John Harpole
Founder and Owner
Mercator Energy

Natural Gas Outlook
The End of Scarcity?
Natural Gas Outlook

Presentation to:
The Fertilizer Outlook and Technology Conference
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By:
John Harpole

November 11, 2015
Conclusions from November 20, 2013

• U.S. continues to produce more gas, shale gas revolution was too successful, end-users will benefit
• During the next 3 years, supply will likely exceed demand
• Prices will remain in the $3.50 to $4.75 range, with short period above and below that band during adjustments
• Long term prices depend on demand growth. Without demand growth, supply will continue to be long and prices relatively low.
• A significant demand response can’t occur for at least 3-5 years
The Big Question

• What issues will have the greatest impact on North American natural gas prices in the next 5 years?
The Big Three Issues to Watch

1. Global Oil Price Recovery
2. Marcellus and Utica Shale Production
3. U.S. LNG Exports
The Big Three Issues to Watch

1. Global Oil Price Recovery
What Happened?

• Thanks to American ingenuity and private property ownership of minerals, the world should/will no longer live under the threat of energy insecurity.

• Energy once scarce, is now super-abundant and that reality will continue to change the world as transportation issues are remedied.
Horizontal Drilling

Traditional Wells

Horizontal Drilling

Hydraulic Fracturing
Pumping fluid under high pressure to fracture formation

- Creates fracture “highway” for gas to be rapidly produced from formation

Fracturing Application Exploded

North American Frac Horsepower

Source: Chris Wright, Liberty Resources Tuesday Lunch Club Presentation, 3/5/13
10-fold growth in 10 years

Source: Chris Wright, Liberty Resources Tuesday Lunch Club Presentation, 3/5/13
Oil Production on Federal vs. Private and State Lands
Percent Change from FY2010

Source: “Oil and Natural Gas Booms on Private and State Lands,” Institute for Energy Research, April 14, 2015
Natural Gas Production on Federal vs. Private and State Lands, Percent Change from FY2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Private and State Lands</th>
<th>Federal Lands</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>12%</td>
<td>-10%</td>
</tr>
<tr>
<td>FY2012</td>
<td>24%</td>
<td>-16%</td>
</tr>
<tr>
<td>FY2013</td>
<td>29%</td>
<td>-25%</td>
</tr>
<tr>
<td>FY2014</td>
<td>37%</td>
<td>-31%</td>
</tr>
</tbody>
</table>

Source: “Oil and Natural Gas Booms on Private and State Lands,” Institute for Energy Research, April 14, 2015
The House of Saud’s Motivation

2009-2014 Global Liquids Supply Growth Breakdown (MMbpd)
Supply Growth (09-14): 8.06 MMbpd

- Other*, 0.41 (5%)
- Non-OPEC, Ex-US
  Supply, -0.07
  -1%
- OPEC NGLs, 1.74
  22%
- OPEC Oil, 1.55
  19%
- US Liquids, 4.42
  55%

Source: IEA, Raymond James research
*Includes processing gains and biofuels

Major Takeaways

• Crude oil prices are depressed due to the current global oversupply.

• The crude oil oversupply will take between 1 to 3 years to correct, unless a major structural event takes supply out (OPEC, etc.)

• Marginally economic areas across the U.S. will be negatively impacted. Geography and crude quality can tip the sales either way.

• Natural gas drilling that was dependent on the value of natural gas liquids has been negatively affected

• North American LNG exports could also be affected.

Source: The Outlook for U.S. Crude: Implications for Colorado, Bernadette Johnson, Ponderosa Advisors
The U.S. has experienced a rapid increase in natural gas and oil production from shale and other tight resources.

Source: U.S. oil and natural gas outlook, Adam Sieminski, EIA Administrator, Presentation to IAEE International Conference, June 16, 2014.

Sources: EIA derived from state administrative data collected by DrillingInfo Inc. Data are through April 2014 and represent EIA's official tight oil & shale gas estimates, but are not survey data. State abbreviations indicate primary state(s).
Growing tight oil and offshore crude oil production drive U.S. output close to historical high

U.S. crude oil production
million barrels per day

Source: EIA, Annual Energy Outlook 2014 Reference case

Source: U.S. oil and natural gas outlook, Adam Sieminski, EIA Administrator, Presentation to IAEE International Conference, June 16, 2014
Source: My top ten energy charts of the year for 2014, Mark J. Perry, American Enterprise Institute, January 5, 2015
Source: My top ten energy charts of the year for 2014, Mark J. Perry, American Enterprise Institute, January 5, 2015
Commodity Prices:
Oil Prices Distressed: What Is Happening?

