Alaska Oil & Gas Industry Update

Kate Blair - Alaska Oil & Gas Association
Industry Outlook Forum
January 28, 2016
AOGA Member Companies
Industry facing economic struggles, Alaska not exempt

<table>
<thead>
<tr>
<th>ANS Price for 1/27/16</th>
<th>$31.95</th>
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</thead>
<tbody>
<tr>
<td>Downstream Costs</td>
<td></td>
</tr>
<tr>
<td>ANS Marine Transportation</td>
<td>($3.28)</td>
</tr>
<tr>
<td>TAPS Tariff</td>
<td>($6.41)</td>
</tr>
<tr>
<td>Other</td>
<td>($0.87)</td>
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<tr>
<td>Total Transportation Costs</td>
<td>($10.56)</td>
</tr>
<tr>
<td>Royalty</td>
<td>($5.63)</td>
</tr>
<tr>
<td>Lease Expenditures</td>
<td></td>
</tr>
<tr>
<td>Operating Expenditures</td>
<td>($18.48)</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>($17.68)</td>
</tr>
<tr>
<td>Total Lease Expenditures</td>
<td>($36.14)</td>
</tr>
</tbody>
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ESTIMATED FY16 COSTS OF PRODUCTION BEFORE TAXES

($52.33)

Source: DOR, Fall 2015 RSB

Source: NASDAQ 1/13/16
Current environment:

- Shell’s departure from the Chukchi
- Low oil prices
- Recent layoffs
- State of Alaska budget shortfall
From 2005 to 2012, even though spending was rising, we ran big General Fund **surpluses**. Since 2013 we have been running big General Fund **deficits**.
Industry Trends in North America

**Low Prices**
- Unprecedented drop in oil price; lower than mid-80s

**High Costs**
- O&G development costs grew 90% since 2000, greater than 2x inflation

**Significant Losses**
- Companies filing for bankruptcy, leaving regions (e.g., AK), laying off workers, cutting spend, deferring projects and stopping drilling
- Changing tax policy only makes it worse vs increasing taxes

**Sources**
1. Price: Brent Crude (EIA)
2. Cost: Upstream Capital Cost Index (IHS / CERA)
3. Inflation: Consumer Price Index (US Department of Labor)
Is it competitive?
Does it provide stability?
Will it provide predictability?
**PRODUCTION: WHERE ARE WE & WHERE ARE WE HEADED?**

### TAPS Throughput Historical & Forecasted

**Production and Forecast figures: State of Alaska DOR, Fall 2013 & Fall 2015 Revenue Sources Book**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fall 2013 Forecast</th>
<th>Fall 2015 Forecast</th>
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</thead>
<tbody>
<tr>
<td>2016</td>
<td>487.6</td>
<td>500.2</td>
</tr>
<tr>
<td>2017</td>
<td>482.7</td>
<td>504.9</td>
</tr>
<tr>
<td>2018</td>
<td>459.5</td>
<td>497.7</td>
</tr>
<tr>
<td>2019</td>
<td>429.1</td>
<td>487.6</td>
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<tr>
<td>2020</td>
<td>399.6</td>
<td>460.5</td>
</tr>
<tr>
<td>2021</td>
<td>368.8</td>
<td>423.9</td>
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<tr>
<td>2022</td>
<td>340.1</td>
<td>391.1</td>
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<tr>
<td>2023</td>
<td>312.9</td>
<td>359.8</td>
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<tr>
<td>2024</td>
<td>329.2</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td></td>
<td>302.1</td>
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</tbody>
</table>
Industry Update

Point Thomson will begin production in early 2016

ConocoPhillips’ CD-5 now in production in NPR-A

Hilcorp in permitting phase for Liberty Project
Liberty Development

- Estimated first production: 2020-2021
- Total recovery estimate: 80-150 million barrels
- Peak production estimate 60,000-70,000 barrel/day
- 16 well slots: 5-8 producers, 4-6 injectors, 2 disposal wells
- Project life: 15-20 years
Tax credits:

- **An investment in Alaska’s future**
- **Generating jobs, investment, and production**
- **Key in attracting new and smaller companies to Alaska**
Cook Inlet oil production up 102%

Cook Inlet oil production 2005-2015

Source: DOR, Fall 2015 RSB
Alaska LNG project

- Legislature authorized TransCanada buy-out and $160 million funding
- Requires healthy oil industry
To keep up with everything going on in the oil and gas industry in Alaska:

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Thank you