

The background of the slide is a photograph of an oil pumpjack (jackal) in silhouette against a bright blue sky with scattered white clouds. The pumpjack is positioned on the left side of the frame, with its long arm extending towards the center. The overall tone is professional and industrial.

OIL PRICES

Everything you ever wanted to know about the price of oil & energy shipping, but were too afraid to ask

AGENDA

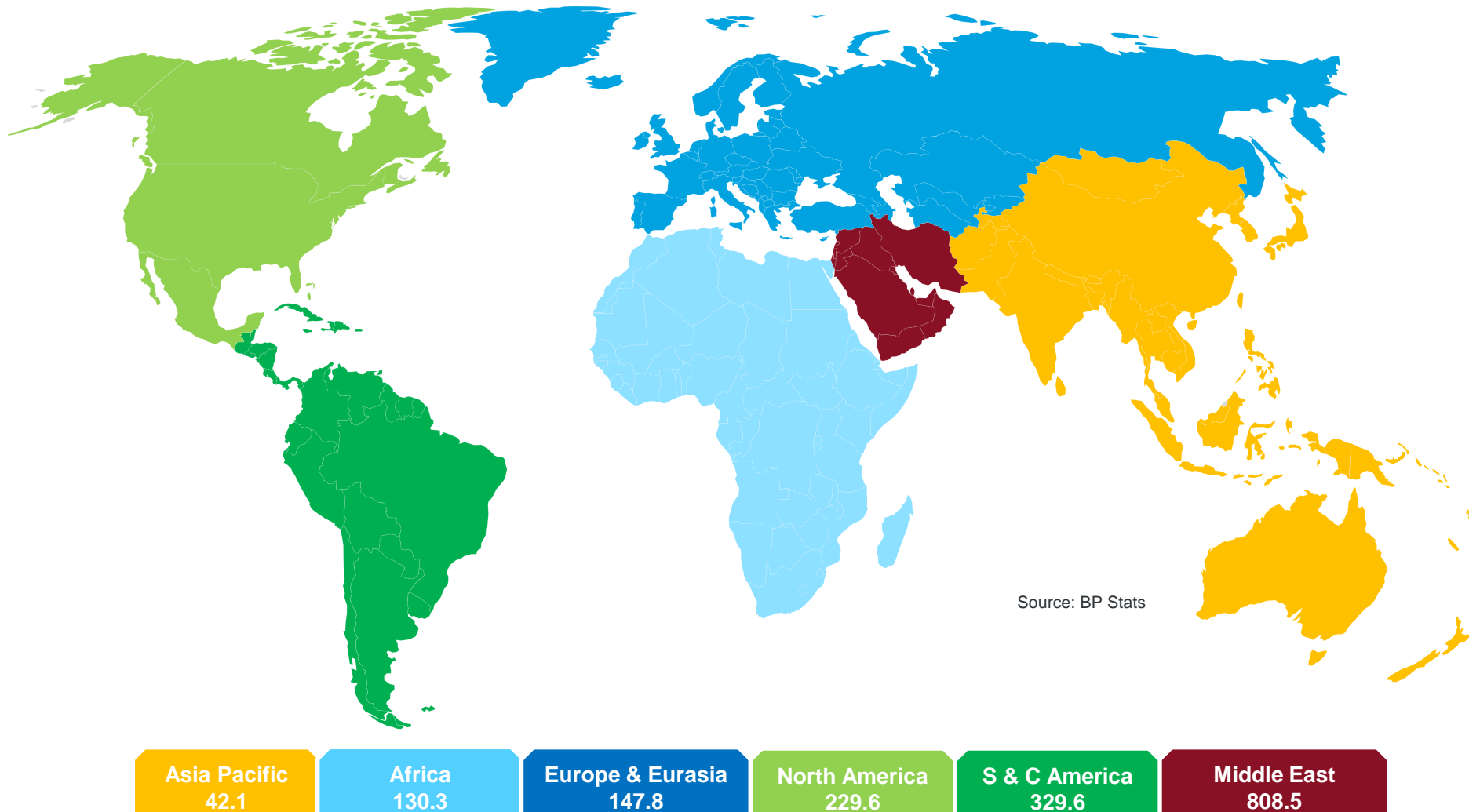
- The Producers: Who, How Much, and for How Long?
- Oil Prices: A History Lesson
- Supply vs. Demand
- Impact of Low Oil Prices on Producers
- Impact of Low Oil Prices on Consumers
- Impact of Low Oil Prices on Energy Shipping Business
- Conclusion: How Low Can Oil Prices Go?

THE PRODUCERS



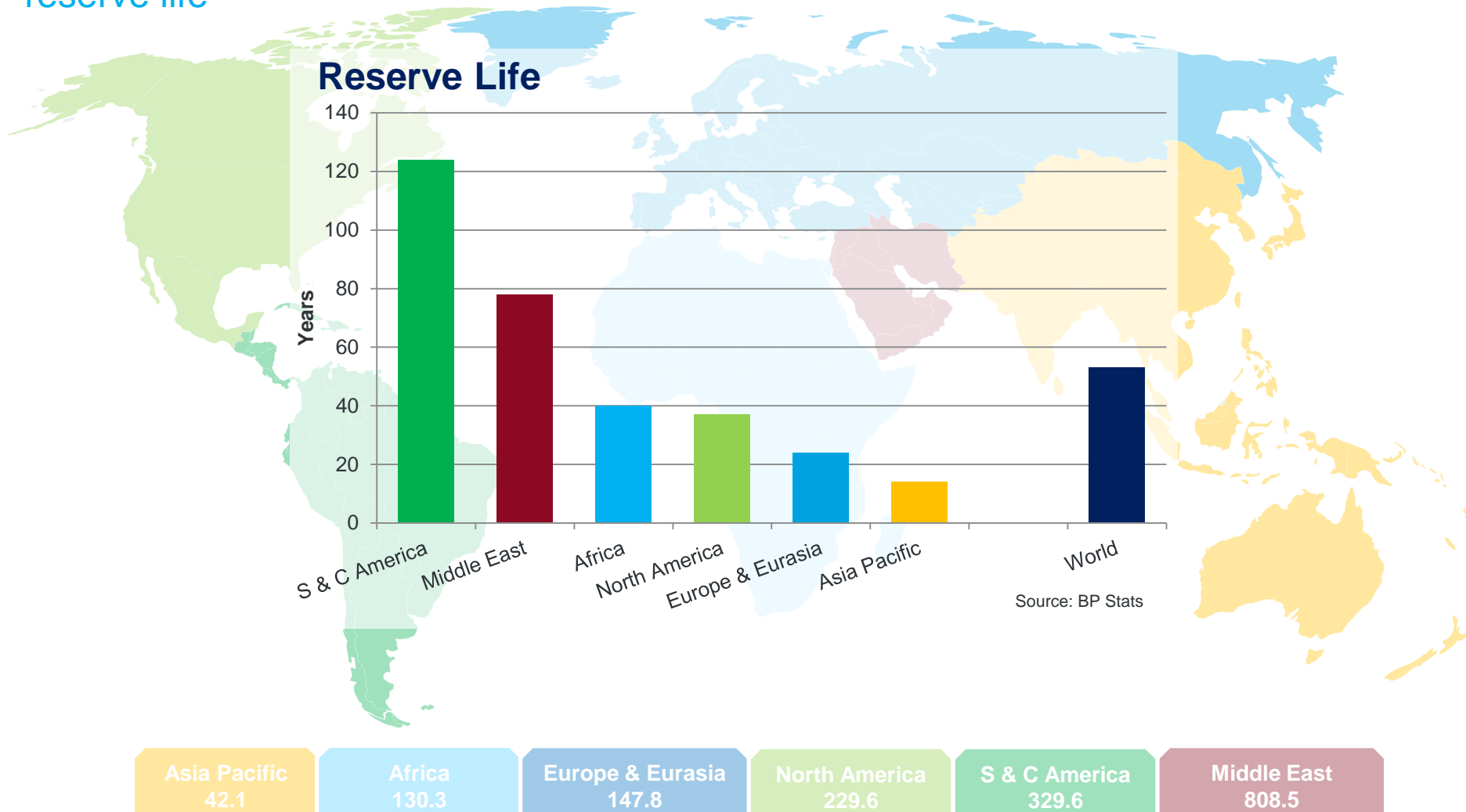
Global Reserves

Majority of the world's current proved oil reserves are in OPEC nations



Global Reserves

Though at current levels of production, South and Central America have longest reserve life



