




## MEMORANDUM

**To:** Board Members  
Alaska Industrial Development and Export Authority

**From:** John Springsteen  
Executive Director 

**Date:** May 19, 2015

**Subject:** Resolution No. G15-09 Authorizing the Acquisition of Pentex Alaska Natural Gas Company, LLC. Under the Development Finance Program.

Management recommends that AIDEA, under the conditions outlined in Resolution No. G15-09 and as allowed in AS 44.88.172, proceed with the acquisition of the membership interest in Pentex Alaska Natural Gas Company (Pentex), LLC, subject to the terms and conditions of the attached LLC Membership Purchase and Sale Agreement (PSA).

Specifically, Resolution No. G15-09 authorizes the Executive Director to execute the LLC Membership Purchase and Sale Agreement and all other agreements, documents necessary to complete the acquisition. Upon executing the LLC Membership Purchase and Sale Agreement the Executive Director is authorized to use \$2,765,000 from the Economic Development Account to make a deposit into an Escrow account and upon satisfaction of the conditions to closing stated in the PSA the Executive Director is authorized to close the acquisition of the membership interest in Pentex and pay the remainder of the purchase price (up to a total of \$54 million) from the Economic Development Account.

### Project Description and Summary

The Project is the acquisition of the membership interest of Pentex Natural Gas Company, LLC ("Pentex") by AIDEA. The purchase of Pentex will be a short-term strategic investment that can play a significant role in helping achieve long-term success for the Interior Energy Project. AIDEA's acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of all Interior residents and businesses. It avoids duplication between competing utilities. Under AIDEA's proposed temporary ownership of Pentex, Fairbanks Natural Gas ("FNG") will be in a position to work closely with one or more "local control entities" in the Fairbanks North Star Borough ("FNSB") to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers' price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single, locally controlled utility serving the Interior.

The current return to Pentex's owners is substantially higher than AIDEA's cost of capital. AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers by approximately 13.3% and assist the Interior Energy Project to provide energy relief to Interior residents by the winter of 2015-2016.

AIDEA plans to develop LNG storage in consultation and cooperation with the local entities, including IGU and GVEA. Expanded storage is a key component in creating an integrated and efficient gas distribution system for Fairbanks. This integrated natural gas utility system will benefit from substantial efficiencies – both capital and operating, and will enable more rapid expansion to new customers. It is estimated that operational efficiencies from the consolidation of the distribution systems could result in potential savings of up to \$1.8 million annually.

FNG, under AIDEA's ownership, will continue ongoing plans to expand service to more customers by building out the distribution system and will work with IGU and GVEA to acquire agreements to purchase additional LNG volumes at a price that will meet the goals of IEP. It is an expressed objective of the IEP to add LNG capacity to meet the needs of the community, either through direct expansion of the plant, or by partnering with private entities for additional capacity.

### **Business Case and Financing**

Under AIDEA's Development Project Finance Program, AIDEA would purchase the membership interest in Pentex from the Economic Development Account. The financing plan is as follows:

- \$54 million dollar investment to purchase LLC membership interest in Pentex.
- Sale of Titan and Arctic Energy Transportation ("AET") assets to Harvest Alaska LLC ("Harvest") for \$15.15 million, Q3 2015.
- Pass on benefit of elimination of corporate costs (taxes, return, etc.) to ratepayers and to build capital for expansion.
- Develop and negotiate process to transition FNG to a Local Control Entity (LCE) as soon as possible.
- Secure additional LNG /natural gas supplies.
- Structure financing, using SETS, State Appropriation, Bonds to take out AIDEA investment and to finance distribution system expansion.
- Exit investment in two years with estimated return of \$2.91 million (approximately 5.06% return).

The Staff of the Authority has conducted due diligence on the proposed acquisition of Pentex, including a financial analysis of the purchase price, and the Staff has provided a report on its due diligence work to the Board along with a Finance Plan for the proposed acquisition as required by statute (AS 44.88.173).

### **AIDEA Suitability/Economic Development Impacts**

The proposed acquisition of Pentex qualifies as a development project under AS 44.88.172. The acquisition of Pentex would meet AIDEA's mission of promoting economic growth in Alaska through the lowering of energy cost in Interior Alaska. The current methods of space heating in the FNSB limit economic development and growth due to high cost of energy to businesses and residents and contribute to significant air quality issues. AIDEA's acquisition of Pentex would be a key strategic step in the implementation of the Interior Energy Project, the core goal of which is to bring affordable energy to Interior Alaska, and specifically to the Fairbanks North Star Borough.

The Due Diligence report has identified that there would be significant economic benefit to Interior Alaska through the acquisition of Pentex. The economic benefits are outlined below:

- Allow FNG to immediately lower the cost of natural gas service to its existing customers by approximately 13.3%.
- Further the goals of the Interior Energy Project to bring affordable energy to all Interior Residents.
- Promote the efficient development of an integrated distribution system in Fairbanks which would significantly lower the cost of operations and cost of construction of the distribution system.
- Facilitate the development of LNG storage facilities to better serve Interior Alaska gas consumers.
- Accelerate the process of securing additional gas supplies for use in FNG's newly expanded distribution system that was financed by the Authority.
- Increase use of natural gas in the Fairbanks North Star Borough, thereby reducing the air pollution afflicting the area.

In accordance with statutory requirements of AS 44.88.177, AIDEA has consulted with the Fairbanks North Star Borough, the City of Fairbanks, the City of North Pole, and the Mat-Su Borough regarding the Authority's planned investment in the overall project and its effect on potential to meet the IEP goal of \$15/Mcf. The City of Fairbanks and the FNSB have issued resolutions supporting the analysis of the potential purchase of Pentex. AIDEA's local government consultation is in process and will continue after the May 19, 2015 AIDEA Board meeting. AIDEA's staff will continue to bring back results of the consultations with the local governing bodies to the Board as AIDEA moves forward with the planned investment.

### **Risks and Risk Mitigation**

The Finance Plan presents the major potential risks in the Pentex acquisition transaction as well as mitigation measures for these risks. On balance, the risks are adequately mitigated to support making the planned investment. AIDEA will actively monitor these and any other risks that may develop through the life of the project, employing appropriate mitigation measures as necessary.

### **Recommendation**

As authorized under AS 44.88.172, AIDEA staff recommends the approval of Resolution No. G15-09 directing AIDEA to proceed with acquisition of Pentex Alaska Natural Gas Company, LLC. The acquisition of Pentex would be a strategic investment in support of the Interior Energy Project and its goal of bringing affordable energy to Interior Alaska. The proposed project supports AIDEA's mission of promoting economic growth and would have a significant positive economic impact on Interior Alaska by lowering energy cost through the region.

### **Attachments**

1. AIDEA Resolution No. G15-09
2. Pentex Acquisition Term Sheet
3. LLC Membership Purchase and Sale Agreement
4. Project Summary
5. Finance Plan – Pentex Acquisition

# **ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**

## **RESOLUTION NO. G15-09**

### **RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING THE ACQUISITION OF PENTEX ALASKA NATURAL GAS COMPANY, LLC UNDER THE DEVELOPMENT FINANCE PROGRAM**

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**WHEREAS**, Pentex Alaska Natural Gas Company, LLC, a Delaware limited liability company (“Pentex”), owns Fairbanks Natural Gas, LLC, a natural gas utility in Fairbanks, Alaska (“FNG”); Titan Alaska LNG, LLC, the owner and operator of the liquefied natural gas (“LNG”) plant at Point Mackenzie, Alaska; Arctic Energy Transportation, LLC, the owner and operator of two LNG fueling facilities; and Polar LNG, LLC, a company set up to develop an LNG plant on the North Slope; and FNG owns Cassini LNG Storage, LLC, a company set up to develop an LNG storage facility in Fairbanks;

**WHEREAS**, the Alaska Industrial Development and Export Authority (the “Authority”) has the opportunity to acquire 100% of the membership interests in Pentex;

