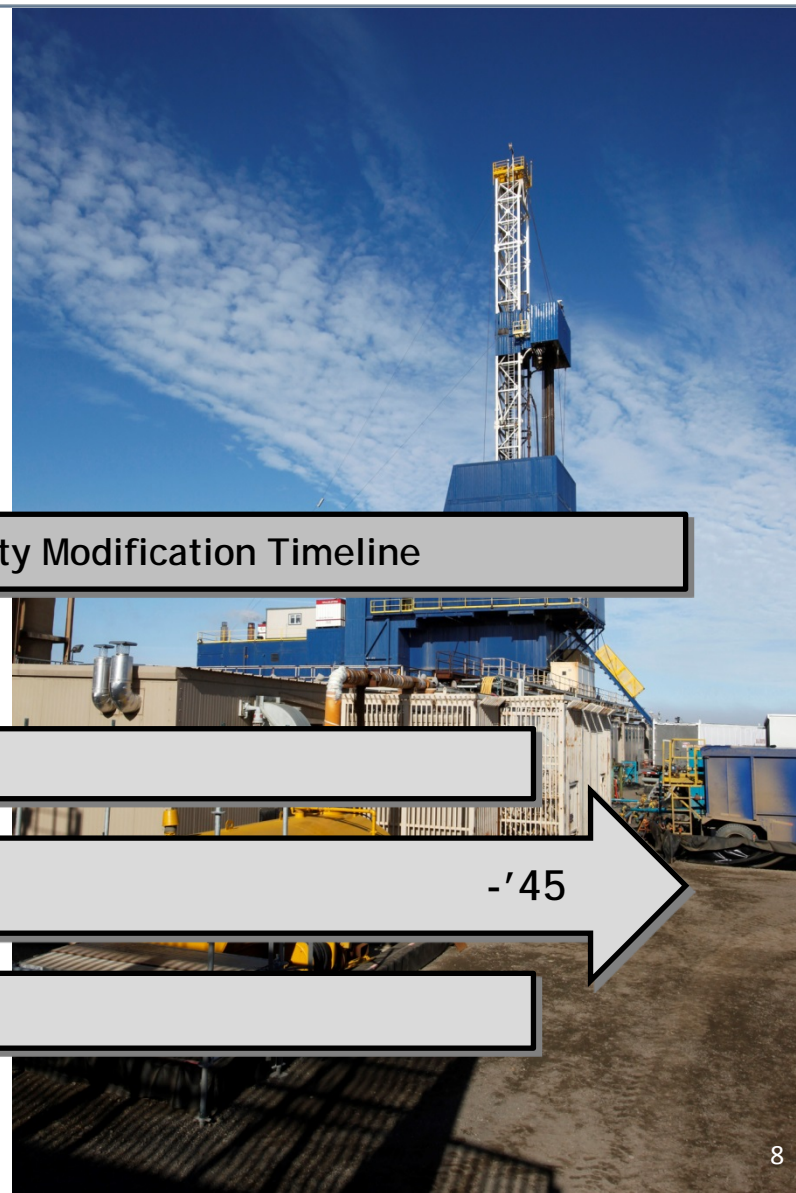
Agreement Protects Alaska – Modification Rescinded if Milestones not Achieved:

- ❖ Project MUST be sanctioned and AFEs to DNR by Dec. 31, 2014
- ❖ Facilities capex initiated by March 31, 2015
- ❖ Facilities capex > \$260 million by March 31, 2017
- ❖ Sustained production from Nuna commences by March 31, 2017

Proposed Nuna Construction and Royalty Modification Timeline

Proposed Nuna Development

- ❖ 2015 Gravel installation
- ❖ 2016 Facilities and flowline install
- ❖ 3Q 2016 First Oil
- ❖ Life of project until ~ 2045



Nuna Project Construction and Royalty Modification Timeline

Construction / Development Drilling

Oil Production

'15 '16 '17 '18 '19 '20 '21-

- '45

5% Modified Royalty (approx.)

Original Royalty

Nuna Development Economically Benefits Alaska

- ❖ Hundreds of jobs for Alaskans
- ❖ 50 – 100 millions of barrels of oil (net potential) through TAPS
- ❖ ~\$1.3 billion in Alaska's economy through construction and production contracts (Nuna phase I)
- ❖ ~\$1 - \$1.7 Billion in royalties, taxes and NPSL Payments to Alaska (life of project)

PLUS:

- ❖ Caelus agreed to substantial public information sharing to assist future similar operations
- ❖ Project upside is captured by the State by way of 30% net profit share leases



Thank you.