Asia Pacific
42.1

Africa
130.3

Europe & Eurasia
147.8

North America
229.6

S & C America
329.6

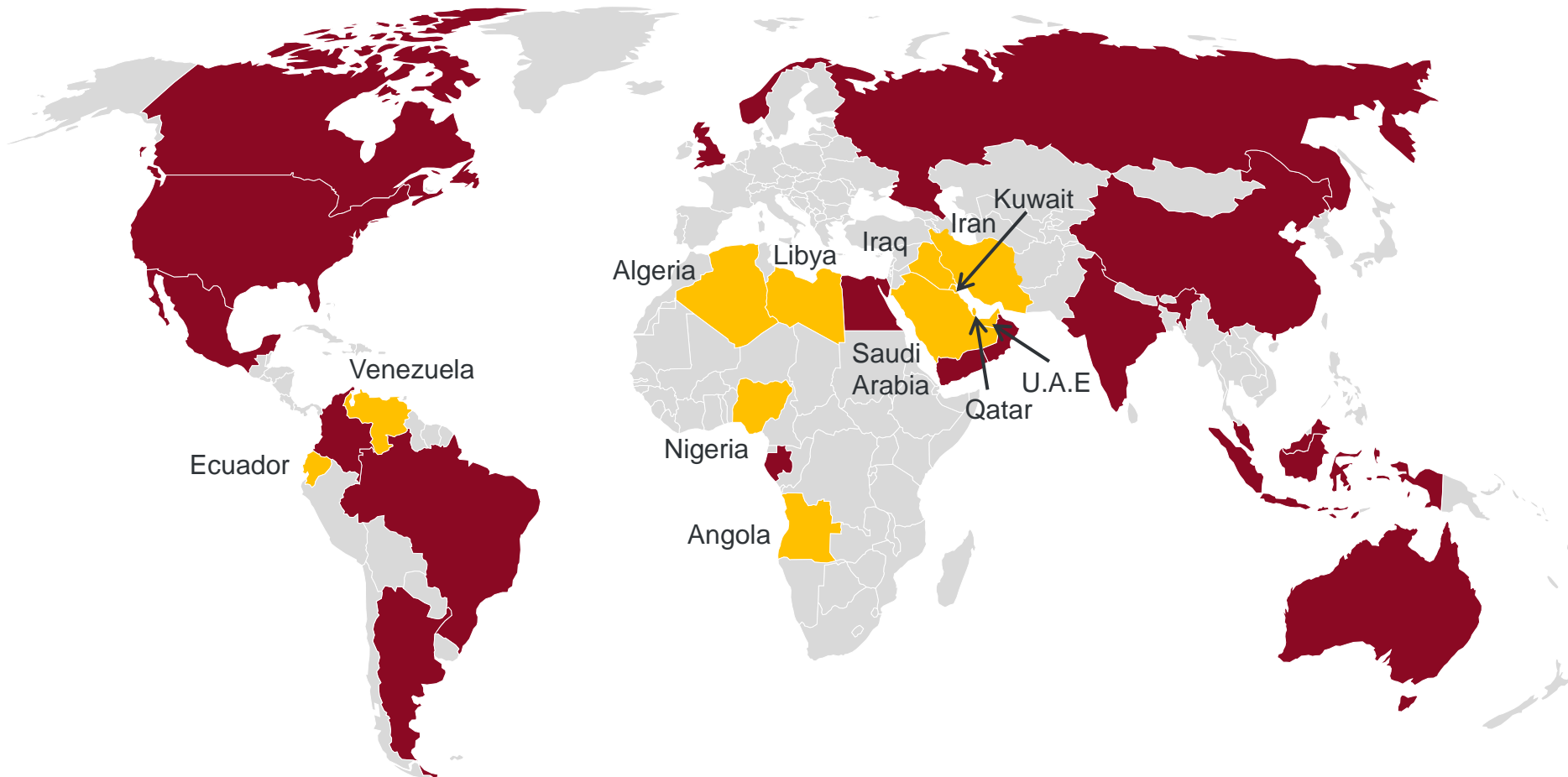
Middle East
808.5

Billion bbls



Major Oil Producing Nations

*only includes nations producing +400 kb/d



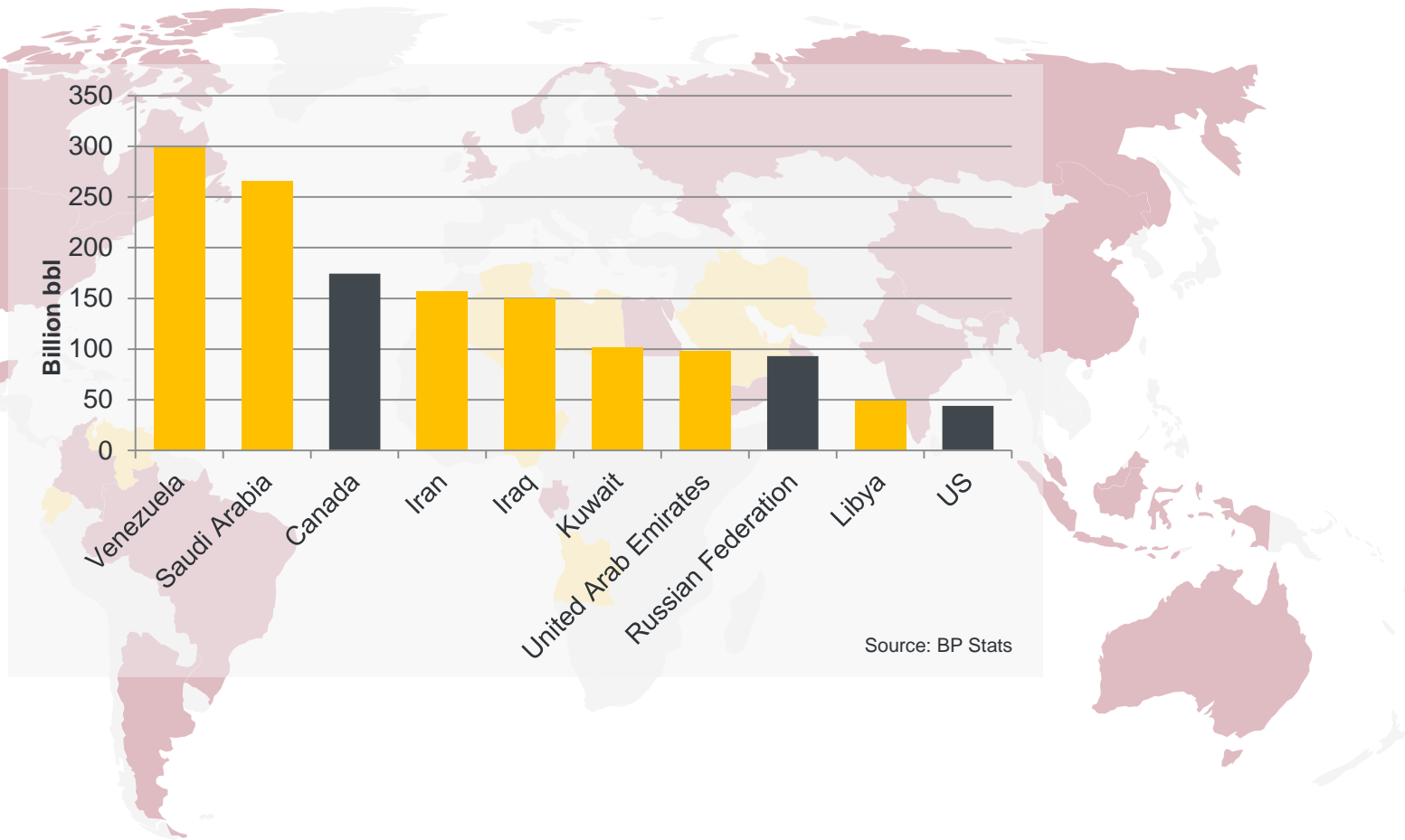
● OPEC Nations

● Rest of Global Oil Producing Nations

Source: BP Stats

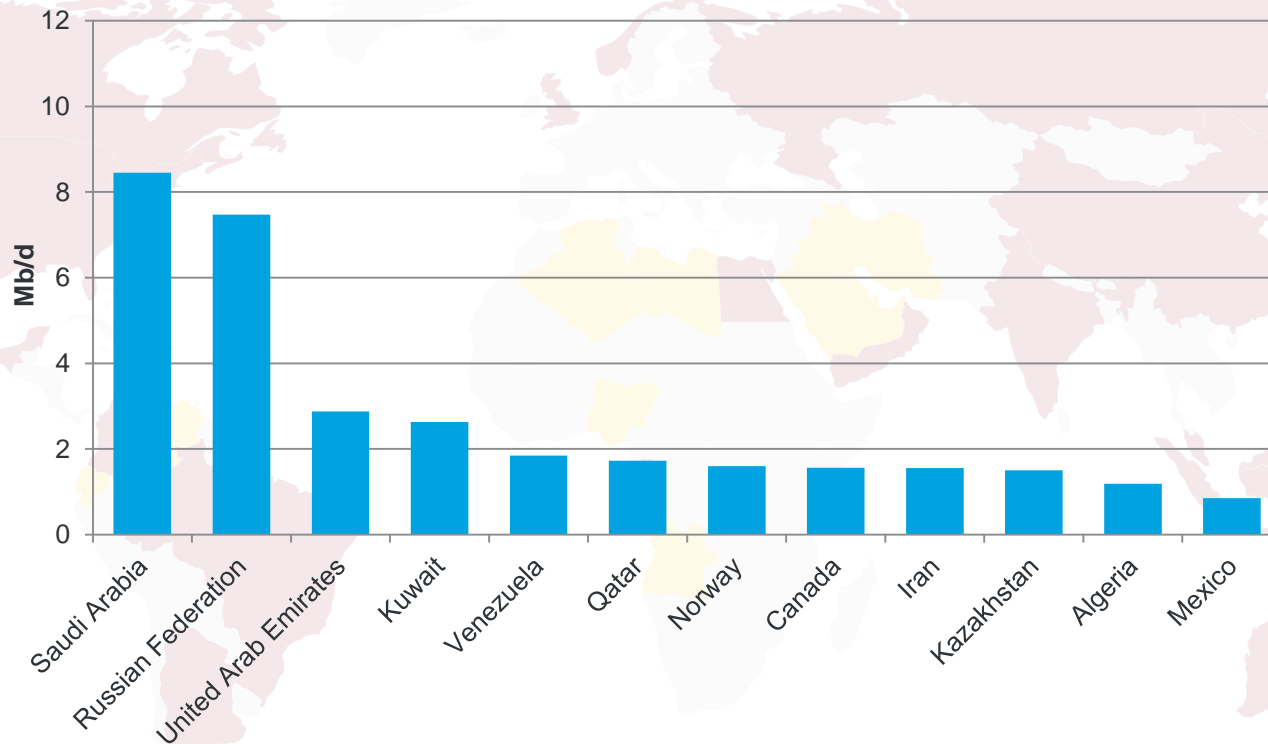


Nations With Largest Reserves



Major Crude Exporters

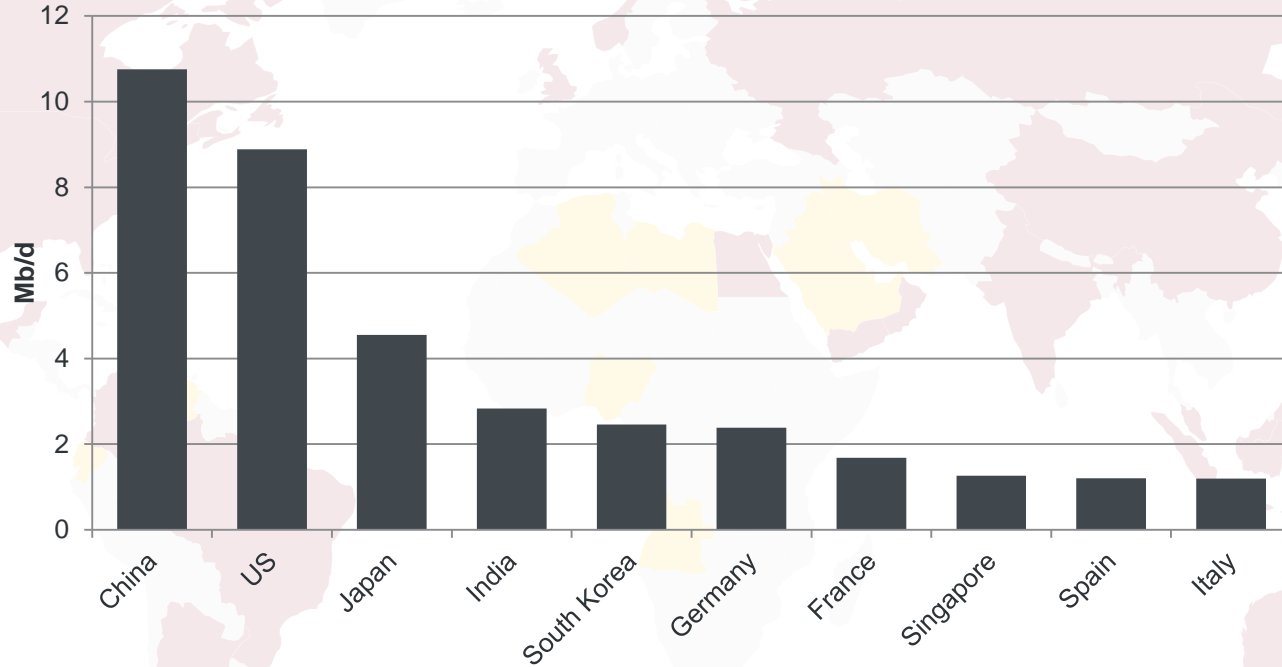
Major Crude Exporters (2013)



Source: BP Stats

Major Crude Importers and Exporters

Major Crude Importers (2013)



Source: BP Stats

OIL PRICE DRIVERS



How are Crude Oil Prices Determined?

Price drivers for crude oil include:

- Supply and demand
- Price speculation
- Stockpiling
- Geopolitics

But not all crudes are alike...