**WHEREAS**, the Authority’s acquisition of Pentex will enable: (1) FNG to immediately lower the cost of natural gas service to its existing customers; (2) the development of LNG storage facilities to better serve Interior Alaska gas consumers; (3) the efficient development of the distribution system of the Interior Gas Utility (“IGU”) that is now being constructed and the interconnection of the IGU’s system with FNG’s expanded distribution system; (4) the potential of lower cost energy to be provided to Interior Alaska once additional sources of gas or LNG are secured; (5) the acceleration of the process of securing additional gas supplies for use in FNG’s newly expanded distribution system that was financed by the Authority; (6) the increased use of natural gas in the Fairbanks North Star Borough, thereby reducing the air pollution afflicting the area; and (7) the furtherance of the goals of the Interior Energy Project;

**WHEREAS**, the Staff of the Authority has negotiated a definitive purchase and sale agreement with the owners of Pentex entitled “LLC Membership Purchase and Sale Agreement” and a copy of the final version of the agreement has been provided to the Board members;

**WHEREAS**, the Staff of the Authority has conducted due diligence on the proposed acquisition of Pentex, including a financial analysis of the purchase price, and the Staff has provided a report on its due diligence work to the Board along with a finance plan for the proposed acquisition as required by statute (AS 44.88.173);

**WHEREAS**, the Authority has consulted with and solicited the advice of the local governments for the locations in which the Pentex subsidiaries conduct their operations about the proposed transaction, specifically the Fairbanks North Star Borough, the City of Fairbanks, the City of North Pole, and the Matanuska Susitna Borough;

**WHEREAS**, the Pentex acquisition is eligible for financing under the Authority’s development finance program (AS 44.88.172) because the Pentex assets and businesses meet the definition of a “development project” under AS 44.88.900(6), (13)(A) and (13)(F) in that they constitute a “plant” or “facility” that will be used in connection with preparing, transporting or producing products or substances, the developing or utilizing the natural resources of the State, and the development, transportation, conversion or use of energy resources;

**WHEREAS**, the Authority’s intention would be to hold Pentex as an investment for a temporary period of time (estimated to be two years) before transferring Pentex or its subsidiary entities on to third parties in furtherance of the goals of the Interior Energy Project, as outlined in the finance plan presented to the Board;

**WHEREAS**, as a development project under AS 44.88.172, Pentex will be considered an investment of the Authority, not within or part of the Authority’s own operating budget, and none of the employees of the Pentex subsidiaries are to be considered employees of the Authority or

eligible for benefits under any of the retirement, health or benefit plans of the State of Alaska; instead, the employees will only be employees of the Pentex subsidiaries that hired them and will be entitled to participate in retirement, health or benefit plans that the Pentex subsidiaries themselves have established and maintain; and

**WHEREAS**, the Board finds the acquisition of Pentex is a suitable investment for the Authority to make that will be in furtherance of the Authority's statutory purpose of promoting, developing and advancing the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment.

**NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:**

Section 1. The Authority shall proceed with the acquisition of the membership interests in Pentex Alaska Natural Gas Company, LLC, subject to the terms and conditions of the LLC Membership Purchase and Sale Agreement. The finance plan for the Pentex acquisition submitted to the Board is approved.

Section 2. The Executive Director of the Authority is authorized to execute the LLC Membership Purchase and Sale Agreement and all other agreements, documents and instruments necessary to complete the transaction, with the agreements, documents and instruments to be on the terms outlined in the materials presented to the Board or with non-material modifications to those terms as the Executive Director, in his discretion, determines to be appropriate. Upon executing the LLC Membership Purchase and Sale Agreement, the Executive Director is authorized to use \$2,675,000 from the Economic Development Account to make the deposit into the escrow account as required by the LLC Membership Purchase and Sale Agreement.

Section 3. Upon the satisfaction of the conditions to closing stated in the LLC Membership Purchase and Sale Agreement, the Executive Director is authorized to close the acquisition of the membership interests in Pentex Alaska Natural Gas Company, LLC and pay the remainder of the purchase price (up to a total of \$54 million) from the Economic Development Account. The Executive Director is further authorized to sign all documents and to take all other steps that are necessary or desirable to complete the acquisition of Pentex Alaska Natural Gas Company, LLC and to perform the Authority's obligations under the LLC Membership Purchase and Sale Agreement.

Section 4. The Executive Director is authorized to pay the due diligence, legal, closing and other transaction costs the Authority has incurred or will incur in acquiring Pentex, including the cost of the Authority's own employees, out of the Economic Development Account.

DATED at Anchorage, Alaska on this 19<sup>th</sup> day of May, 2015.

ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

\_\_\_\_\_  
Chair

SEAL  
ATTEST:

\_\_\_\_\_  
Secretary



## PENTEX TERM SHEET

Sellers	<p>Harrington Partners, L.P., (Delaware limited partnership 85%); Dan Britton (5% owner); and Pentex Alaska Natural Gas Company, a Texas Company (10%). Article 2.01 LLC Membership Purchase and Sale Agreement [hereinafter cited as “Purchase Agreement”].</p> <p>These three sellers control Pentex Alaska Natural Gas Company, LLC, [hereinafter cited as “Pentex”]. Pentex is a Delaware LLC that is a holding entity for three active LLCs involved in LNG production and gas distribution in Alaska: (1) Fairbanks Natural Gas, LLC (certificated Fairbanks utility, Alaska LLC); (2) Titan Alaska LNG, LLC (Pt. Mackenzie LNG facility, Delaware LLC); and (3) Arctic Energy Transportation, LLC (operator of two LNG fueling stations, Delaware LLC).</p> <p>Pentex also holds two inactive Delaware LLCs: (1) Polar LNG, LLC (inactive North Slope LNG plant developer, Delaware LLC); and (2) Cassini LNG Storage (non-active Delaware LLC formed to build LNG storage that was not built).</p>
Buyer	Alaska Industrial Development and Export Authority (“AIDEA”) is a public corporation and a political subdivision of the State of Alaska.
Acquisition Type	LLC membership purchase of Pentex, which will include its five LLC subsidiaries through a membership acquisition under the terms of the Purchase Agreement.
Purchase Terms	<p>AIDEA will make an initial payment of \$2,675,000 upon signing of the Purchase Agreement, with an agreed to total purchase price due at Closing of: (1) \$52.5 million; and (2) an amount equal to Pentex’s net working capital at the time of closing (set for July 2015).</p> <p>Net working capital by agreement is capped at no more than \$1.5 million. The term “net working capital” is defined in Section 1.28 as the amount by which the current assets of the acquired companies exceed current liabilities. Under Section 2.04 the accountants for Pentex within 60 days of the Closing date determine the amount of net working capital. Within 10 days of an agreement on that figure, AIDEA shall pay Sellers any shortfall up to a maximum of \$1.5 million or Sellers shall remit to AIDEA any excess amount.</p> <p>There also is a hold back of funds equal to the initial payment of \$2,675,000 for one year from closing to cover AIDEA’s potential expenses for unforeseen liabilities under Section 9.01.</p>
Closing Date	Under Section 8.1 Closing is to occur after all conditions precedent are met, but not later than July 31, 2015.
Permits	Sellers in Disclosure Schedules have listed all permits held by Pentex or its subsidiaries and warranted that these permits are sufficient to allow AIDEA as owner to operate each Pentex business including FNG and the Titan LNG Plant.
Sources and Uses of Funds	AIDEA Revolving Fund
Due Diligence	Sellers have responded to an extensive due diligence document request matrix developed by AIDEA and provided copies of these documents to AIDEA electronically. These documents cover such matters as permits, insurance, description of any environmental liabilities and employment issues. Additionally, Sellers have provided AIDEA with detailed Disclosure Schedules that are part of the Purchase Agreement as well as providing AIDEA with warranties as to corporate governance matters and operational issues. For example, Sellers will provide an Opinion letter from counsel that all acquired LLCs are in good standing. Pentex has provided its financials that have been analyzed by Western Financial.