Global crude oil oversupply has pushed prices down both in the U.S. & abroad.

Sources: The Outlook for U.S. Crude: Implications for Colorado, Bernadette Johnson, Ponderosa Advisors and EIA
Global Supply/Demand Balance
Lower Prices A Function of Global Oversupply

Supply is nearly 1.5 MMb/d over demand. Supply has been higher than demand briefly in the past without price drops (inventory build), however the current oversupply is at a time where demand is also at its peak.

Sources: The Outlook for U.S. Crude: Implications for Colorado, Bernadette Johnson, Ponderosa Advisors
IEA Global Supply/Demand Crude NGLs, Non-Conventional Oils
Global Crude Oil Over-Supply
‘Pain Period’ Will Last 1 to 3 Years

If lower prices force natural declines in high cost producing countries, global production could fall by 1.5 MMb/d by 2016.

Sources: The Outlook for U.S. Crude: Implications for Colorado, Bernadette Johnson, Ponderosa Advisors
EIA International Energy Outlook
Impact of Lower Prices in U.S.

Despite a rig count drop…
The Active Rig Count is Down 51% From the Peak

Source: Bernadette Johnson, Ponderosa Advisors, LLC
The U.S. Rig Fleet Has Lost At Least 1,076 Rigs Since Oct 2014

This Rig Drop Is Different Than 08/09 Because Rigs Are More Productive
More Horizontal Rigs Will Lay Down

Source: Bernadette Johnson, Ponderosa Advisors, LLC
Despite a price drop

Historical Henry Hub Index Prices (1996-Current)
Summary of Dry Natural Gas Production in the United States, 2010-2015

Equal to marketed production minus NGPL production.

Note: actual data through August 2015 and estimated for September-December 2015

Source: Natural Gas Monthly, U.S. Energy Information Administration, October 2015
Summary of Dry Natural Gas Production in the United States, 8-Month YTD

Equal to marketed production minus NGPL production.

Source: Natural Gas Monthly, U.S. Energy Information Administration, October 2015
China Gambles

• From 2005 – June 2013, $430.4 billion invested world wide “with energy as the focus”

• Those investments were predicated on the scarcity of energy.

• It was the wrong bet.

China Sleeps?

That miscalculation may impact the hoped for growth in oil demand that the world expected China/Asia to realize over the next 5 years.
China

• Without significant demand in China, it is doubtful that world oil prices will strengthen in the near term (2015-2020)

• Combined with an aging population, China’s GDP growth will slow

• That will obviously affect world/U.S. oil prices and natural gas liquid values
Four Grandparents, Two Parents, One child. 4-2-1

Source: “The Age Curve: How to Profit from the Coming Demographic Storm,” Kenneth W. Gronbach, October 2015
China Abandons One-Child Policy

Will future historians consider the elimination of the “one-child-only” policy in China as the end of the Malthusian inspired “era of perceived scarcity”?

The Lesson for China, Free Markets?

“Consider for a moment that any one person can only know a fraction of what is going on around him. Much of what that person believes will be false rather than true…”

Free Markets

“It is because every individual knows so little and, in particular, because we rarely know which of us knows best that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it.”

Source: Nasdaq.com, End of day Commodity Futures Price Quotes for Natural Gas (NYMEX)
Regional prices for November 2015
All prices in $/MMBtu

- Tennessee Gas Pipeline Zone 4 300-Leg: $0.90
- Eastern Penn Transco Gas Pipeline Leidy Line: $0.98
- West TX/Permian Basin El Paso Natural Gas Co: $1.99
- Colorado Interstate Gas: $1.94
- Appalachia Dominion Transmission: $1.24
- Millennium Pipeline East Receipts: $1.00

Supply

L48 Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>71.6</td>
</tr>
<tr>
<td>2024</td>
<td>100.7</td>
</tr>
<tr>
<td>2014-2024 CAGR</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: Kinder Morgan, 2015 Business Meeting: West Region Gas Pipelines, November 2, 2015
The Big Three Issues to Watch

2. Marcellus and Utica Shale Production
Marcellus wellhead production is expected to increase by 28.1 Bcf/d between 2014 and 2024.