Crude oils around the world have different pricing based on:

- Properties of oil (light vs. heavy, sweet vs. sour)
- Access to market
- Transportation to market (pipeline, sea, or train)
- Cost of production



Not All Oils are Alike

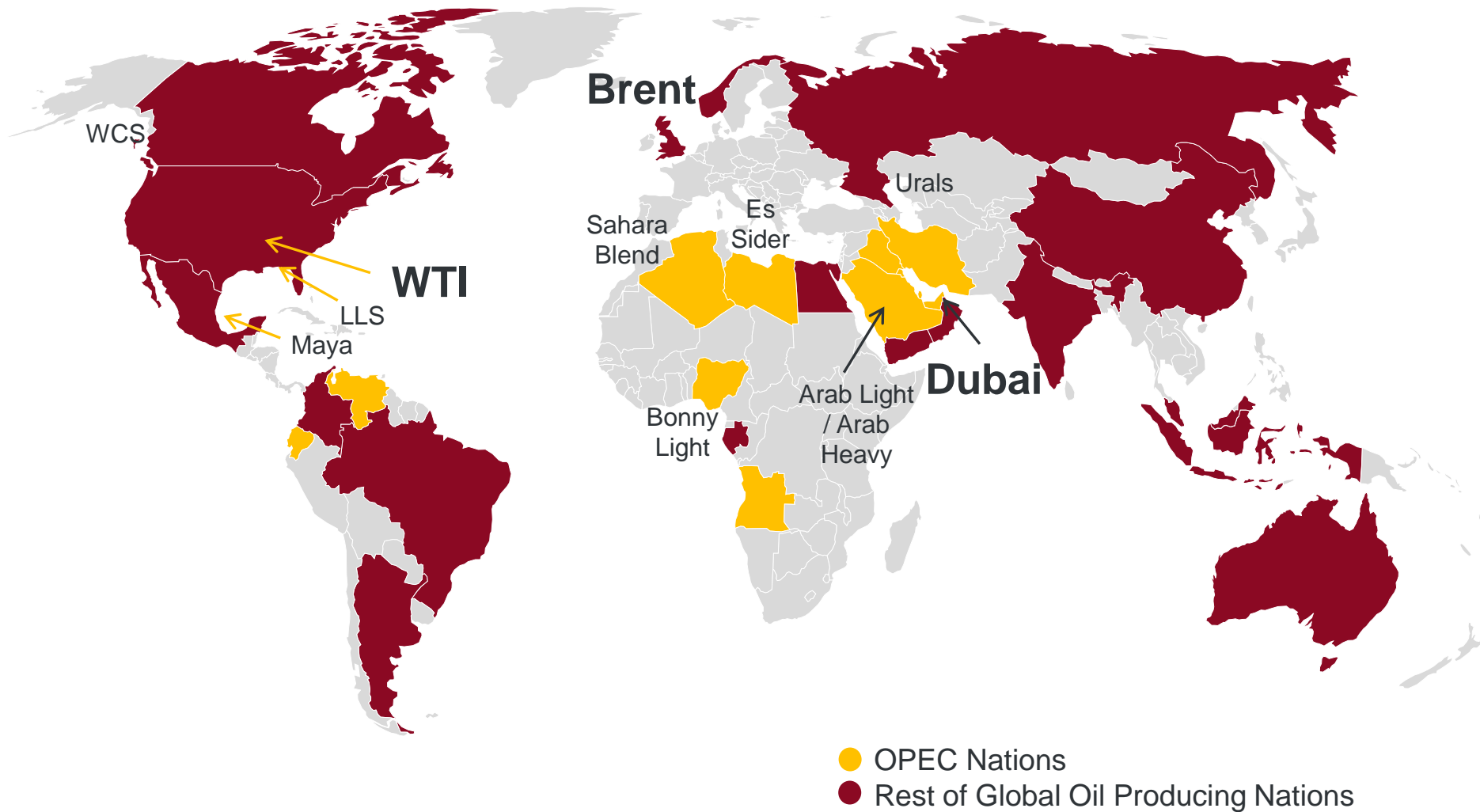
Crude oil ranges from almost clear water-like fluids to black viscous semi-solids



- Lighter crude oils yield a greater proportion of lighter petroleum products like gasoline
- Crude oils with higher than average sulfur content are known as “sour”, while those with lower sulfur levels are called “sweet”