Escrow and Holdback Funds	Under Section 2.03(b), the Deposit upon Closing is converted to a Holdback Amount to be held by the Escrow Agent. Pursuant to Article 9 AIDEA can use the funds in the Holdback Amount for any damages it suffers for a one year period after closing. These funds, for example, could be used to pay for any pre-closing environmental liabilities, or any tax liability of the Sellers that has not been paid.
Real Estate Issues	AIDEA ordered and received ALTA extended title insurance from First American on all FNG and Titan properties. Pentex ordered title reports from Yukon Title and First American. AIDEA then compared the title reports and received an amended report that is correct. There are no material encumbrances except for a lien by AIDEA based on its loan to FNG.
Events of Default; Remedies	<p>Article 9 provides for several remedies in the event of a default or damage to AIDEA. First, AIDEA has access for a year to the Holdback Amount of \$2,675,000 for one year after closing.</p> <p>Secondly (9.02) Seller Harrington Partners, L.P. is indemnifying AIDEA for three years after closing for any damages attributable to Third Party Claims or direct damages that arise out of four areas: (1) a failure by Sellers to fulfill an agreement or covenant; (2) a breach of Sellers' representations and warranties made in Article 3; (3) any of the excluded liabilities that Sellers agreed to be responsible for as defined in Section 1.15; and (4) a pre-closing environmental liability.</p> <p>This indemnification is limited to a not to exceed aggregate claim amount of \$12 million under Section 9.04, with no limit on fraud or willful misconduct claims.</p>
Conditions Precedent to Closing	<p>There are conditions precedent for both AIDEA and the Sellers.</p> <p>Conditions Precedent for AIDEA:</p> <p>For this matter to close the Sellers' representations and covenants to AIDEA must be accurate; AIDEA must have all permits and agreements needed to operate the businesses; there must be no ongoing litigation regarding the acquired companies; the condition of the companies must be materially the same at closing as during due diligence; and Sellers must deliver all necessary documents to AIDEA. Additionally AIDEA has until July 1, 2015 to complete and be satisfied with its own environmental assessments of the acquired properties.</p> <p>Conditions Precedent for Sellers:</p> <p>All AIDEA representations accurate and have made all required payments and executed all necessary documentation at closing.</p>
Change of Control	At Closing, AIDEA will acquire the membership interests in Pentex, which will then become a single member Delaware LLC with AIDEA as the sole member. Delaware law allows a sole member LLC.
Laws and Jurisdiction	The AIDEA Purchase Documents will be governed by Alaska law and all disputes thereunder shall be resolved exclusively by the Superior Court for the State of Alaska, Third Judicial District at Anchorage, Alaska.

**FINAL VERSION**

**LLC MEMBERSHIP  
PURCHASE AND SALE AGREEMENT**

**between the**

**ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**

**as Buyer**

**and**

**HARRINGTON PARTNERS, L.P.**

**PENTEX ALASKA NATURAL GAS COMPANY and**

**DANIEL BRITTON**

**as Sellers**

\_\_\_\_\_, 2015

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**LLC MEMBERSHIP  
PURCHASE AND SALE AGREEMENT**

This **LLC MEMBERSHIP PURCHASE AND SALE AGREEMENT** (“Agreement”) is entered into effective as of \_\_\_\_\_, 2015 (the “Effective Date”), by and between:

(1) The **ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**, a public corporation of the State of Alaska with a primary place of business in Anchorage, Alaska;

(2) **HARRINGTON PARTNERS, L.P.**, a Delaware limited partnership with a primary place of business in Minnetonka, Minnesota;

(3) **PENTEX ALASKA NATURAL GAS COMPANY**, a Texas corporation with a primary place of business in Addison, Texas; and

(4) **DANIEL BRITTON**, an individual who is a resident of Fairbanks, Alaska.

In consideration of the mutual covenants of this Agreement, the parties agree as follows:

**Article 1  
DEFINITIONS**

As used in this Agreement, the following terms have the meanings set forth in this Article 1. All Article, Section, Exhibit and Schedule numbers refer to Articles and Sections of this Agreement and to the attached Exhibits and Schedules.

**1.01 “Acquired Companies”** means Pentex Alaska Natural Gas Company, LLC, a Delaware limited liability company, and all of the Subsidiaries.

**1.02    “AIDEA”** means the Alaska Industrial Development and Export Authority, a public corporation of the State of Alaska.

**1.03    “Closing”** means the consummation of the purchase and sale of the LLC Membership Interests as contemplated by this Agreement.

**1.04    “Closing Date”** means the date on which the Closing occurs.

**1.05    “Contemplated Transactions”** means all of the transactions contemplated by this Agreement, including (a) Sellers’ sale of the LLC Membership Interests to AIDEA; (b) the execution, delivery, and performance of the Escrow Agreement and Sellers’ Release; (c) Sellers’ and AIDEA’s performance of their respective obligations under this Agreement; and (d) AIDEA’s acquisition and ownership of the LLC Membership Interests so as to be able to exercise control over the Acquired Companies.

**1.06    “Damages”** means any and all monetary awards, penalties, fines, losses, liabilities, expenses or costs of every kind and description that are recoverable under governing law, including, without limitation, Litigation Expenses.

**1.07    “Deposit”** means \$2,675,000, plus any interest earned on that amount while on deposit with the Escrow Agent up to the Closing Date.

**1.08    “Disclosure Schedules”** means the Schedules to be delivered by Sellers pursuant to Article 3 of this Agreement.

**1.09    “Employee Benefit Plans”** means those plans described in Section 3.17(a).

**1.10    “Encumbrance”** means any mortgage; lien; pledge; charge; option; contract interest; security interest; community property interest; equitable interest;

restriction of any kind on use, voting, transfer, rights to income or other ownership rights; or any other encumbrance of any type or description.

**1.11 “Environmental Assessments”** means (a) the Phase I environmental assessments to be conducted prior to the Closing with respect to the real properties on which the Acquired Companies conduct the Operations, and (b) one or more Phase II environmental assessments that AIDEA elects to have conducted.

**1.12 “Environmental, Health, and Safety Laws”** means Title 46 of the Alaska Statutes, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), the Resource Conservation and Recovery Act of 1976 (RCRA), the Toxic Substances Control Act (TSCA), the Clean Water Act, the Clean Air Act, and the Occupational Safety and Health Act of 1970 (OSHA), each as amended, together with all other laws (including rules, regulations, codes, applicable injunctions, judgments, orders, decrees, and rulings thereunder) of federal, state and local governments (and all agencies thereof) concerning pollution or protection of the environment, natural resources, public health and safety, or employee or third-party employee health and safety, including laws relating to emissions, discharges, releases, spills, or threatened releases of pollutants, contaminants, chemical, industrial, hazardous, radioactive or toxic materials or wastes, or fuels, into air, surface water, ground water, land, or subsurface or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants or contaminants, fuels, insecticides, solvents, ground cover control substances, or chemical, industrial, hazardous, or toxic materials or wastes so classified under any federal, state or local laws, regulations, codes, permits, orders and ordinances.

**1.13 “Escrow Agent”** means U.S. Bank National Association.

**1.14 “Escrow Agreement”** means the agreement between the parties and the Escrow Agent, in substantially the form of Exhibit 2.03(a).

**1.15 “Excluded Liabilities”** means:

(a) all Liabilities of the Acquired Companies to any of the Sellers or to any of the Sellers’ Related Persons, specifically including without limitation:

(1) any Liability of the Acquired Companies to Seller Harrington Partners, L.P. for management fees or for compensation upon cancellation of any management contract;

(2) any Liability of the Acquired Companies to Seller Daniel Britton under any employment contract or deferred compensation plan or contract in effect as of or prior to the Closing Date, including any obligation to make any payment upon a change in control of any of the Acquired Companies, but excluding the amounts for which Fairbanks Natural Gas, LLC has on deposit in respect to its obligations to Seller Daniel Britton under the deferred compensation agreements dated December 11, 2013; and

(3) all Liabilities of the Acquired Companies to (i) Merced Capital L.P. (f/k/a EBF & Associates, L.P.); (ii) Lydiard Partners, L.P.; (iii) Merced Capital Partners, LLC; (iv) Series L1 of Merced Capital Partners, LLC; and (v) Tanglewood Capital Management, Inc.

(b) any Liability (which is not otherwise payable by insurance of the Acquired Companies) for any claim asserted by Patrick D. Kirby related to his employment by

Fairbanks Natural Gas, LLC or his assertions regarding the business practices of Fairbanks Natural Gas, LLC; and

(c) any Liability (which is not otherwise payable by insurance of the Acquired Companies) arising out of or related to the claim that is the subject of the proceedings in the Alaska State Commission for Human Rights under ASCHR No. J-14-318, whether the claim proceeds before the ASCHR or in any other forum, court or tribunal.

**1.16 “Financials”** means the financial statements of the Acquired Companies as described in Section 3.06.

**1.17 “GAAP”** means United States generally accepted accounting principles as in effect from time to time, consistently applied.