1990-2013: Wellhead total data from DI Desktop
2014-2025: Kinder Morgan forecast

Source: Kinder Morgan, 2015 Business Meeting: West Region Gas Pipelines, November 2, 2015
PA North - From Premium to Discount Market

- Production growth limited by takeaway capacity.
- Oversupply market sent basis to negative territory starting in Summer 2014.

Source: SNL cash prices. EIA Map

Source: Ponderosa Energy

Source: SNL cash prices. EIA Map
Pipe Capacity out of Producing Region
(Assumed in Model)

Roughly 20.9 Bcf/d of Pipeline capacity is added from 2015 to 2019; however, capacity is again constrained against supply by 2021.

Note: Production based on ICF July, 2015 Forecast

Source: Kinder Morgan, 2015 Business Meeting: West Region Gas Pipelines, November 2, 2015
Additional Takeaway Capacity to Provide Limited Basis Strength

- Potential production growth in north PA higher than proposed takeaway capacity.
- Basis to remain in negative territory although stronger than current levels.

<table>
<thead>
<tr>
<th>Q/YEAR</th>
<th>Pipeline</th>
<th>Project Name</th>
<th>Capacity (Bcf/d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q15</td>
<td>Transco</td>
<td>Leidy Southeast</td>
<td>0.525</td>
</tr>
<tr>
<td>4Q15</td>
<td>Nat Fuel</td>
<td>Northern Access 2015</td>
<td>0.140</td>
</tr>
<tr>
<td>3Q16</td>
<td>Constitution</td>
<td>Constitution Pipeline</td>
<td>0.650</td>
</tr>
<tr>
<td>4Q16</td>
<td>Nat Fuel/Empire</td>
<td>Northern Access 2016</td>
<td>0.497</td>
</tr>
<tr>
<td>3Q17</td>
<td>Transco</td>
<td>Atlantic Sunrise</td>
<td>1.700</td>
</tr>
<tr>
<td>3Q17</td>
<td>TGP</td>
<td>SW Louisiana Supply</td>
<td>0.600</td>
</tr>
<tr>
<td>4Q17</td>
<td>PennEast</td>
<td>PennEast Pipeline</td>
<td>1.000</td>
</tr>
<tr>
<td>4Q18</td>
<td>Transco</td>
<td>Diamond East Project</td>
<td>1.000</td>
</tr>
<tr>
<td>4Q18</td>
<td>TGP</td>
<td>Northeast Energy Direct (NED)</td>
<td>2.000</td>
</tr>
</tbody>
</table>

2015 4Q – 2018 TOTAL: 8.312

Source: Ponderosa Energy
Northeast Supply vs. Regional Demand

Northeast Supply and Demand Balance

Source: ICF International, KM analysis
A Marcellus and Utica Case Study
GROWTH – STRONG TRACK RECORD

NET PROVED RESERVES (Bcfe)
- Marcellus
- Utica

108% CAGR

2010: 677
2011: 2,844
2012: 4,283
2013: 7,632
2014: 12,683

AVERAGE NET DAILY PRODUCTION (MMcfe/d)
- Marcellus
- Utica
- Guidance

98% CAGR

2010: 30
2011: 124
2012: 239
2013: 522
2014: 1,007
2015E: 1,400+
2016E(2): 1,785

40%+ Growth Guidance
25%-30% Growth Target

OPERATED GROSS WELLS COMPLETED
- Marcellus
- Utica
- Deferred Completions

2010: 19
2011: 38
2012: 60
2013: 114
2014: 177
2015E: 180

AVERAGE NET DAILY LIQUIDS PRODUCTION (Bbl/d)
- NGLs (C3+)
- Oil

431% CAGR

2010: 5
2011: 246
2012: 6,436
2013: 23,051
2014: 37,000+
2015E

61%+ Growth Guidance

Source: Antero Resources Company Overview, November 2015
WELL ECONOMICS – LOW BREAK-EVEN PRICE ECONOMICS

- Marcellus and Utica undeveloped 3P rich-gas locations have the lowest breakeven prices for both oil and natural gas compared to other U.S. shale plays.