The majority of global reserves are light / medium and slightly sour crudes

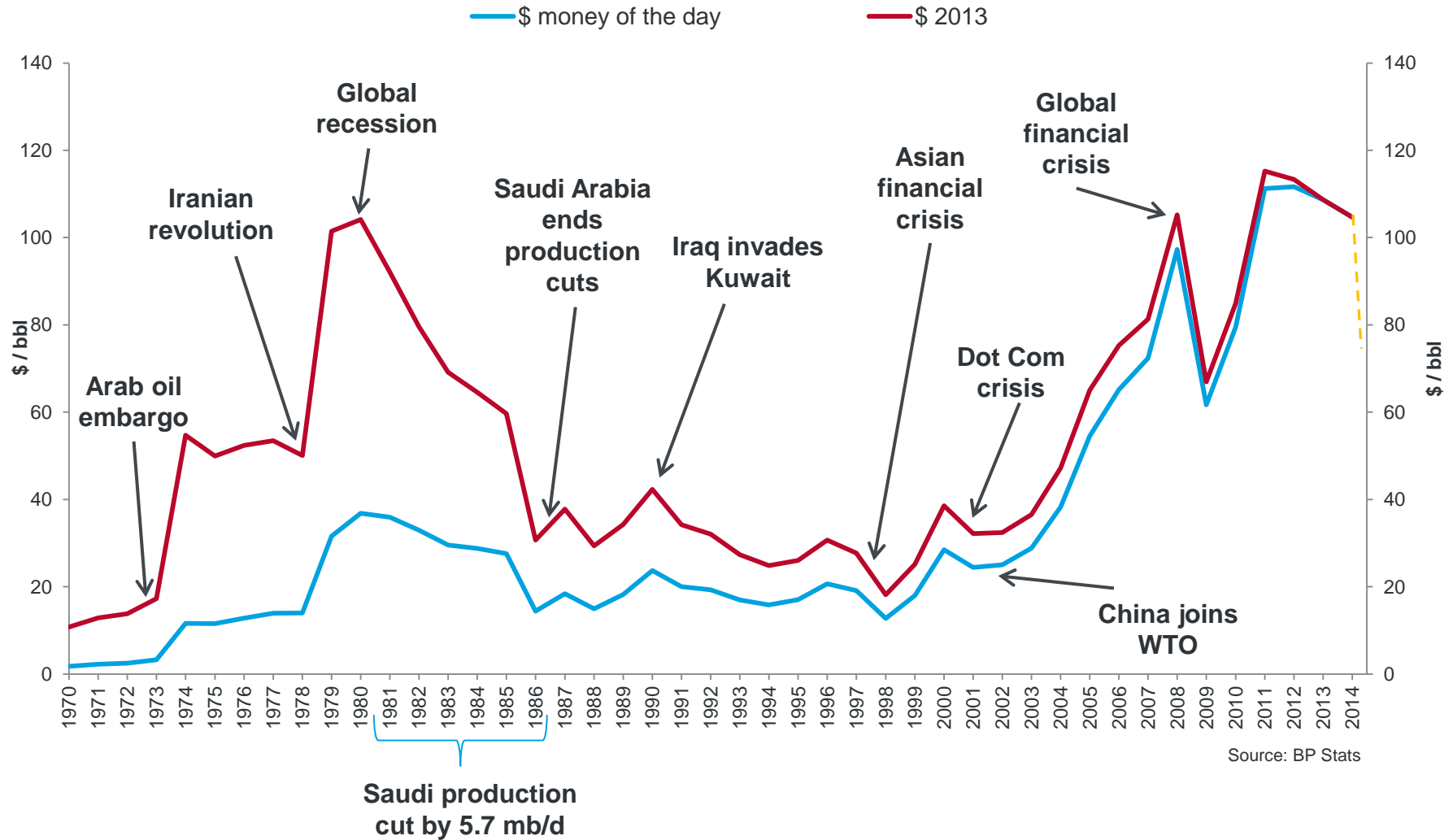
Benchmark Crudes



OIL PRICES THEN AND NOW

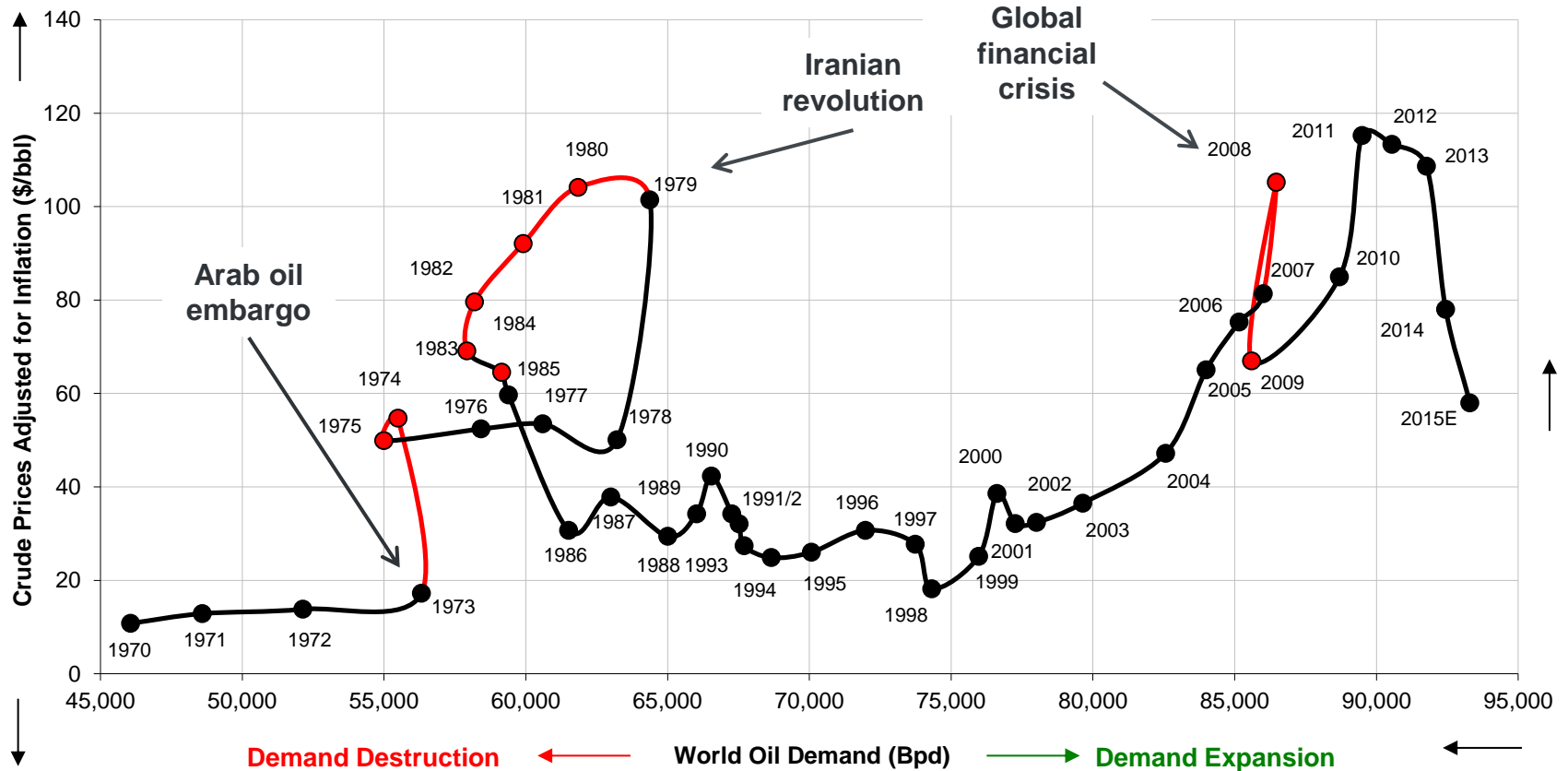


Global Oil Pricing and World Events



Supply, Demand, and the Price of Oil

The Three Oil Shocks - The History of Demand Destruction

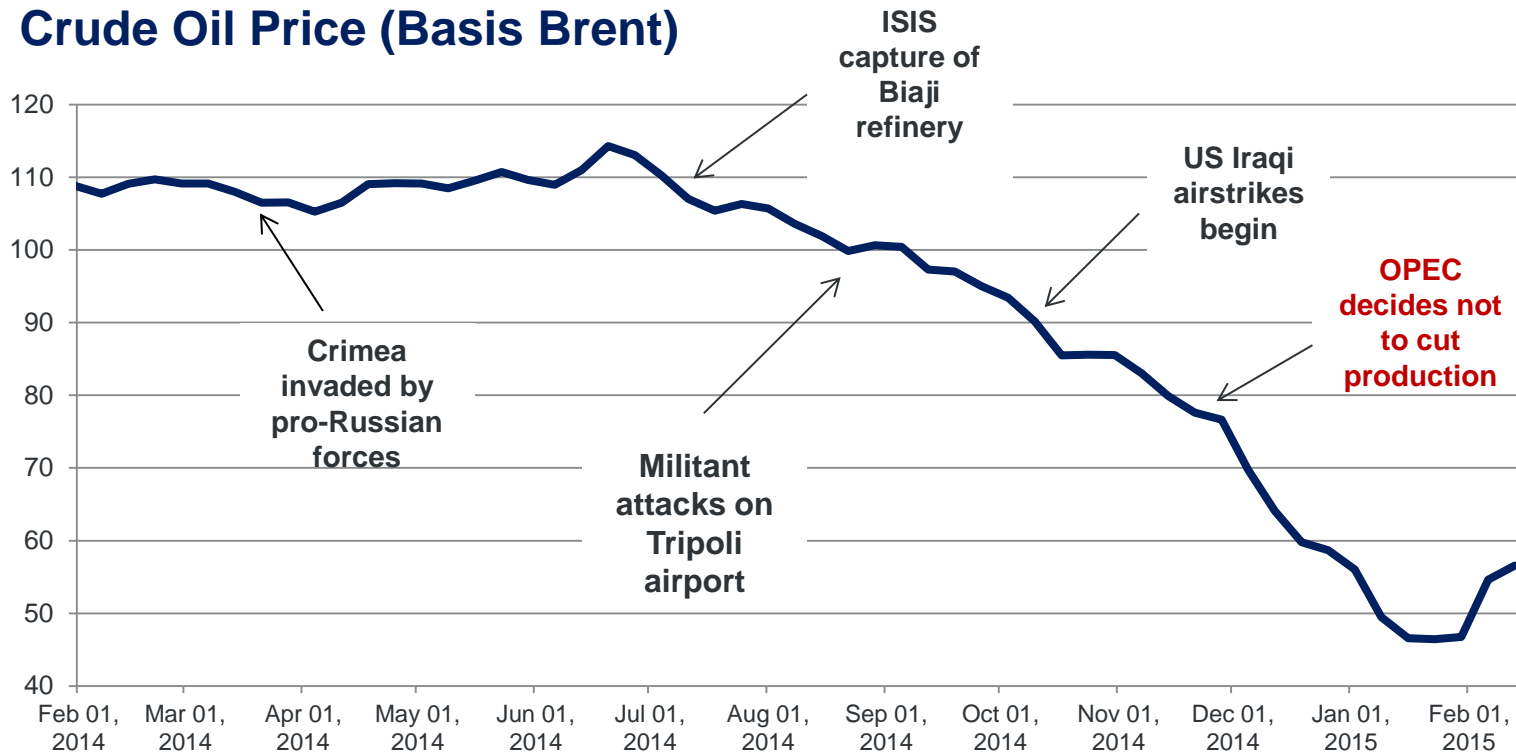


1861-1944 US Average.
1945-1983 Arabian Light posted at Ras Tanura.
1984-2013 Brent dated.

Source: BP Stats / EIA

Supply Fears Not Supporting Current Prices

Crude Oil Price (Basis Brent)