**1.18 “Harvest Alaska Contracts”** means those two agreements, each dated November 5, 2014, and amended February 4, 2015 and May 5, 2015, that certain of the Acquired Companies have entered into with Harvest Alaska, LLC, as described in more detail in Section 5.07.

**1.19 “Holdback Amount”** means the amount described in Section 2.03(b), plus any interest earned on that amount after the Closing Date.

**1.20 “Intellectual Property”** means:

(a) all of the Acquired Companies’ trademarks, service marks, trade dress, logos, trade names, and corporate names (including but not limited to the name “Fairbanks Natural Gas”) together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith;

(b) all of the Acquired Companies' copyrightable works, copyrights, and applications, registrations, and renewals in connection therewith;

(c) all of the Acquired Companies' trade secrets and confidential business information, including ideas, research and development, know-how, formulas, compositions, processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals;

(d) all of the Acquired Companies' computer software, software licenses and software use agreements (including data and related documentations);

(e) all other proprietary rights of the Acquired Companies, and all of the Acquired Companies' contracts, licenses and permits to make use of the Intellectual Property of others; and

(f) all copies and tangible embodiments of any of the foregoing (in whatever form or medium).

**1.21 "Inventory"** means physically all of the Acquired Companies' goods and products for sale to clients and customers, work in process to create goods or products for sale to clients and customers, and raw materials used or consumed in the production of goods or products for sale to clients and customers.

**1.22 "Knowledge"** means:

(a) in the case of an individual, the individual is actually aware of or should be actually aware of a fact or matter, after reasonable investigation; and

(b) in the case of an entity, any individual who is serving as of the Effective Date or as of the Closing Date as a director, officer, general partner, member or manager of the entity (or in any similar capacity) has, or at any time had, Knowledge within the meaning of subsection (a) of this definition of a fact or matter.

**1.23 “Liability”** means any liability no matter how such liability may have arisen or the legal basis for such liability, and regardless of whether the liability is known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due.

**1.24 “Litigation Expenses”** means attorneys’ fees and other costs and expenses incident to proceedings or investigations respecting, or the prosecution or defense of, any claim.

**1.25 “LLC Membership Interests”** means 100% of the member interests in Pentex, as a limited liability company, inclusive of all rights in voting, management, profits and losses, capital accounts, and all other rights inherent or appurtenant to the ownership of Pentex.

**1.26 “Material Adverse Effect”** means any of the following: (a) any matter that has a material adverse effect upon the business, financial condition or results of Operations, when taken as a whole, of the Acquired Companies, or when considered separately for Pentex, Fairbanks Natural Gas, LLC, or Titan Alaska LNG, LLC, or solely with respect to Arctic Energy Transportation, LLC, any adverse effect where the dollar value of the adverse effect exceeds \$100,000; or (b) any matter that may reasonably be expected to cause or result in the loss of or substantial damage to the Acquired

Companies, when taken as a whole, or when considered separately for Pentex, Fairbanks Natural Gas, LLC, or Titan Alaska LNG, LLC, or solely with respect to Arctic Energy Transportation, LLC, an adverse effect where the dollar value of the adverse effect exceeds \$100,000; or (c) any material increase in cost or obligation of or material decrease in revenue of the Acquired Companies, when taken as a whole, or when considered separately for Pentex, Fairbanks Natural Gas, LLC, or Titan Alaska LNG, LLC, or solely with respect to Arctic Energy Transportation, LLC, an adverse effect where the dollar value of the adverse effect exceeds \$100,000; but excluding matters disclosed by Sellers in the Disclosure Schedules to this Agreement as of the Effective Date, excluding changes arising from actions taken pursuant to this Agreement, and excluding matters that Sellers can correct prior to Closing to AIDEA's satisfaction or that Sellers can commit to correcting prior to Closing by any means satisfactory to AIDEA, which may include a correction achieved by a contractual undertaking or the escrow of funds.

**1.27 "Material Contracts"** means any contract of any of the Acquired Companies that has a value of \$50,000 or more or that obligates any of the Acquired Companies to make expenditures of \$50,000 or more over the entire term of the contract.

**1.28 "Net Working Capital"** means the amount by which the current assets (as determined in accordance with GAAP) of the Acquired Companies exceed the current liabilities (as determined in accordance with GAAP, but excluding any accounts payable relating to any capital expenditures) of the Acquired Companies.



**1.29 “Operations”** means the businesses the Acquired Companies are conducting on the date hereof, including without limitation Fairbanks Natural Gas, LLC’s natural gas utility business, Titan Alaska LNG, LLC’s natural gas liquefaction plant, and Arctic Energy Transportation, LLC’s fueling facilities business.

**1.30 “Organizational Documents”** means (a) the articles of organization or charters of each of the Acquired Companies; (b) the certificates of organization of each of the Acquired Companies; (c) the operating agreements of each of the Acquired Companies; (d) membership certificates and membership registers for each of the Acquired Companies; (e) any manager contracts governing the management of any of the Acquired Companies; (f) any bylaws, resolutions, policies or procedures adopted by any of the Acquired Companies with respect to organizational matters, or member or manager decision-making; and (g) any amendment to any of the foregoing.

**1.31 “Pentex”** means Pentex Alaska Natural Gas Company, LLC, a Delaware limited liability company.

**1.32 “Permits and Licenses”** means any approval, consent, license, permit, waiver, exception, variance or other authorization issued, granted, given, or otherwise made available by or under the authority of a government or governmental agency or under any applicable law, regulation, rule or order.

**1.33 “Permitted Encumbrance”** means with respect to each parcel of real property: (a) real estate taxes, assessments and other governmental levies, fees, or charges imposed with respect to such real property that are (i) not due and payable as of the Closing Date or (ii) being contested in good faith and for which appropriate reserves

have been established in accordance with GAAP; (b) mechanics' liens and similar liens for labor, materials, or supplies provided prior to the Closing Date with respect to such real property, incurred in the ordinary course of business for amounts that are included in the accounting records of the affected entity as current liabilities as of the Closing Date, or for amounts that are payable from or eligible to be paid from the loan proceeds under the loan agreement between AIDEA and Fairbanks Natural Gas, LLC, dated May 19, 2014; (c) zoning, building codes, and other land use laws regulating the use or occupancy of such real property or the activities conducted thereon that are imposed by any federal, state or local governmental authority having jurisdiction over such real property and are not violated by the current use or occupancy of such real property or the operation of the business of Pentex and the Subsidiaries as currently conducted thereon; and (d) easements, covenants, conditions, restrictions, and other similar matters of record affecting title to such real property that do not or would not materially impair the use or occupancy of such real property in the operation of the business of Pentex and the Subsidiaries as currently conducted thereon.

**1.34 “Pre-Closing Environmental Liability”** means any Liability of any of the Acquired Companies or any of the Sellers that arises out of or relates to: (a) any violation of any Environmental, Health, and Safety Laws by any of the Acquired Companies prior to the Closing Date; (b) any environmental pollution or contamination on, in, under or from any real property owned, leased or occupied by any of the Acquired Companies that occurred prior to the Closing Date; and (c) any use, application, leak, spill, release, discharge or disposal of any substance regulated under, or defined as or

considered “hazardous” or “toxic” or “radioactive” or “contamination” or “pollution” under any Environmental, Health, and Safety Laws that occurred prior to the Closing Date or resulted from the Operations conducted prior to the Closing Date.

**1.35 “Purchase Price”** means the amount stated or described in Section 2.02.

**1.36 “Quarterly Reports”** means the financial reports of the Acquired Companies for the first and second quarters of calendar year 2015 as described in Section 3.06.

**1.37 “Related Person”** means:

(a) with respect to an individual, (1) each other member of such individual’s family, (2) any person or entity that is directly or indirectly controlled by such individual or by a member of such individual’s family, and (3) any entity with respect to which such individual or a member of such individual’s family serves as a member, manager, director, officer, partner, executor or trustee (or in a similar capacity); and

(b) with respect to an entity, (1) any person or entity that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with such entity, and (2) each person that serves as a member, manager, director, officer, partner, executor or trustee (or in a similar capacity) of or for the entity.

**1.38 “Sellers”** means (a) Harrington Partners, L.P., a Delaware limited partnership; (b) Pentex Alaska Natural Gas Company, a Texas corporation; and (c) Daniel Britton, an individual who is a resident of Fairbanks, Alaska.