North American Breakeven Oil Prices ($/Bbl)$^{(1)}

<table>
<thead>
<tr>
<th>Play</th>
<th>Breakeven Price ($/Bbl)</th>
<th>Antero Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utica - Wet Gas</td>
<td>$44</td>
<td>$39</td>
</tr>
<tr>
<td>Utica - Super Rich</td>
<td>$51</td>
<td>$42</td>
</tr>
<tr>
<td>Marcellus - SW Liquids Rich</td>
<td>$53</td>
<td>$51</td>
</tr>
<tr>
<td>Niobrara XL</td>
<td>$54</td>
<td>$53</td>
</tr>
<tr>
<td>Eagle Ford - Liquids Rich</td>
<td>$60</td>
<td>$54</td>
</tr>
<tr>
<td>Wolfcamp (Permian)</td>
<td>$60</td>
<td>$60</td>
</tr>
<tr>
<td>Bone Springs (Permian)</td>
<td>$65</td>
<td>$64</td>
</tr>
<tr>
<td>Haynesville - Condensate</td>
<td>$65</td>
<td>$65</td>
</tr>
</tbody>
</table>

Assumes $3.66/MMBtu NYMEX Gas$^{(1)}

2015 WTI Strip: $56.26/Bbl$^{(2)}

North American Gas Resource Play Breakeven Natural Gas Prices ($/MMBtu)$^{(3)}

<table>
<thead>
<tr>
<th>Play</th>
<th>Breakeven Price ($/MMBtu)</th>
<th>Antero Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marcellus - Super Rich</td>
<td>$1.94</td>
<td>$1.94</td>
</tr>
<tr>
<td>Utica - Wet Gas</td>
<td>$2.96</td>
<td>$2.20</td>
</tr>
<tr>
<td>Utica - SW Liquids Rich</td>
<td>$3.13</td>
<td>$2.20</td>
</tr>
<tr>
<td>Marcellus - NE</td>
<td>$3.50</td>
<td>$2.96</td>
</tr>
<tr>
<td>Fayetteville Shale</td>
<td>$3.85</td>
<td>$3.13</td>
</tr>
<tr>
<td>Marcellus Shale - SW</td>
<td>$3.88</td>
<td>$3.48</td>
</tr>
<tr>
<td>Pinedale</td>
<td>$4.38</td>
<td>$3.50</td>
</tr>
<tr>
<td>Cotton Valley</td>
<td>$4.38</td>
<td>$3.77</td>
</tr>
<tr>
<td>Haynesville - Condensate</td>
<td>$4.38</td>
<td>$3.85</td>
</tr>
<tr>
<td>Piney River Basin</td>
<td>$4.38</td>
<td>$3.88</td>
</tr>
<tr>
<td>Cotton Valley Horizontal</td>
<td>$5.56</td>
<td>$4.33</td>
</tr>
<tr>
<td>Haynesville Shale - Core LAX</td>
<td>$5.62</td>
<td>$4.38</td>
</tr>
<tr>
<td>Barnett Shale - Liquids Rich - NE TX</td>
<td>$5.69</td>
<td>$4.38</td>
</tr>
<tr>
<td>Granite Wash - Liquids Rich Horizon - West</td>
<td>$5.71</td>
<td>$5.62</td>
</tr>
<tr>
<td>Woodford Shale - Arkoma</td>
<td>$5.74</td>
<td>$5.69</td>
</tr>
</tbody>
</table>

Assumes $65/Bbl WTI Oil$^{(3)}

2015 NYMEX Strip: $3.01/MMBtu$^{(2)}

Source: Antero Resources Company Overview, November 2015

2. 2015 one year WTI crude oil strip price as of 12/31/2014; NYMEX one year natural gas strip price as of 12/31/2014.
3. Source: Credit Suisse report dated December 2014 – Break-even NYMEX gas price to generate 15% after-tax rate of return. Assumes WTI oil price of $64.74/Bbl for 2015-2019; $70.50/Bbl thereafter; NGLs at 35% of WTI vs. Antero guidance of 30%-35% of WTI for 2015-2016 and 50% of WTI for 2017 and thereafter, driven by completion of Mariner East II project expected by year-end 2016.
**REALIZATIONS – A LEADER IN REALIZATIONS & MARGINS AMONG LARGE-CAP APPALACHIAN PEERS**