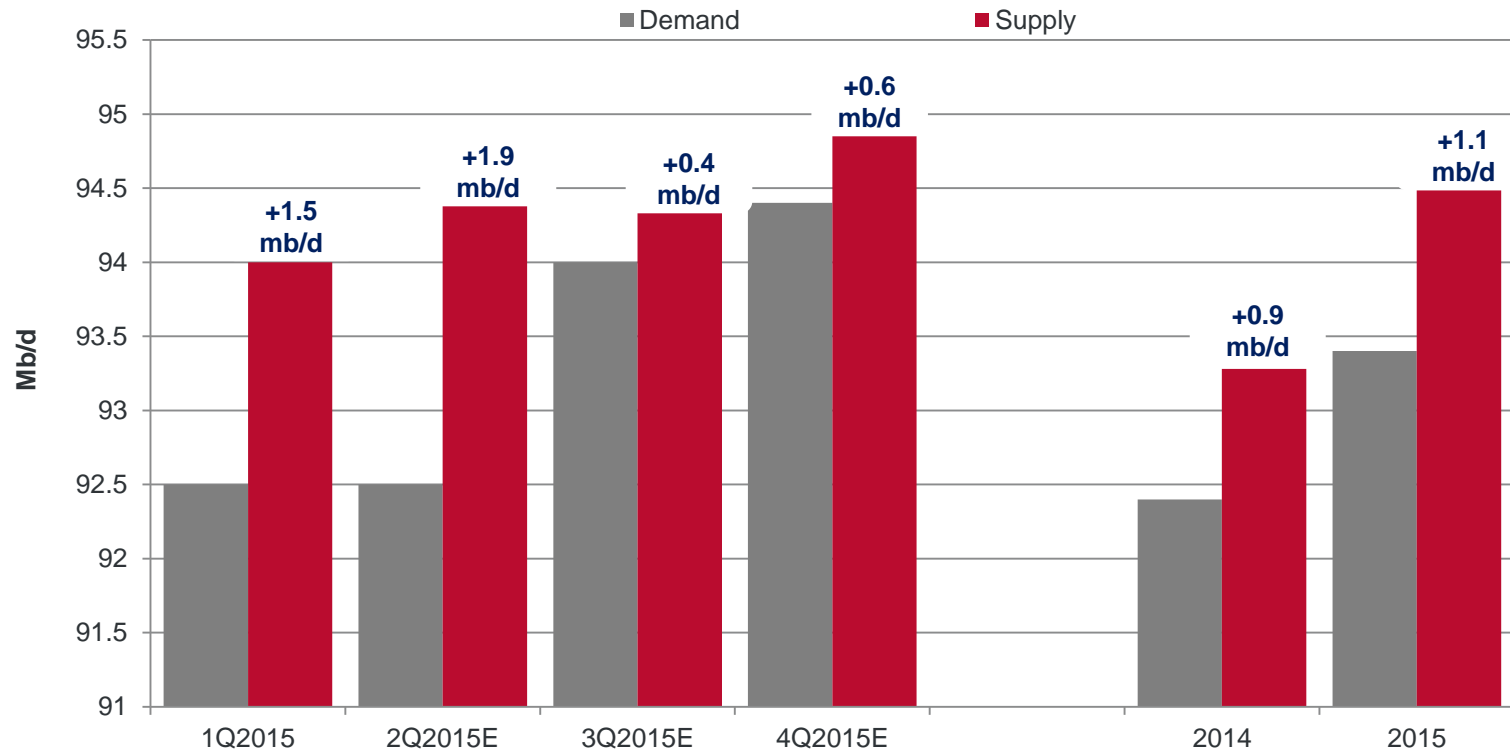


Source: EIA

Oversupply is the Current Culprit

Supply growth is outstripping demand growth

Global Supply vs. Demand

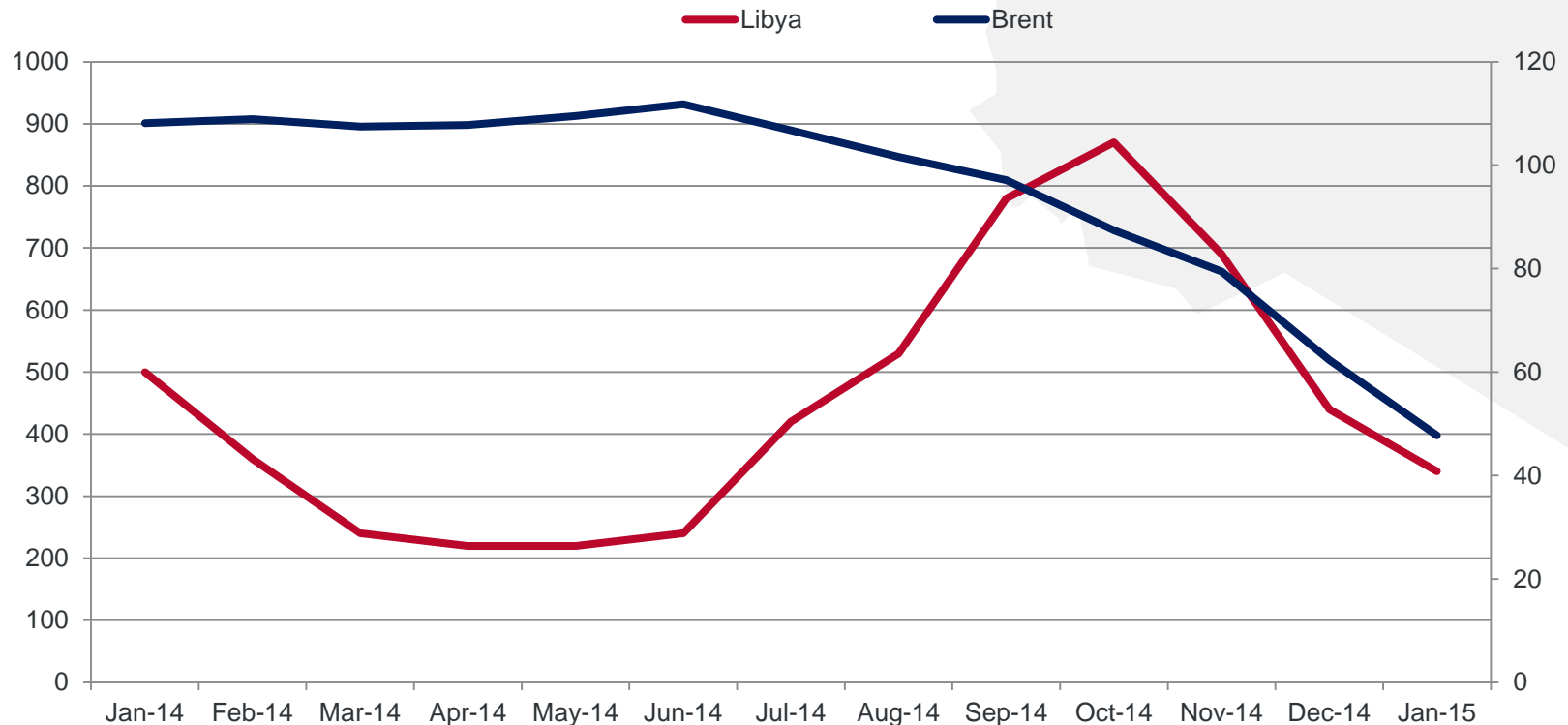


Source: OPEC, IEA, EIA

Libyan Production Increase

Return of Libyan volumes initially added to downward pressure on prices

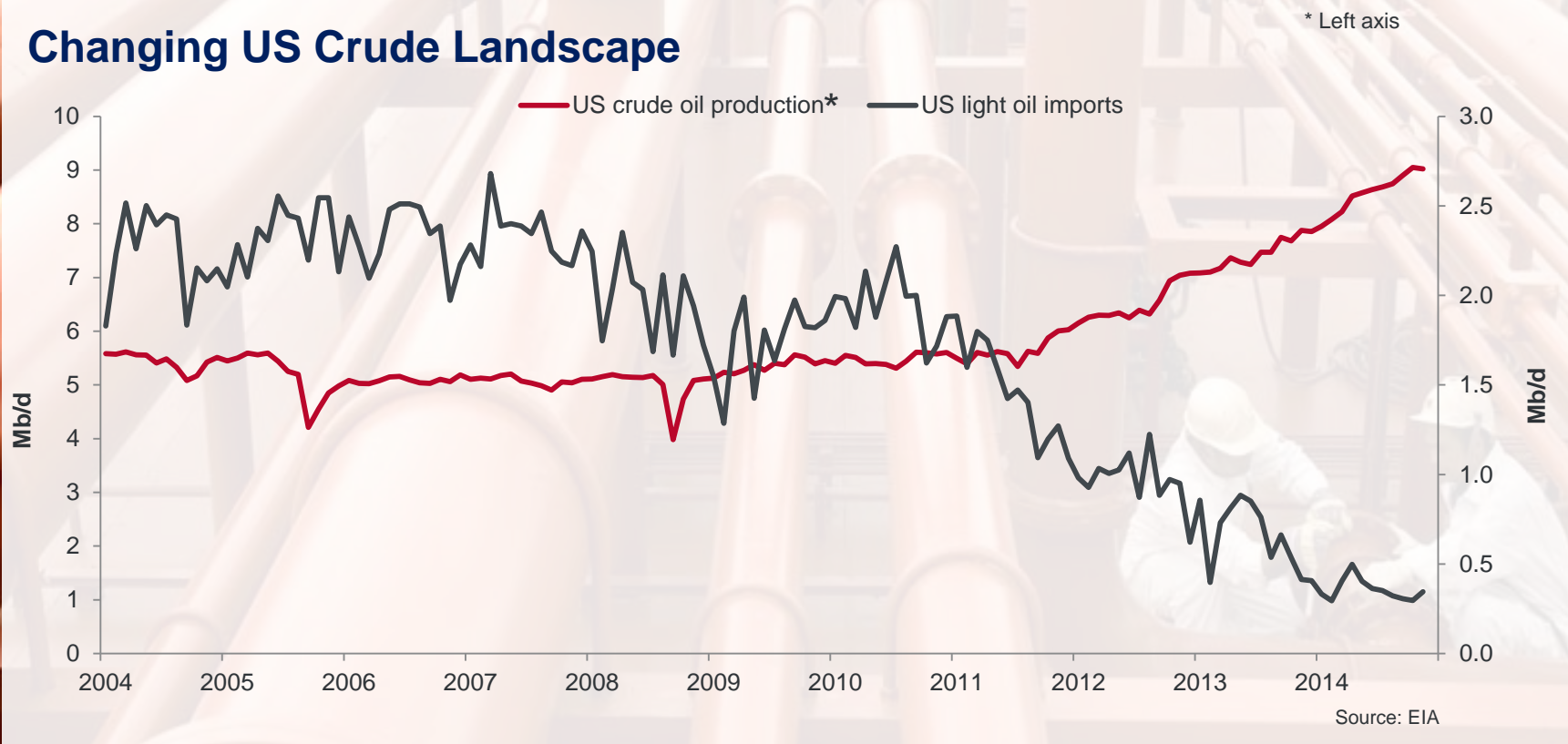
Brent Prices vs. Libyan Production



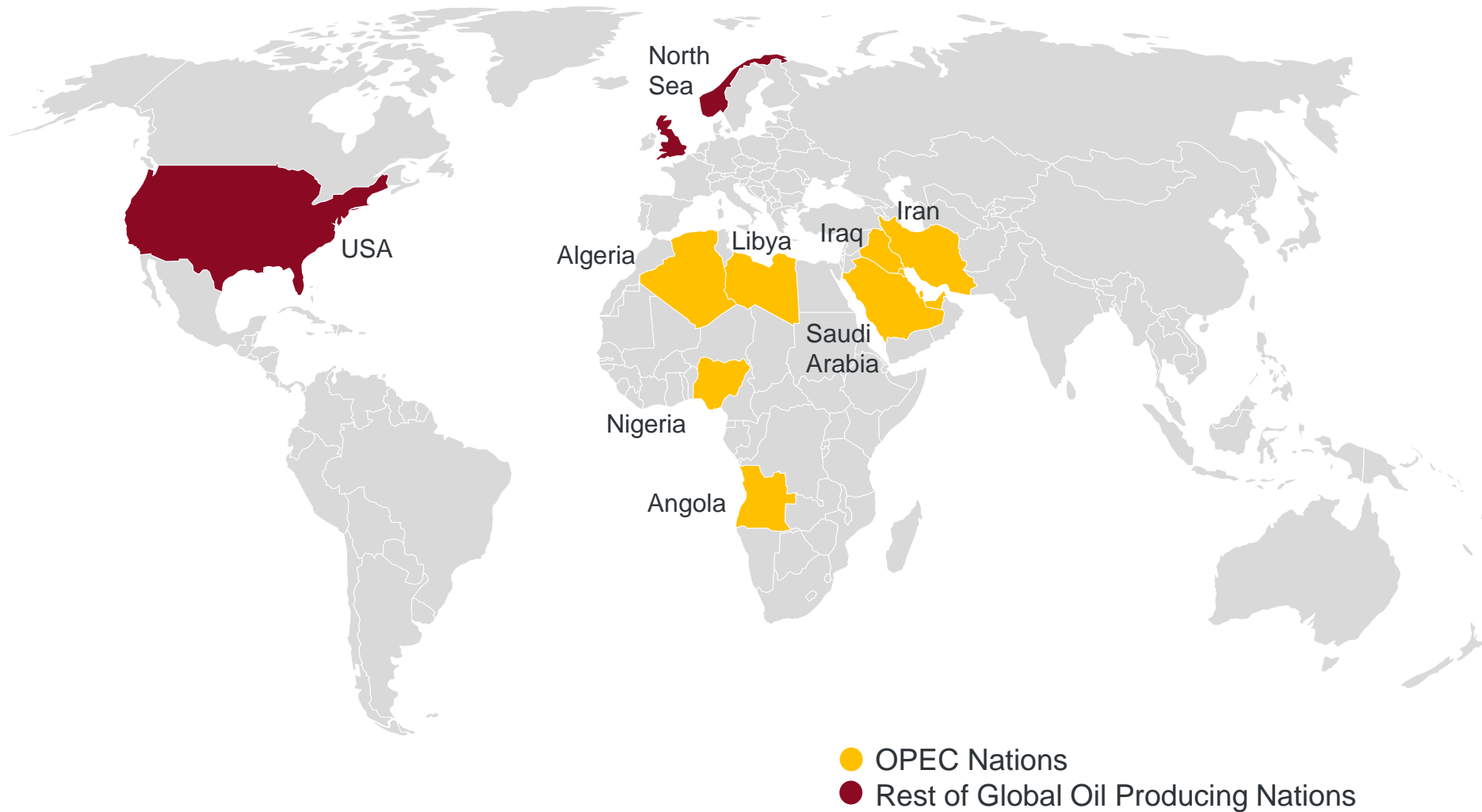
Source: EIA, IEA

US Production Shifting the Global Market Balance

Changing US Crude Landscape



Light Sweet Crude Producers

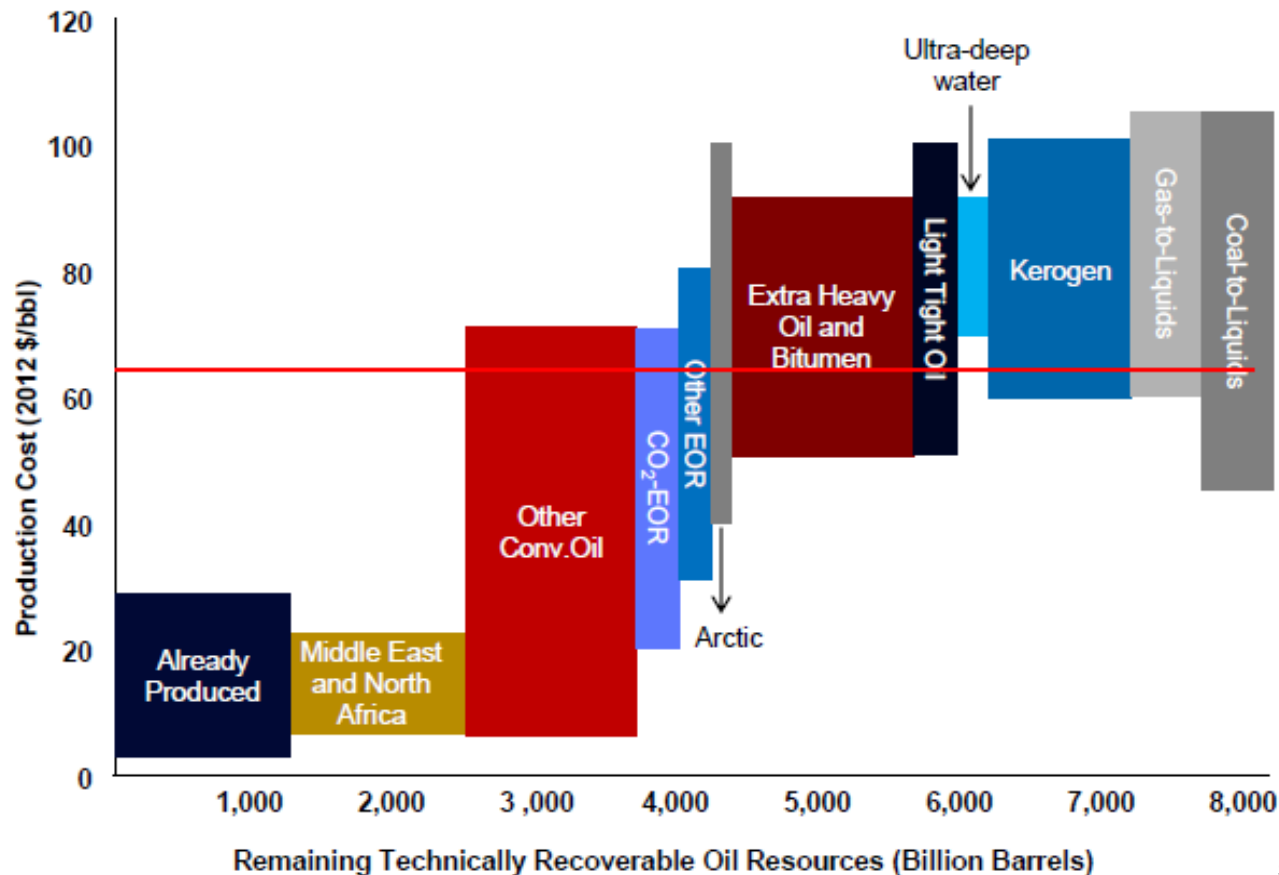


PRODUCERS AND LOW OIL PRICES



Breakeven Varies Between Types of Production

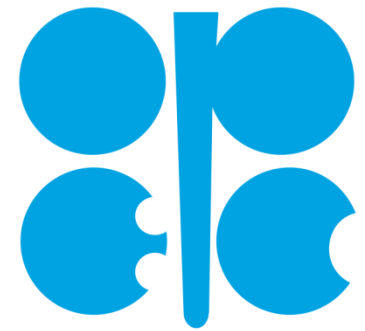
Breakeven near \$65/bbl on Most Non-OPEC Investments