**1.39 “Sellers’ Fundamental Representations”** means the representations and warranties Sellers’ are making in Sections 3.01, 3.02, 3.03, 3.04, 3.05 and 3.18.

**1.40 “Sellers’ Release”** means the release of all claims against the Acquired Companies in the form of Exhibit 8.02(d), which Sellers are to deliver at Closing.

**1.41 Sellers’ Representative”** means Harrington Partners, L.P.

**1.42 “Subsidiaries”** means (a) Fairbanks Natural Gas, LLC, an Alaska limited liability company; (b) Polar LNG, LLC, a Delaware limited liability company; (c) Arctic Energy Transportation, LLC, a Delaware limited liability company; (d) Titan Alaska LNG, LLC, a Delaware limited liability company; and (e) Cassini LNG Storage, LLC, a Delaware limited liability company.

**1.43 “Tax”** means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

**1.44 “Tax Return”** means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

**1.45 “Third Party Claims”** means any and all claims, demands, suits, actions or proceedings by any person, entity, government or governmental agency, other than AIDEA, the Acquired Companies, or Sellers.

**Article 2**  
**PURCHASE AND SALE OF**  
**LLC MEMBERSHIP INTERESTS**

**2.01 Purchase and Sale.** Upon the terms and subject to the conditions of this Agreement, at the Closing, Sellers shall sell and transfer to AIDEA all of Sellers' right, title and interest in and to the LLC Membership Interests, and AIDEA shall purchase and acquire from Sellers the LLC Membership Interests. The percentage of the LLC Membership Interests that each of the Sellers is to separately convey to AIDEA at the Closing is as follows:

Harrington Partners, L.P. -- 85%

Pentex Alaska Natural Gas Company -- 10%

Daniel Britton -- 5%.

**2.02 Consideration.** In consideration for the sale and purchase of the LLC Membership Interests, AIDEA shall pay to Sellers' Representative the total sum of \$52,500,000, plus the amount of the Net Working Capital the Acquired Companies have on the Closing Date, up to a maximum amount of \$1,500,000 in Net Working Capital. However, the amount AIDEA shall pay Sellers' Representative shall be subject to adjustment as provided for in Section 5.07(b) regarding the asset sale proceeds from the Harvest Alaska Contracts. The above-stated sum is the "Purchase Price."

**2.03 Payment.** The Purchase Price shall be paid as follows:

(a) Upon the execution of this Agreement, AIDEA will pay the Deposit to the Escrow Agent for the Escrow Agent to hold in accordance with the Escrow Agreement in the form of Exhibit 2.03(a). The Deposit (including any interest earned thereon prior to the Closing) shall be credited against the Purchase Price due at Closing.

(b) If the Closing occurs, the Deposit will be converted into the Holdback Amount and shall continue to be held and administered by the Escrow Agent in accordance the Escrow Agreement. Subject to any claims against the Holdback Amount made in accordance with Section 9.01, AIDEA and Sellers shall jointly instruct the Escrow Agent to disburse the Holdback Amount to the Sellers' Representative on the first anniversary of the Closing Date. AIDEA shall have no responsibility for making any allocations between the Sellers with respect to disbursement of the Holdback Amount to Sellers' Representative.

(c) On the Closing Date, AIDEA shall transmit to Sellers' Representative by wire transfer to one or more accounts that Sellers' Representative designates the balance of the Purchase Price, reasonably estimating the Net Working Capital at the Closing Date, up to a maximum amount of \$1,500,000 in Net Working Capital. AIDEA shall have no responsibility for making any allocations between the Sellers, other than complying with the instructions for the Sellers' Representative as to an allocation.

**2.04 "True Up" of Net Working Capital.** As soon as reasonably possible but not later than 60 days after the Closing Date, AIDEA shall have the accountants regularly utilized to provide accounting services to the Acquired Companies complete an examination of the Acquired Companies' accounts to determine the actual amount of Net

Working Capital on the Closing Date. Sellers and AIDEA shall be entitled to confer with the accountants regarding the examination. Based on the accountants' final determination as to the Net Working Capital on the Closing Date, the parties shall "true up" the portion of the Purchase Price that AIDEA paid at the Closing based on the estimate of Net Working Capital. Within 10 days after the "true up" is completed, AIDEA shall pay to Sellers any shortfall in the Purchase Price that was determined to exist in the "true up" of Net Working Capital (so long as the maximum amount of \$1,500,000 is not exceeded), or Sellers shall remit to AIDEA any excess amount paid over the Purchase Price that was determined to exist in the "true up" of the Net Working Capital.

### **Article 3**

#### **SELLERS' REPRESENTATIONS AND WARRANTIES**

Sellers represent and warrant to AIDEA that the statements contained in this Article 3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then):

##### **3.01 LLC Membership Interests.**

(a) Sellers have good title to the LLC Membership Interests, free and clear of all Encumbrances. Sellers collectively own 100% of the LLC Membership Interests. Sellers' transfers of the LLC Membership Interests to AIDEA are authorized.

(b) The LLC Membership Interests have been duly authorized and validly issued and are fully paid and non-assessable. The LLC Membership Interests are duly noted and recorded in the books and records of Pentex as being held by each of the

Sellers in the percentages stated in Section 2.01. Pentex has no record or information that any of the LLC Membership Interests is subject to any Encumbrance. Pentex has not issued any certificates to evidence the LLC Membership Interests, and no lost or destroyed certificates for the LLC Membership Interests exist or have ever existed. Other than this Agreement, no contract exists relating to transferring or issuing any additional membership interests in Pentex.

### **3.02 Organization.**

(a) Each of the Acquired Companies is a limited liability company duly organized, validly existing, and in good standing under the laws of the states in which it was organized with full power to carry on its business as currently conducted and to own, lease and operate all property and assets now owned, leased or operated by it. Each of the Acquired Companies is a member-managed limited liability company and has never been a manager-managed limited liability company; and Harrington Partners, L.P. is the managing-member of Pentex.

(b) Pentex is the sole member of, and owns 100% of the membership interests in, Fairbanks Natural Gas, LLC, Polar LNG, LLC, Arctic Energy Transportation, LLC, and Titan Alaska LNG, LLC. Fairbanks Natural Gas, LLC is the sole member of, and owns 100% of the membership interests in, Cassini LNG Storage, LLC. None of the Subsidiaries has any record or information that any of membership interests in them is subject to any Encumbrance. None of the Subsidiaries has issued any certificates to evidence the membership interests in them, and no lost or destroyed certificates for the membership interests in any of the Subsidiaries exist or have ever existed. No contract



exists relating to transferring or issuing any additional membership interests in any of the Subsidiaries.

(c) Sellers have delivered to AIDEA copies of the Organizational Documents of each of the Acquired Companies, as currently in effect and as formerly in effect.

**3.03 Authorization.** The execution and delivery of this Agreement by Sellers, and the performance by Sellers of the Contemplated Transactions, have been duly and validly authorized by all necessary corporate, partnership or organizational action required on the part of Sellers. This Agreement has been duly executed and validly delivered by Sellers and is legally binding on Sellers, enforceable against Sellers in accordance with its terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, by general principles of equity (regardless of whether considered in a proceeding in equity or one at law), and by public policy. Each of the agreements or other instruments to be executed by Sellers at the Closing, when executed, will be duly executed and delivered by Sellers and will be legally binding on Sellers, enforceable against Sellers in accordance with its terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, by general principles of equity (regardless of whether considered in a proceeding in equity or one at law), and by public policy. No actions or proceedings to dissolve, declare bankrupt, or create a receivership for any of the Acquired Companies or any of Sellers are pending or, to the best Knowledge of Sellers and the Acquired Companies, threatened.

**3.04 No Conflict.** The execution and delivery of this Agreement by Sellers, and the consummation or performance of the Contemplated Transactions, will not:

(a) with respect to Pentex Alaska Natural Gas Co. conflict with its articles of incorporation or by-laws; or

(b) with respect to Harrington Partners, L.P. conflict with any partnership agreement or statement, charter or certificate of limited partnership; or

(c) result in any breach of any of the provisions of, or constitute a default under, in each case with or without the giving of notice or the passage of time or both, any judgment, order, decree, writ or agreement to which Sellers or the Acquired Companies, or any of them, are or is a party, or by which Sellers or the Acquired Companies, or any of them, are or is bound, which breach or default would (1) materially adversely affect the ability of Sellers, or any of them, to execute, deliver or perform their obligations under this Agreement, or (2) give rise to or result in a Material Adverse Effect; or

(d) cause AIDEA or any of the Acquired Companies to become subject to, or to become liable for the payment of, any Tax; or

(e) result in the imposition or creation of any Encumbrance upon or with respect to any of the assets owned or used by any of the Acquired Companies.