- Antero continues to be a leader in its peer group in price realizations and EBITDAX unit margins

### 3Q 2015 Natural Gas Realizations ($/Mcf)

<table>
<thead>
<tr>
<th>Region</th>
<th>3Q 2015 % Sales</th>
<th>Average NYMEX Price</th>
<th>Average Differential</th>
<th>Average BTU Upgrade</th>
<th>Hedge Effect Realized Gas Price</th>
<th>Average 3Q 2015 EBITDAX</th>
<th>NYMEX Premium/Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCO</td>
<td>41%</td>
<td>$2.77</td>
<td>$(0.30)</td>
<td>$0.22</td>
<td>$0.14</td>
<td>$2.83</td>
<td>$0.06</td>
</tr>
<tr>
<td>Dom South/TETCO</td>
<td>32%</td>
<td>$2.77</td>
<td>$(1.63)</td>
<td>$0.10</td>
<td>$0.77</td>
<td>$2.01</td>
<td>$(0.76)</td>
</tr>
<tr>
<td>Gulf Coast(1)</td>
<td>7%</td>
<td>$2.77</td>
<td>$(0.27)</td>
<td>$0.22</td>
<td>$0.68</td>
<td>$3.40</td>
<td>$0.63</td>
</tr>
<tr>
<td>Chicago/Michigan</td>
<td>20%</td>
<td>$2.77</td>
<td>$0.20</td>
<td>$0.18</td>
<td>$0.04</td>
<td>$3.19</td>
<td>$0.42</td>
</tr>
<tr>
<td>Total Wtd. Avg.</td>
<td>100%</td>
<td>$2.77</td>
<td>$(0.62)</td>
<td>$0.17</td>
<td>$1.67</td>
<td>$3.99</td>
<td>$1.22</td>
</tr>
</tbody>
</table>

### 3Q 2015 Natural Gas Realizations(3)(4)

- **3Q 2015 NYMEX = $2.77/Mcf**
- **Price Realization & EBITDAX Margin vs F&D(4)5**

1. Gulf Coast differential includes contractual deduct to NYMEX-based sales.
2. Includes firm sales.
3. Includes natural gas hedges.
4. Source: Public data from 3Q 2015 10-Qs. Peers include Cabot Oil & Gas, CONSOL Energy, EQT Corp. and Southwestern.
5. Includes realized hedge gains and losses. Operating costs include lease operating expenses, production taxes, gathering, processing and firm transport costs and general and administrative costs. 4-year proved reserve average all-in F&D from 2011-2014. Calculation = (Development costs + exploration costs + leasehold costs) / Total reserves added (2014 ending reserves – 2011 beginning reserves + 4-year reserve sales – 4-year reserve purchases + 4-year accumulated production). AR price realization includes $0.03 of midstream revenues; EBITDAX excludes AR’s midstream EBITDAX not attributable to AR’s ownership.
WELL COST REDUCTIONS SUPPORT SUSTAINABLE BUSINESS MODEL

- Antero has reduced average well costs for a 9,000’ lateral by 16% in the Marcellus and 18% in the Utica as compared to 2014 well costs, through a combination of service cost reductions and drilling and completion efficiencies.
  - Well economics on some wells expected to improve further starting in early 2016 as the Company utilizes incremental market-based contracts for drilling and completion operations which is expected to reduce well costs by another 10 to 12% over time.

MARCELLUS WELL ECONOMICS(1)

- 72% of Marcellus locations are processable (1100-plus Btu).

UTICA WELL ECONOMICS(1)

- 72% of Utica locations are processable (1100-plus Btu).

Marcellus Well Cost Improvement(2)

- 16% Decrease vs. 2014

Utica Well Cost Improvement(2)

- 18% Decrease vs. 2014

Source: Antero Resources Company Overview, November 2015
MARCELLUS WELL PERFORMANCE IMPROVEMENTS

- Increasing recoveries and efficiencies, through longer laterals, shorter stage lengths and faster drilling
- SSL completions drove a 21% decline in development costs in 2014 while lower service costs and efficiencies are driving further development cost reductions in 2015

1. 2015 reflects Antero guidance per 1/20/2015 press release.