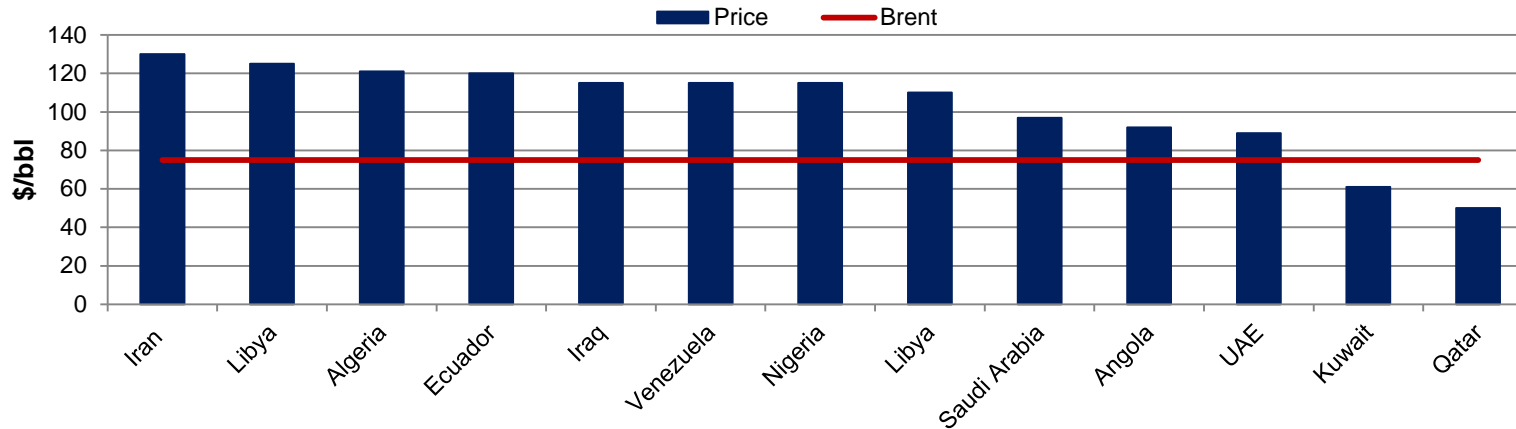
Source: ISI

OPEC: Let the Market Decide

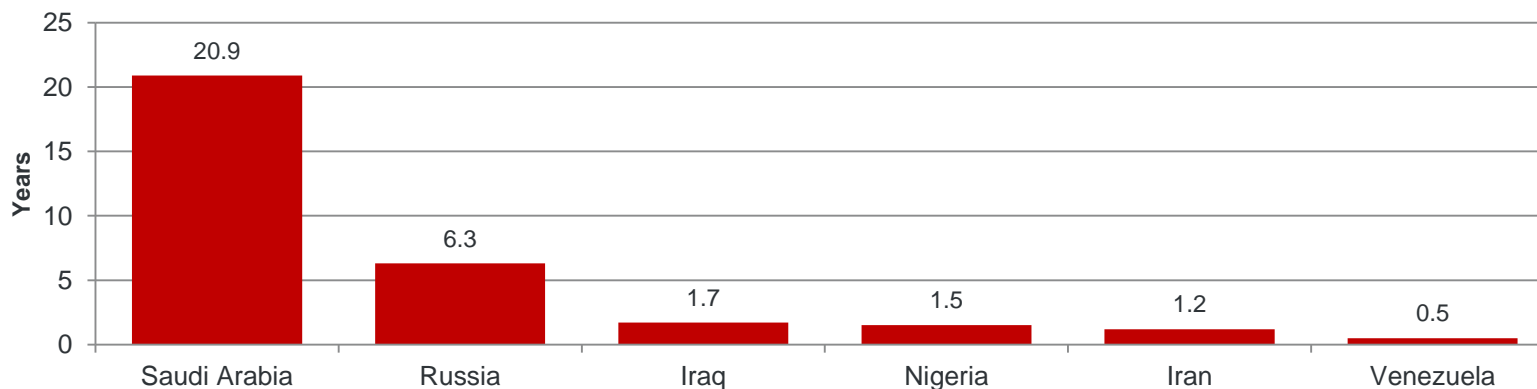
No cuts mean lower prices, but for how long?



Budget Breakeven Oil Prices per OPEC Member



Years \$\$ to Fund Oil Budget Deficit at \$80/bbl



Source: CIBC Commodities Strategy, IMF

North American Production at Risk?

High breakeven of North American unconventional projects

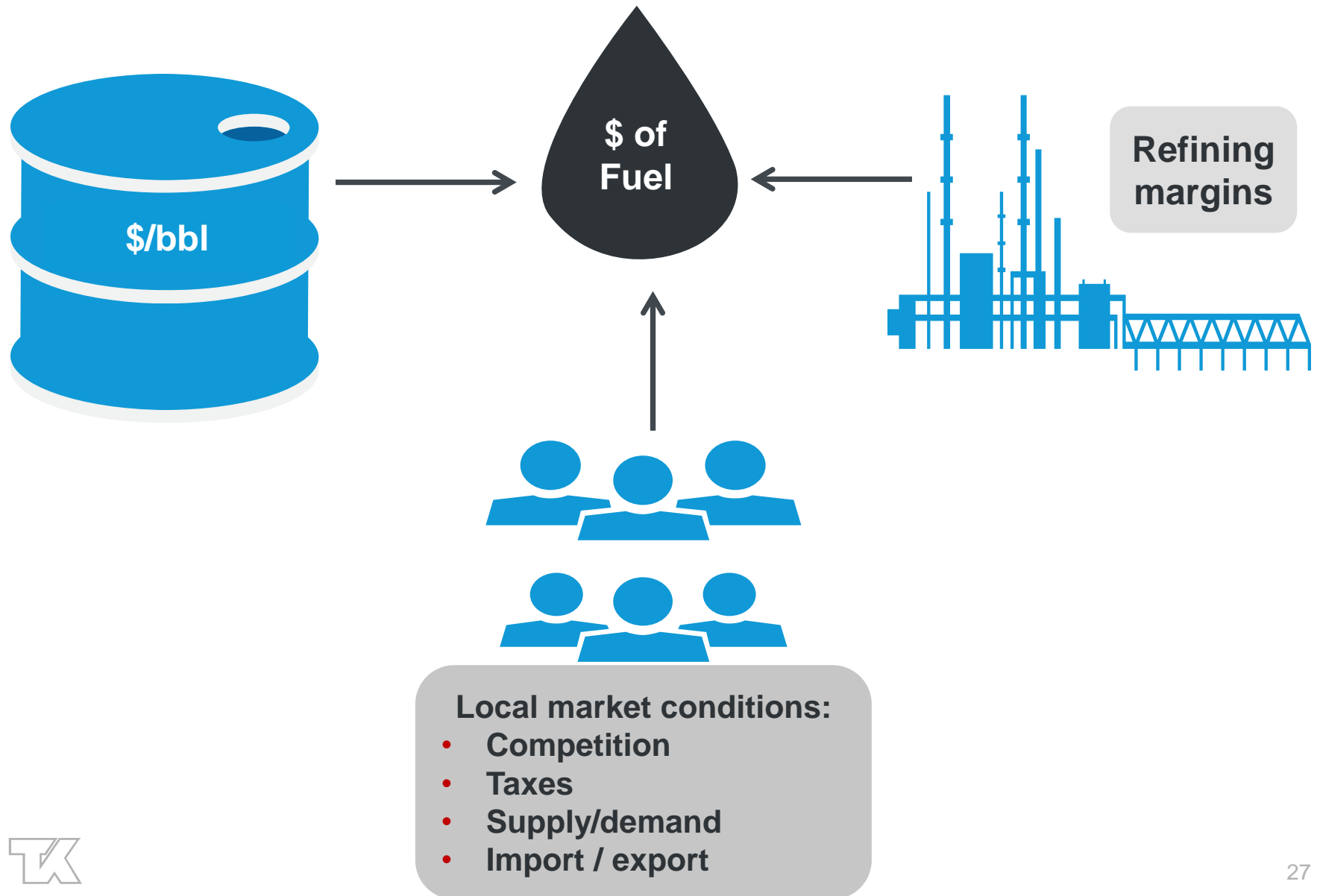
- Debate around what the threshold is for mothballing oil production projects in North America
 - Alberta oil sands projects have a high breakeven, especially for in situ production
 - However, already operating projects, or projects under construction, are unlikely to be shut in or shelved since major CAPEX investments have already been made
 - New projects, for both oil sands and shale plays in the US, however, may be delayed as the direction of oil pricing remains uncertain