**3.05 No Consents.** Except as disclosed in Disclosure Schedule 3.05, none of the Sellers or any of the Acquired Companies is or will be required to give any notice to or obtain the consent from any person, entity, government or governmental agency in

connection with the execution and delivery of this Agreement, or the consummation or performance of any of the Contemplated Transactions.

**3.06 Financial Statements.** Disclosure Schedule 3.06 consists of true and complete copies of the Acquired Companies' audited consolidated financial statements for the fiscal years ending December 31, 2013 and December 31, 2014 and the audited financial statements of Fairbanks Natural Gas, LLC for the fiscal year ending December 31, 2012 (the "Financials"), and true and complete copies of the Acquired Companies' internally generated quarterly financial reports for the months of January 2015 through March 2015 (which are part of the "Quarterly Reports"). The Financials have been prepared from the Acquired Companies' books and records in accordance with generally accepted accounting principles, applied on a consistent basis throughout the periods involved, and fairly present the Acquired Companies' financial position as of their respective dates and the results of Operations and cash flows for the periods shown. The Quarterly Reports for the first calendar quarter of 2015, and the Quarterly Reports to be prepared for the second calendar quarter of 2015, have been prepared or will be prepared by the Acquired Companies' personnel from the Acquired Companies' books and records, and fairly present the Acquired Companies' financial position as of the end of the period and the results of Operations and cash flows for the period. After December 31, 2014, there has been no change in the financial condition or business of any of the Acquired Companies that would constitute a Material Adverse Effect. No financial statements of any person or entity other than the Acquired Companies are

required by generally accepted accounting principles to be included in the Financials or the Quarterly Reports.

**3.07 Books and Records.** The books of account, LLC membership ownership record and transfer books, membership meeting minutes, members resolutions, manager meeting minutes, manager resolutions, policies, procedures, and any other records of the Acquired Companies, all of which have been made available to AIDEA, are complete and correct and have been maintained in accordance with sound business practices. The records of the Acquired Companies with respect to any meetings held or actions taken or approved by the members or the managers, or any committees appointed by the members or the managers, are accurate and complete. On the Closing Date, all of the foregoing books and records will be in the possession of the Acquired Companies.

**3.08 Acquired Companies' Assets.**

(a) Disclosure Schedule 3.08(a) lists all real property, leaseholds, and other interests in real estate that the Acquired Companies have. Sellers have provided to AIDEA correct and complete copies of all deeds, conveyance documents, purchase contracts, written leases, subleases, title reports, title records or other documents in Sellers' possession pertaining to the real property interests listed on Disclosure Schedule 3.08(a), as well all documents amending or modifying the terms thereof.

(b) Disclosure Schedule 3.08(b) lists all items of equipment, materials, supplies, fixtures, tools, motor vehicles, and other personal property the Acquired Companies own or lease that separately cost \$50,000 or more. Sellers have provided, or made available, to AIDEA correct and complete copies of any bills of sale, leases,

purchase agreements or other documents in Sellers' possession under which the personal property listed on Disclosure Schedule 3.08(b) were acquired. The Acquired Companies have taken no action with respect to any item of personal property included on Disclosure Schedule 3.08(b) that would void any manufacturer's or dealer's warranty with respect to that item.

(c) Except as disclosed in Disclosure Schedule 3.08(c), the Acquired Companies have, or will have at the Closing, good title, free and clear of all Encumbrances (other than Permitted Encumbrances), to all the properties and assets (whether real, personal, or mixed, or whether tangible or intangible) that they purport to own, or that are listed on Disclosure Schedules 3.08(a) or 3.08(b), or that are reflected in the Financials.

**3.09 Condition of Acquired Companies' Assets.** Except as disclosed in Disclosure Schedule 3.09:

(a) the equipment, materials, supplies, fixtures, tools, motor vehicles, and other items of personal property owned or leased by the Acquired Companies are in good condition and repair, ordinary wear and tear excepted, and are sufficient in quantity and quality for conducting the Operations and for continuing the Operations after the Closing Date; and

(b) the real property the Acquired Companies own, lease or in which they have an interest, and all buildings, structures and improvements on the same, are in good condition and repair, ordinary wear and tear excepted, and adequate for conducting the Operations and for continuing the Operations after the Closing Date, and all such real

property, buildings, structures and improvements are, to the best Knowledge of Sellers and the Acquired Companies, in compliance in all material respects, with all federal, state and local laws, regulations, codes, permits, orders and ordinances.

**3.10 Inventory.** All items of the Inventory consist of a quality and quantity usable and saleable in the ordinary course of the Operations, except for obsolete items and items of below-standard quality, all of which have been written off or written down on the Financials and the Acquired Companies accounting records. The Acquired Companies are not in possession of any item of Inventory the Acquired Companies do not own, including goods already sold. Inventory is valued at the lower of cost or market value on a first in, first out basis. Inventory on hand was purchased or produced in the ordinary course of the Operations.

**3.11 Accounts Receivable.** All accounts receivable of the Acquired Companies reflected on the Financials or the Quarterly Reports, or on the accounting records of the Acquired Companies as of the Closing Date, represent or will represent valid obligations arising from sales actually made or services actually performed in the ordinary course of business. Unless paid prior to the Closing, all such accounts receivable are or will be as of the Closing Date current and collectible net of the respective reserves shown in the Financials, the Quarterly Reports or on the accounting records of the Acquired Companies as of the Closing Date (which reserves are adequate and calculated consistent with past practice and, in the case of the reserves as of the Closing Date, will not represent a greater percentage of such accounts receivable as of the Closing Date than the reserve regularly utilized by the Acquired Companies). To the best Knowledge of Sellers

and the Acquired Companies, except as set forth on Disclosure Schedule 3.11, no obligor on any such accounts receivable is contesting the obligation to pay or the amount owed, or asserting any claim with respect to such accounts receivable, or asserting a right of set-off, which amounts individually or in the aggregate would exceed the reserves as of the Closing Date.

**3.12 Material Contracts.** Disclosure Schedule 3.12 lists all Material Contracts to which any of the Acquired Companies is a party. Sellers have already delivered to AIDEA copies of all written Material Contracts and written amendments to the Material Contracts which any of the Acquired Companies is a party. The written Material Contracts and any written amendments contain the complete terms of the agreements between the parties. There are no material oral modifications or amendments to any of Material Contracts. No material breach or default exists with respect to any of the Material Contracts and, to the best Knowledge of Sellers and the Acquired Companies, no event has occurred that, after notice or lapse of time or both, will or may result in any such breach or default. None of the Acquired Companies is in arrears in respect to the performance or satisfaction of the terms or conditions to be performed or satisfied by it under any of the Material Contracts, and none of the Acquired Companies has been notified of any claim that it is in arrears with respect to any of the Material Contracts. No waiver or indulgence has been granted by any party to any of the Material Contracts, including by any of the Acquired Companies. Sellers and the Acquired Companies know of no laws, regulations or decrees that adversely affect or could reasonably be expected to adversely affect the rights of any of the Acquired Companies under the Material

Contracts. Except as disclosed in Disclosure Schedule 3.12, Sellers and the Acquired Companies have received no notice or threat of termination, non-renewal or re-bid from any party to any of the Material Contracts, nor is any material dispute pending with respect to any of the Material Contracts, nor, to the best Knowledge of Sellers and the Acquired Companies, is there any basis for any such dispute. None of the Acquired Companies has received any prepayments under any of the Material Contracts that are applicable to goods or services to be provided after the Closing Date, except for deposits accurately shown on the Financials or the Quarterly Reports. No customer or client has asserted any claim for a credit with respect to goods or services provided under any of the Material Contracts.