Source: Antero Resources Company Overview, November 2015
OHIO UTICA WELL PERFORMANCE IMPROVEMENTS

- Increasing recoveries and efficiencies through longer laterals, shorter stage lengths and faster drilling
- Lower service costs and efficiencies, and focus on liquids-rich locations, driving development cost reductions in 2015

1. 2015 reflects Antero guidance per 1/20/2015 press release.

Source: Antero Resources Company Overview, November 2015
Flows Change

Changes 2014-2024 (Bcf/d)

Source: Kinder Morgan, 2015 Business Meeting: West Region Gas Pipelines, November 2, 2015
Southeast Feels Brunt of Pushback
North American Price Expectations
Supply and Pipeline Constraint Impacts

Supply growth in the Northeast combined with pipeline capacity constraints drove pricing dynamics in that region in 2014. By 2019, capacity additions should ease the constraints, but continued supply growth puts pressure on prices again by 2024.

Source: ICF International, KM analysis

Source: Kinder Morgan, 2015 Business Meeting: West Region Gas Pipelines, November 2, 2015
U.S. and Canada: Natural Gas Production vs. Consumption

Source: BP Statistical Review, Raymond James research
The Big Three Issues to Watch

3. U.S. LNG Exports
North American Natural Gas
Demand Ranges by Selected Sector

Significant demand growth is possible in the LNG, transportation/HHP and power sectors through 2020 in Bcf per day.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Lower Demand Range</th>
<th>Middle Demand Range</th>
<th>Upper Demand Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>2.5</td>
<td>4.5</td>
<td>10.0+</td>
</tr>
<tr>
<td>LNG Export</td>
<td>2.4</td>
<td>6.0</td>
<td>12.0+</td>
</tr>
<tr>
<td>CNG/LNG Vehicles</td>
<td>0.5</td>
<td>2.5</td>
<td>5.0+</td>
</tr>
<tr>
<td>Industrial (U.S. and Oil Sands)</td>
<td>2.5</td>
<td>4.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Mexico Exports</td>
<td>0.5</td>
<td>1.5</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Encana Corporate Presentation, August 2013; Industrial Energy Consumers of America; Bentek Energy; Raymond James; Michael Smith, Chairman & CEO Freeport LNG, Industry Sources
Summary / Conclusions

• We believe 7-8BCF/d and up to 8.2BCF/d of US LNG is likely to be exported from the US Gulf Coast by 2020 given 5 LNG projects comprising 8.4BCF/d in total nameplate capacity are currently under construction. Spot US LNG volumes are also likely to find a home as the economics make sense for the exporter and importer.

• Why would a buyer take US LNG for ~$7.50-$9.00/MMBtu (depending on transport and US natural gas price) vs. $6.00-$7.00/MMBtu for spot LNG?

  – >90% of US LNG export capacity under construction is contracted on a take or pay basis with the purchaser typically paying a ~$3/MMBtu liquefaction charge. So, the buyer would pay a $3/MMBtu penalty for “cancelling their order” (ie pay $3/MMBtu and receive nothing in return).

  – Diversity of supply is important to both Asian and European buyers as Asian buyers seek an alternative to volatile crude linked prices and many European nations look to diversify away from Russian as a main or sometimes essentially sole supplier

  – Off-takers for US LNG projects are high quality, investment grade companies (e.g. BG Group, KOGAS, Tokyo Gas, Chubu Electric, Total, Centrica) and are unlikely to balk on their contracts.

• The US is the lowest incremental source of supply today for large scale LNG facilities with the projected ability to build LNG trains for ~$500-$800/tonne vs. global competitors at $1,000-$2,500/tonne).

• Will any spot volumes flow from the US at current prices? Yes, Cheniere has signed up two spot price based LNG contracts since oil prices fell from $100 to $40-$50/bbl. Why? Customers desire that diversity of supply, variable costs of US LNG supply are below spot LNG prices in certain instances.