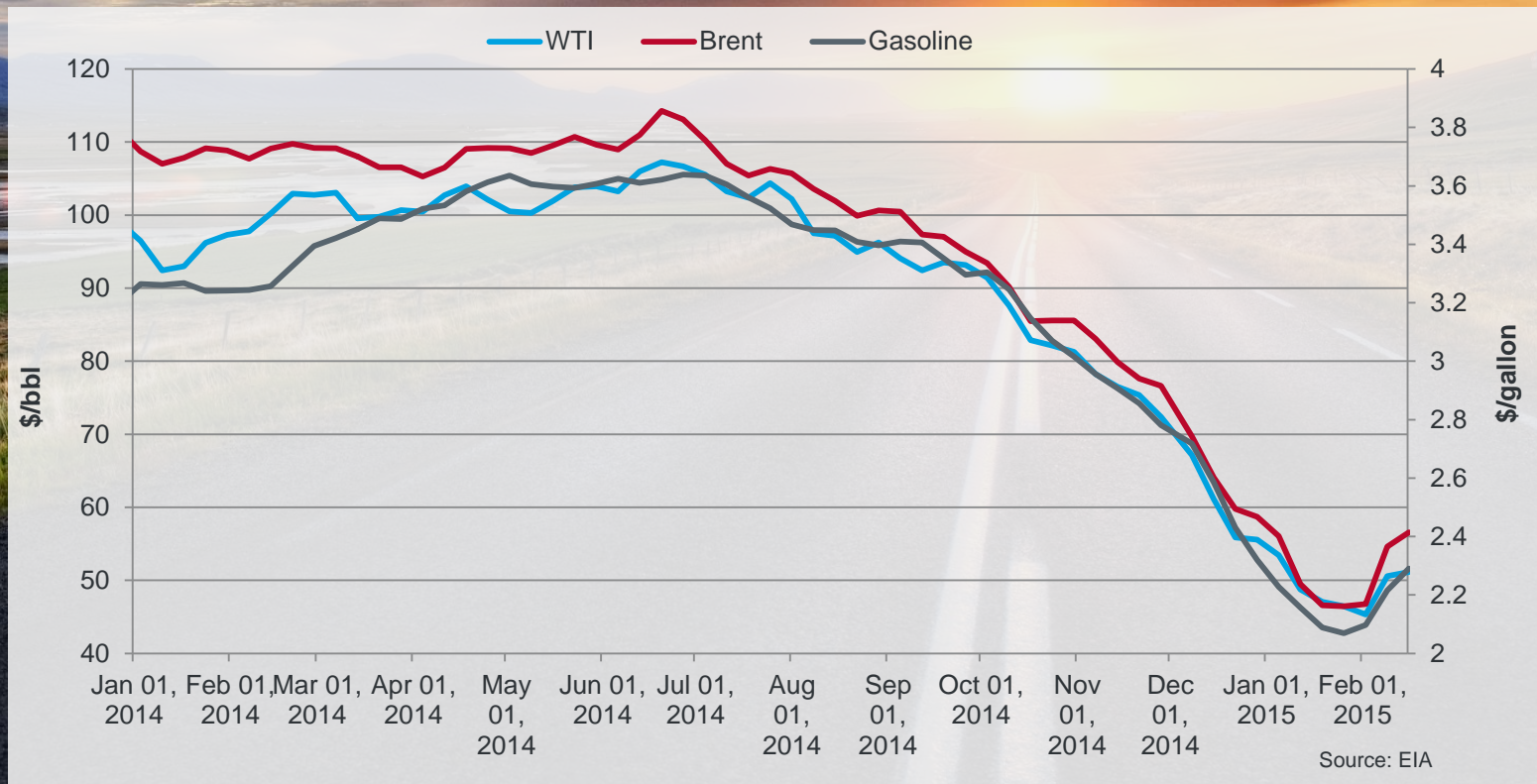
CONSUMERS AND LOW OIL PRICES



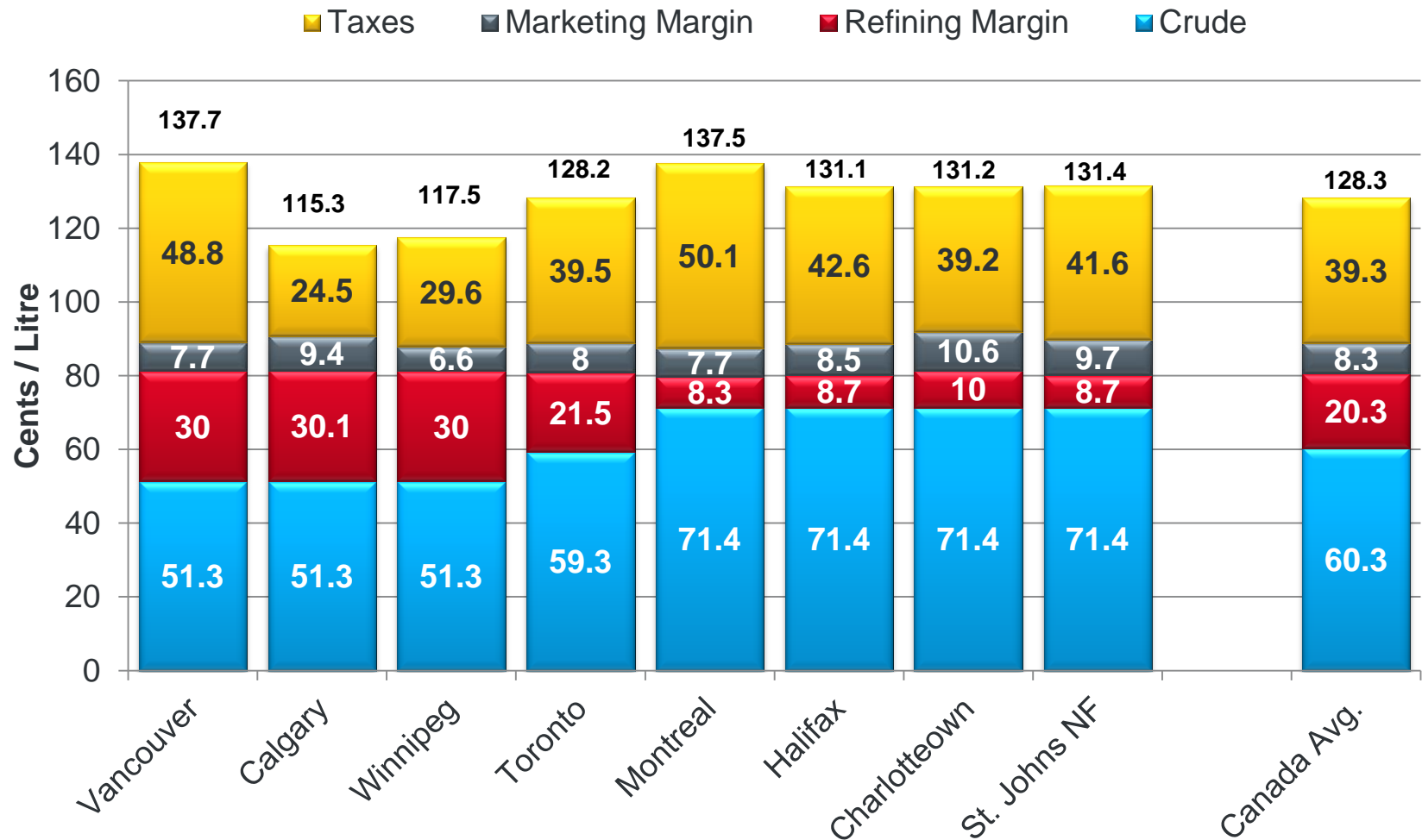
Fuel Price Factors



Road Vehicle Gasoline Prices Falling



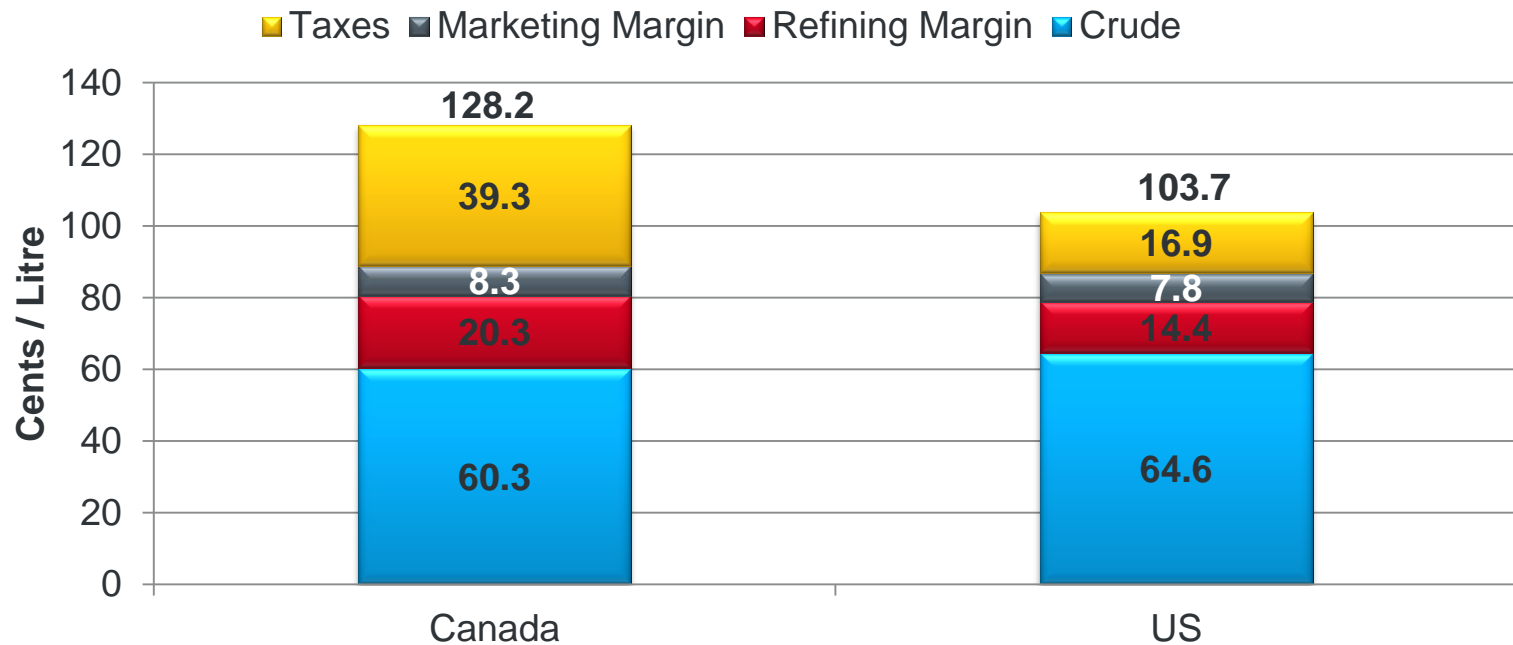
Canadian Gasoline Prices (2014 Avg.)



Source: Kent Group Ltd.

Gasoline Prices Canada vs. US (2014 Avg.)