**3.13 Legal Requirements; Permits and Licenses.**

(a) To the best Knowledge of Sellers and the Acquired Companies, and except as disclosed in Disclosure Schedule 3.13(b) or in Disclosure Schedules 3.16(b), (d) and (e), the Operations and all of the Acquired Companies' activities have been conducted in compliance, in all material respects, with all applicable statutes, regulations, codes, rules, injunctions, orders, judgments, and other legal requirements of any federal, state, local, or foreign government or governmental agency. Except as disclosed in Disclosure Schedule 3.13 or in Disclosure Schedules 3.16(b), (d) and (e), no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of the Acquired Companies alleging any failure so to comply.

(b) Disclosure Schedule 3.13(b) lists all Permits and Licenses granted or afforded to the Acquired Companies by any government or governmental agency, all of



which are valid and remain in effect. Sellers have already delivered to AIDEA copies of all Permits and Licenses of any of the Acquired Companies. Sellers and the Acquired Companies have received no notice that any of the Permits and Licenses is being or may potentially be revoked, suspended or modified. The Permits and Licenses listed on Disclosure Schedule 3.13(b) are all of the governmental authorizations necessary for the Acquired Companies to carry on the Operations prior to the Closing Date, or for the Acquired Companies to continue the Operations after the Closing Date as they were previously conducted.

**3.14 Legal Proceedings.** Except as disclosed on Disclosure Schedule 3.14, there are no pending or, to the best Knowledge of Sellers and the Acquired Companies, threatened, claims, actions, suits, proceedings or investigations involving any of the Sellers (as relates to the Acquired Companies or to Sellers' ability to perform their obligations under this Agreement) or any of the Acquired Companies or any other properties or assets of the any of the Acquired Companies.

**3.15 Undisclosed Liabilities.** The Acquired Companies have no Liability (and, to best Knowledge of Sellers and the Acquired Companies, there is no basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of the Acquired Companies that would or might give rise to any Liability), except for (a) Liabilities set forth in the Financials, and (b) Liabilities which have arisen in the ordinary course of business after the date of the most recent of the Financials (none of which results from, relates to, or was caused by any breach of contract, breach of warranty, tort, strict liability, infringement, or violation of law).



### **3.16 Environment, Health, and Safety.**

(a) To the best Knowledge of Sellers and the Acquired Companies, except as disclosed in Disclosure Schedules 3.16(b), (d) and (e), the Acquired Companies have complied with all Environmental, Health, and Safety Laws. No action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of the Acquired Companies alleging any failure to so comply. Without limiting the generality of the preceding sentence, the Acquired Companies, to the best Knowledge of Sellers and the Acquired Companies, have obtained and been in compliance with all of the terms and conditions of all permits, licenses, and other authorizations that are required under, and have complied with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules, and timetables that are contained in, all Environmental, Health, and Safety Laws.

(b) Except as disclosed in Disclosure Schedule 3.16(b), none of the Acquired Companies, to the best of Knowledge of Sellers and the Acquired Companies, has any Liability under any Environmental, Health, and Safety Laws for contamination of, damage to, or polluting any site, location, property, natural resources, the air, or any body of water (surface or subsurface), or for any illness of, or personal injury to, or death of, any employee or other individual related to the foregoing.

(c) To the best Knowledge of Sellers and the Acquired Companies, all equipment and personal property owned, leased or used in the Operations are and have been free of hydrocarbon contamination, asbestos, PCBs, dioxins, and any other

hazardous, toxic, radioactive or dangerous substances, except for the liquefied natural gas and compressed natural gas the Acquired Companies produce, store and handle, and except for the fuel, lubricants, refrigerants and solvents that are used in the ordinary course of business in conducting the Operations. The liquefied natural gas and compressed natural gas of the Acquired Companies, and the fuel, lubricants, refrigerants, and solvents used in its Operations, have all been stored, handled, transported, used and disposed of in accordance with all Environmental, Health, and Safety Laws and consistent with all standard industry practices.

(d) Except as disclosed on Disclosure Schedule 3.16(d), all real property the Acquired Companies own are, to the best Knowledge of Sellers and the Acquired Companies, free from contamination by any substance regulated under, or defined as or considered “hazardous” or “toxic” or “radioactive” or “contamination” or “pollution” under, any Environmental, Health, and Safety Laws, including but not limited to hydrocarbons, asbestos, PCBs, and dioxins. Sellers have provided AIDEA with true and complete copies of all environmental assessments, studies and reports that (1) Sellers and the Acquired Companies are aware exist, and (2) reference the real property any of the Acquired Companies owns, leases or uses. Although neither Sellers nor the Acquired Companies has conducted any environmental assessments regarding the leased real property used by the Acquired Companies, neither Sellers nor the Acquired Companies are aware of any environmental contamination on or under the portions of any leased or used real property where any of the Operations have been conducted.

(e) Except as disclosed on Disclosure Schedule 3.16(e), no leak, spill, release, discharge or disposal of any substance regulated under, or defined as or considered “hazardous” or “toxic” or “radioactive” or “contamination” or “pollution” under any Environmental, Health, and Safety Laws has ever occurred on, in or under the real property any of the Acquired Companies owns, leases or uses, or has ever owned, leased or used, in conducting the Operations that was reportable or should have been reported to any government or governmental agency, or that was or could have been subject to clean up or remediation, under any Environmental, Health, and Safety Laws.

(f) Except as disclosed on Disclosure Schedule 3.16(f), to Sellers’ Knowledge, there is no underground storage tank present on any real property any of the Acquired Companies owns.

### **3.17 Employee Benefits and Compensation; Labor Relations.**

(a) Disclosure Schedule 3.17(a) lists all of the retirement, pension, profit-sharing, insurance, health, medical or other form of employee welfare or benefit plans (“Employee Benefit Plans”) any of the Acquired Companies are a party to or under which any of the Acquired Companies has ever been obligated. The Acquired Companies have paid all amounts due under any Employee Benefit Plans and have otherwise fulfilled all obligations they have under any Employee Benefit Plans. Except for regular payroll for the pay period during which the Closing occurs, the Acquired Companies have paid all compensation of every kind due any of their employees.

(b) None of the Acquired Companies is or has been within the preceding six years a party to any collective bargaining or other labor contract. Except as disclosed in

Disclosure Schedule 3.17(b), with respect to the Acquired Companies, there has not been, there is not presently pending or existing, and there is not threatened, (1) any strike, slowdown, picketing, work stoppage, or employee grievance process, (2) any proceeding against or affecting any of the Acquired Companies relating to an alleged violation of any legal requirement pertaining to labor relations or employment matters, including any charge or complaint filed with the National Labor Relations Board, the Equal Employment Opportunity Commission, the Alaska Human Rights Commission, or any comparable federal, state or local governmental agency, (3) any organizational activity, or other labor or employment dispute against or affecting any of the Acquired Companies or their premises. No event has occurred and no circumstance exists that could provide the basis for any work stoppage or other labor dispute. There is no lockout of any of the Acquired Companies' employees and no such action is contemplated by any of the Acquired Companies.

### **3.18 Tax Matters.**

(a) The Acquired Companies have filed all Tax Returns that they are required to file. All of the Acquired Companies' Tax Returns were correct and complete in all respects. All Taxes owed by the Acquired Companies, or any of them, (whether or not shown on any Tax Return) have been paid. No claim has ever been made by any authority in a jurisdiction where the Acquired Companies do not file Tax Returns that the Acquired Companies, or any of them, is or may be subject to taxation by that jurisdiction. Each of the Acquired Companies is taxed as a partnership for income tax purposes. None

of the Acquired Companies has elected to be taxed as a corporation or has ever been taxed as a corporation.

(b) The Acquired Companies have withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any member, employee, officer, independent contractor, creditor or other third party.

(c) There are no Encumbrances on any of the assets of Sellers that arose in connection with any failure (or alleged failure) to pay any Tax. Each of the Sellers (or, in the case of Harrington Partners, L.P., the partners of such entity) will pay, when and if due, all Taxes owed by Sellers as a result of the sale of the LLC Membership Interests. None of the Acquired Companies will have any Liability for any Taxes as a result of the Contemplated Transactions.

**3.19 Interested Party Contracts.** Except as disclosed on Disclosure Schedule 3.19, none of the Sellers, nor any of the Sellers' Related Persons, nor any of the members, managers, officers, or employees of any of the Acquired Companies, has any interest in (a) any of the Material Contracts, either directly or indirectly or by reason of an interest in any entity that is a party to any of the Material Contracts, or (b) any other contract, undertaking or obligation that any of the Acquired Companies will be bound by after the Closing Date.