<table>
<thead>
<tr>
<th>Projects</th>
<th>Uncontracted Capacity (bcf/d)</th>
<th>Contracted Capacity (bcf/d)</th>
<th>Nameplate Capacity (bcf/d)</th>
<th>Percent Contracted</th>
<th>Online Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sabine Pass T1-4</td>
<td>0.3</td>
<td>2.1</td>
<td>2.4</td>
<td>89%</td>
<td>Feb-16 – Sept 17</td>
</tr>
<tr>
<td>Cameron LNG T1-3</td>
<td>0.0</td>
<td>1.7</td>
<td>1.7</td>
<td>100%</td>
<td>Early/Mid/Late 18</td>
</tr>
<tr>
<td>Freeport LNG T1-3</td>
<td>0.1</td>
<td>1.7</td>
<td>1.8</td>
<td>97%</td>
<td>Sept-18 – Aug-19</td>
</tr>
<tr>
<td>Cove Point T1</td>
<td>0.1</td>
<td>0.7</td>
<td>0.8</td>
<td>92%</td>
<td>Dec-17</td>
</tr>
<tr>
<td>Corpus Christi T1-2</td>
<td>0.2</td>
<td>1.0</td>
<td>1.2</td>
<td>86%</td>
<td>Jun-19, Apr-20</td>
</tr>
<tr>
<td>Sabine Pass T5</td>
<td>0.1</td>
<td>0.5</td>
<td>0.6</td>
<td>83%</td>
<td>19-Jan</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.7</strong></td>
<td><strong>7.8</strong></td>
<td><strong>8.4</strong></td>
<td><strong>92%</strong></td>
<td><strong>NA</strong></td>
</tr>
</tbody>
</table>

- Nameplate US export capacity to total 8.4 bcf/d by YE 2020 with just over 8bcf/d exportable 2020.
- >90% or 7.8bcf/d of the capacity is contracted.
  - What does this mean? The off-takers pay ~$3/MMBtu for any contracted LNG volumes they defer/cancel. Buyers could then buy LNG on the spot market for ~$7.00/MMBtu or all in cost of ~$10.00/MMBtu (including the cancellation fee).
  - All in US LNG landed in Asia likely runs $7.50-$9.50 depending on US gas price and transports costs.
- There are 5 major US LNG export projects under construction (assumes Sabine Pass is one project.
- There are another >4bcf/d of LNG export projects that are ~fully contracted, which we would consider close to FID (e.g. Lake Charles, Golden Pass).

LNG Export Economics…and its effects

- US LNG to Asia: $2.50 Henry Hub + $3 liquefaction charge + $2.25 shipping = $7.75/MMBtu
- US LNG to Europe: $2.50 + $3 liquefaction charge + $1 shipping = $6.50/MMBtu

The liquefaction charge is how Cheniere earns a return on capital for the contracted portions of its facilities, but the actual liquefaction cost is much cheaper than $3/MMBtu. We estimate the actual cost to liquefy the gas is ~$0.50.

Thus, at today’s pricing and transport costs, a facility owner could ship US gas to Europe for a variable cost of ~$4/MMBtu, sell it for ~$6/MMBtu and net $2/MMBtu in gross profit.

World LNG Estimated October 2014 Landed Prices

World LNG Estimated October 2015 Landed Prices ($U.S./MMBtu)


Note: Includes information and Data supplied by IHS Global Inc. and its affiliates (“IHS”)
It’s a buyers market

“The 7-8 BCF of U.S. LNG exports that is expected by 2020 is equal to 20% of the total world LNG import market of 32.1 BCF.”
The “Ferrari” Affect Substantially Reduces The Likelihood Of Price Spikes

One Rig In the Haynesville

6 Month Drilling Curtailment

5 months after drilling restarts, previous production level exceeded
Conclusions

• Don’t expect the additional 4 BCF of LNG projects (Lake Charles and Golden Pass) to be built before 2022.

• World oil prices (Brent) will be range-bound for at least 5 years in the $45-$55 per barrel.

• China (Asian) demand will not rebound – expect slow GDP growth in Asia

• Dry natural gas production in the U.S. will more than replace any associated gas volume decline (as a result of lower oil prices)

• The next 5 years will remain a buyers market in North America and worldwide for natural gas
Citations for Report

All of the information utilized for this report is a compilation of information pulled from the following data sources:

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Ponderosa Advisors LLC
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Raymond James and Associates, Inc.
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LNG Blog
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Midwest Energy Logistics, LLC
National Energy Board
NERA Economic Consulting
LNG Business Review
Antero Resources
Tea Party Command Center
Tudor Pickering Holt & Co.
Kinder Morgan
Contact Information

John Harpole
President
Mercator Energy
26 W. Dry Creek Circle, Suite 410
Littleton, CO  80120
harp@mercatorenergy.com
(303) 825-1100 (work)
(303) 478-3233 (cell)