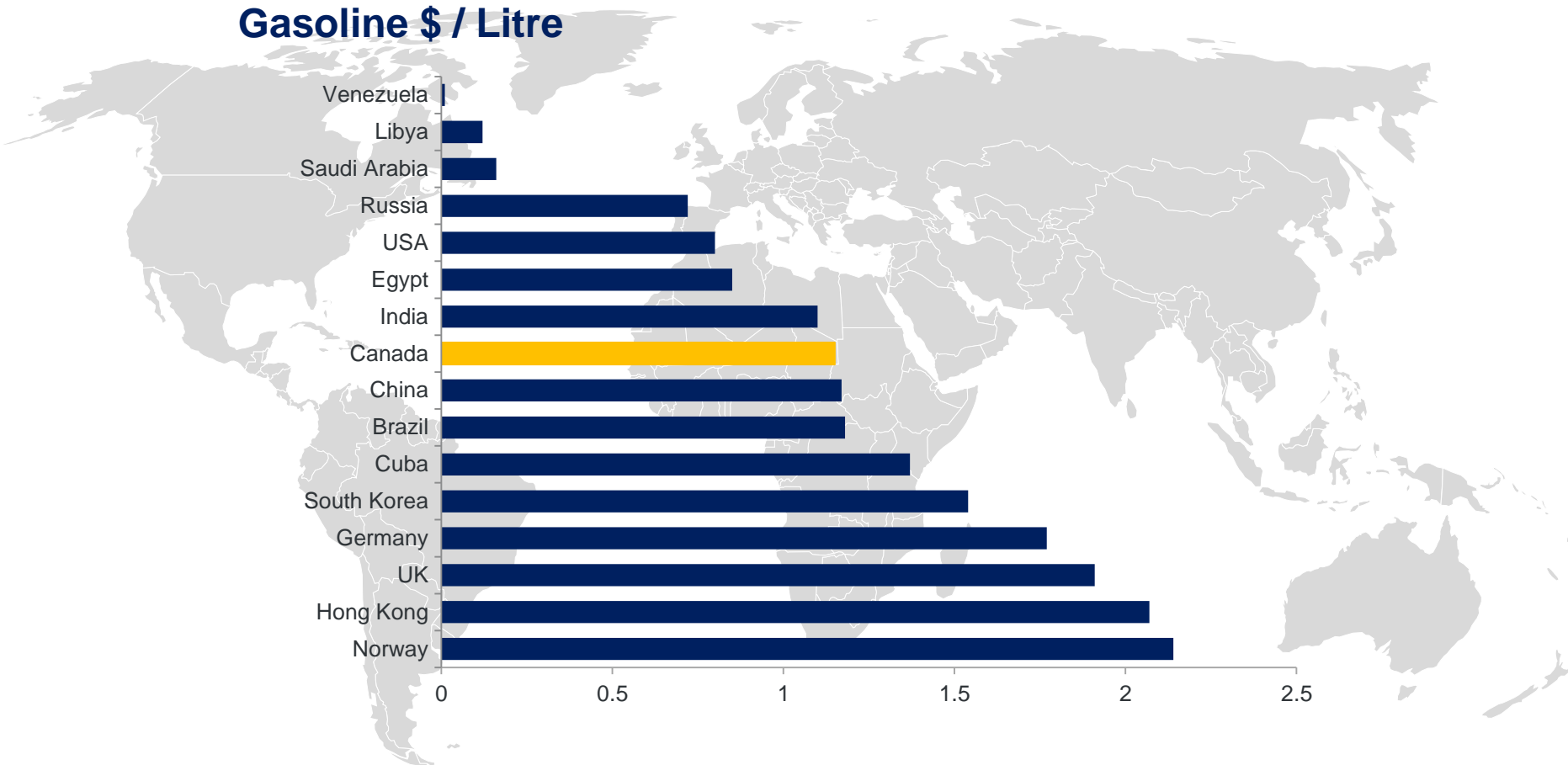
Taxes make the difference



Source: Kent Group Ltd.

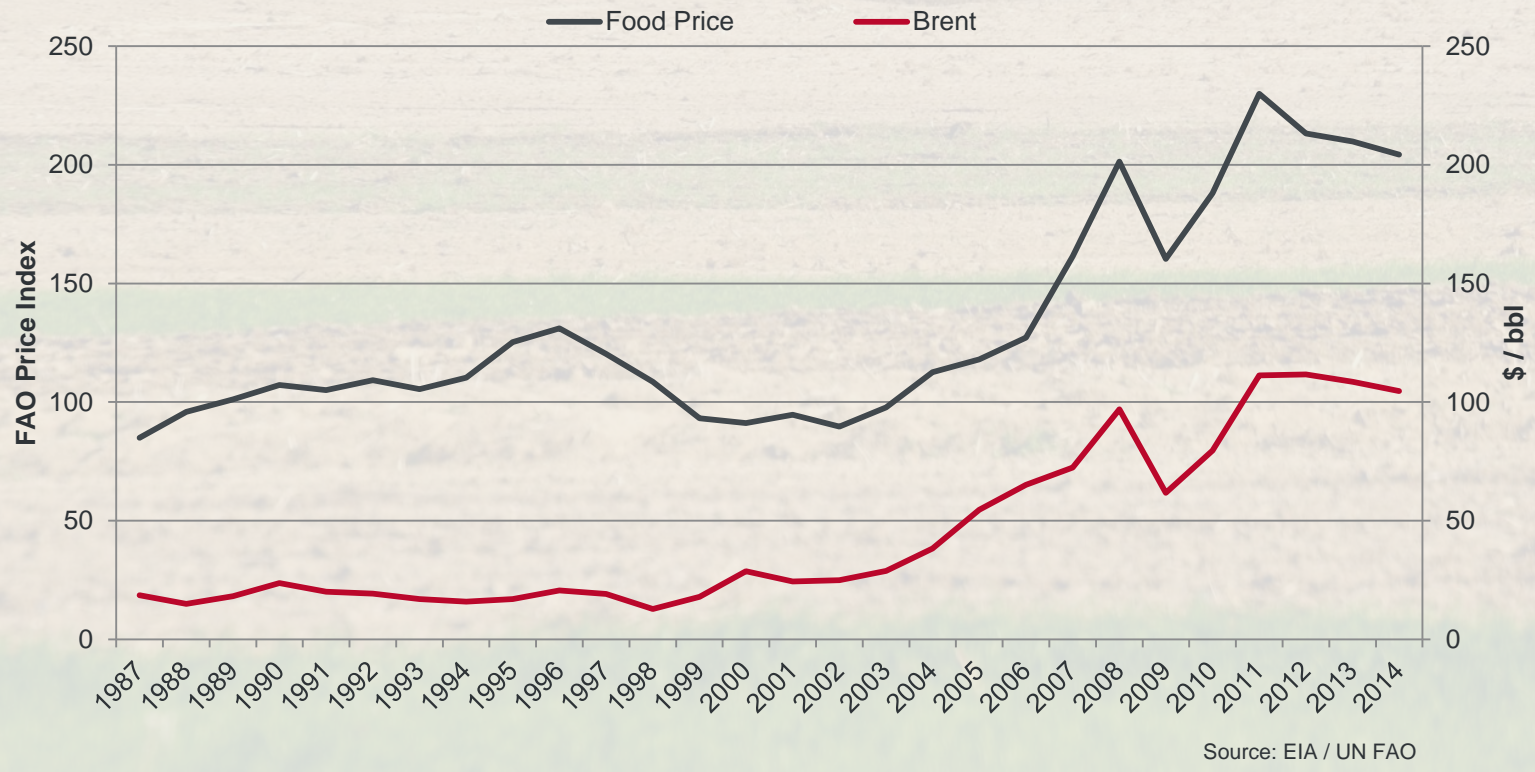
Gasoline Prices Around the World

Gasoline \$ / Litre

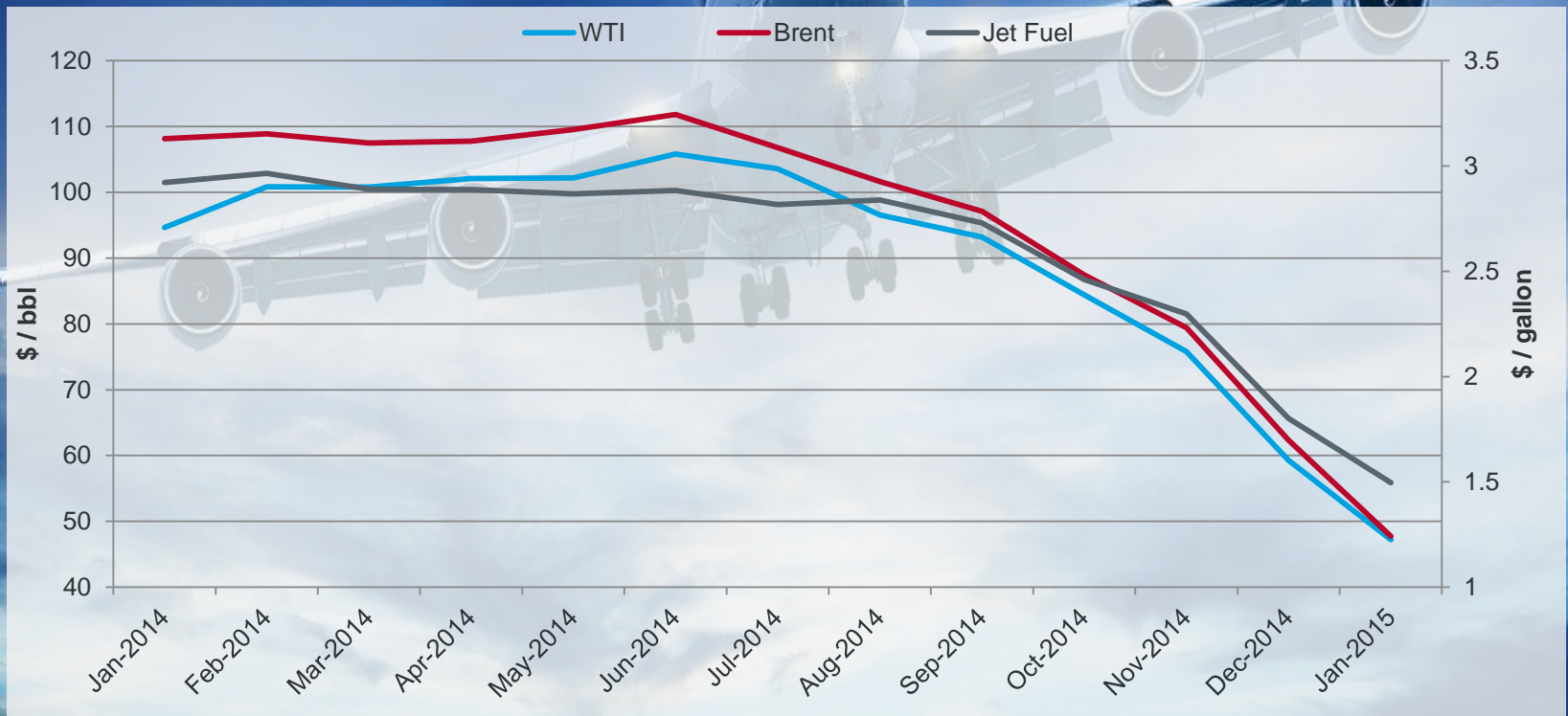


Source: Global Gasoline Prices

Agricultural Costs Linked to Oil Prices



Flights are Becoming Less Expensive



Source: EIA

ENERGY SHIPPING & LOW OIL PRICES



Low Oil Price Impact on Offshore



Lower oil prices are hurting most oil companies at a time when they were already struggling with rising costs.

- Oil companies are looking to cut spending in response to lower oil prices
 - Drilling and oilfield service industries (PSV, AHT, FAU) are likely to be negatively impacted
- High-cost offshore projects may be delayed and oil companies are likely to postpone any non-essential maintenance / life extension projects
 - Delays likely for FPSO projects with high breakeven costs
 - Small independent companies will feel the greatest impact
 - Projects by large NOCs with committed production plans will be the least affected (e.g. Petrobras)

Low Oil Price Impact on Tankers

Positive Factors

- Stockpiling
- Floating storage if contango spread widens
- Each \$10 drop in the price of oil is equivalent to \$2,400 / day bunker fuel savings
- Arbitrage trading
- Potential for US production cuts



Negative Factors

- Potential production shut in other than US (including potential OPEC production cuts)
- End to slow steaming

Low Oil Price Impact on LNG Shipping



- Lower oil prices might impact some of the higher-cost, greenfield, or speculative projects that are looking for oil-indexed pricing
- However, roughly 80% of the volumes in our internal forecast have already taken FID, and most of these projects are already under construction. As such, we can expect positive LNG trade growth through the end of this decade.

How Low Can it Go?

Wild Cards

- Russia
- Libya
- ISIS / Boko Haram
- US exports?
- Production shut-in



At current levels of production and consumption, oversupply is likely to push price down.

Prices, therefore, are likely to remain low until production gets shut in either by OPEC or producers that are no longer able to sustain low priced barrels.