**3.20 Intellectual Property.** The Acquired Companies own or hold licenses for any items of Intellectual Property used in or necessary for the Operations. None of the Sellers or the Acquired Companies has received any notice of infringement or notice of conflict with the asserted rights of others in any item of Intellectual Property; nor are

Sellers, or any of the Acquired Companies aware of any such infringement or conflict, or of any infringement by, or conflict on the part of, others with respect to the Intellectual Property used in or necessary for the Operations.

**3.21 Insurance.**

(a) Disclosure Schedule 3.21(a) lists all of the insurance coverages the Acquired Companies have as of the date of this Agreement or had during the prior three years, with the effective coverage periods correctly noted. Sellers have already delivered to AIDEA copies of all insurance policies of any of the Acquired Companies currently in effect. Except as otherwise noted on Disclosure Schedule 3.21(a), all the policies listed on Disclosure Schedule 3.21(a) as currently in effect remain valid and enforceable and all premiums have been fully paid. Taken together, the insurance policies listed on Disclosure Schedule 3.21(a) as currently in effect provide adequate insurance for the Operations, including the continuation of the Operations after the Closing Date, and are sufficient to fulfill any legal or contractual obligations any of the Acquired Companies to have or provide insurance. Except as indicated on Disclosure Schedule 3.21(a), none of the insurance policies listed on Disclosure Schedule 3.21(a) is subject to any retrospective premium adjustment. None of the insurance policies listed on Disclosure Schedule 3.21(a) is subject to cancellation, exceptions or re-rating upon a change in the control of any of the Acquired Companies.

(b) Disclosure Schedule 3.21(b) lists all insurance claims of the Acquired Companies since January 1, 2010, summarizes the nature of each claim, and states the



outcome of the claim, including disclosing any deductible or self-insured retention paid by any of the Acquired Companies.

**3.22 Absence of Changes.** Except as disclosed on Disclosure Schedule 3.22, since the date of the most recent of the Financials (December 31, 2014), the Acquired Companies have conducted the Operations only in the ordinary course of business and there has not been: (a) any change in the membership interests of any of the Acquired Companies or in any of the rights afforded by reason of the membership interests in any of the Acquired Companies; (b) any repurchase, redemption, retirement, or transfer of any membership interest in any of the Acquired Companies; (c) the declaration of, or payment of, any dividend, distribution or other payment related to the membership interests in any of the Acquired Companies, other than distributions to enable the members to pay Taxes that are consistent with the Acquired Companies' past practice and other than the distributions contemplated in Section 5.04, or which distributions do not result in the Net Working Capital being negative; (d) any amendment to any of the Organizational Documents; (e) any payment or increase by any of the Acquired Companies of any bonuses, salaries, or other compensation to any member, manager, officer, or employee, or any entry by any of the Acquired Companies into any employment, severance, bonus or similar contract with any member, manager, officer, or employee; (f) the adoption of, or increase in the payments to or benefits under, any Employee Benefit Plans by any of the Acquired Companies; (g) damage to or destruction of or loss of any asset or property of any of the Acquired Companies; (h) the sale, lease, or other disposition of any asset or property of any of the Acquired Companies (or than

the sale of Inventory in the ordinary course of business), or the imposition of any Encumbrance on or against any asset or property of any of the Acquired Companies; (i) any material change in the accounting methods used by any of the Acquired Companies; or (j) any agreement, whether oral or written, by any of the Acquired Companies to do any of the foregoing.

**3.23 Complete and Accurate Statements.** Sellers' representations and warranties in Article 3 of this Agreement, Sellers' disclosures in the Disclosure Schedules to this Agreement or in any supplement to the Disclosure Schedules, and any certificate or document delivered to AIDEA at the Closing by or on behalf of Sellers do not and will not contain any untrue statement of material fact or omit to state a material fact necessary in order to make any of them misleading. Sellers do not have Knowledge of any fact that has specific application to any of the Acquired Companies (other than general economic or industry conditions) that may have a Material Adverse Effect on the assets, businesses or financial conditions of Pentex, Fairbanks Natural Gas, LLC, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC that has not been set forth in this Agreement or in the Disclosure Schedules to this Agreement, or that will be set forth in a supplement to the Disclosure Schedules.

#### **Article 4**

#### **AIDEA'S REPRESENTATIONS AND WARRANTIES**

AIDEA represents and warrants to Sellers that the statements contained in this Article 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then):

**4.01 Existence.** AIDEA is a public corporation of the State of Alaska established by statute, AS 44.88.020. AIDEA is duly organized and validly existing under the laws of the State of Alaska with full power: (a) to carry on its business as currently conducted and to own, lease and operate all property and assets now owned, leased or operated by it, and (b) to enter into this Agreement and to perform its obligations under this Agreement.

**4.02 Authorization.** The execution and delivery by AIDEA of this Agreement, and the performance by AIDEA of its obligations under this Agreement, have been duly and validly authorized by all necessary organizational action of AIDEA. This Agreement has been duly executed and validly delivered by AIDEA and is legally binding on AIDEA, enforceable against AIDEA in accordance with its terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, by general principles of equity (regardless of whether considered in a proceeding in equity or one at law), and by public policy.

**4.03 No Conflict.** The execution and delivery of this Agreement by AIDEA, and the performance by AIDEA of its obligations under this Agreement, do not and will not (a) conflict with AIDEA's bylaws, or (b) result in the breach of any of the provisions of, or constitute a default under, any judgment, writ, order, decree or agreement to which AIDEA is a party or by which AIDEA is bound, which breach or default would reasonably be expected to materially adversely affect the Contemplated Transactions.

**4.04 Sufficient Funds.** On the date of this Agreement AIDEA has, and on the Closing Date AIDEA will have, sufficient funds to consummate the Contemplated

Transactions. With the execution of this Agreement, AIDEA is delivering a certificate of its Chief Financial Officer in the form of Exhibit 4.04 attesting to the availability of funds needed to consummate the Contemplated Transactions. AIDEA shall ensure that the funds needed to consummate the Contemplated Transactions remain available until the Closing or until the termination of this Agreement.

## **Article 5**

### **COVENANTS OF THE PARTIES**

**5.01 Access and Investigation.** Between the date of this Agreement and the Closing Date, Sellers will cause the Acquired Companies to: (a) afford AIDEA and its representatives reasonable access to the Acquired Companies' personnel, properties, facilities, contracts, books and records, and other documents and data; (b) furnish AIDEA and its representatives with copies of all contracts, books and records, and other existing documents required by this Agreement or that AIDEA may reasonably request; and (c) furnish AIDEA and its representatives any additional financial, operating, and other data and information as AIDEA may reasonably request. AIDEA acknowledges that it is not permitted to contact any of the personnel, vendors, or customers of the Acquired Companies regarding the Contemplated Transactions, except upon first obtaining prior approval from Seller Daniel Britton or Sellers' Representative.

**5.02 Notices and Approvals.** Sellers and AIDEA shall use their best efforts and cooperate in making all filings, giving all notices, and seeking the approvals of all government authorities and third parties that may reasonably be required to consummate

the Contemplated Transactions, including without limitation the approval of the Regulatory Commission of Alaska.

**5.03 Conduct of Business Prior to Closing.** Except as AIDEA may otherwise consent, from the date of this Agreement until the Closing:

(a) Sellers shall cause the Acquired Companies to conduct the Operations in the ordinary course of business and consistent with prior practice, and subject to their existing contractual obligations, and subject to Sellers' right to replace Carlile Transportation Systems, Inc. as the trucking service provider for the Acquired Companies, on commercially reasonable terms, as may be required pursuant to the expiration or termination of existing agreements, so long as such action does not result in a Material Adverse Effect. Sellers shall cause the Acquired Companies to not alter Inventory levels in any material way from their usual and customary amounts. Sellers shall cause the Acquired Companies to not sell, lease (as lessor), transfer, license (as licensor), or voluntarily dispose of, any assets material to the Operations, other than Inventory sold in the ordinary course, and except as contemplated pursuant the Harvest Alaska Contracts. Sellers shall cause the Acquired Companies to not amend or voluntarily terminate any Material Contract. Sellers shall not allow any Encumbrance to be placed against any of the assets of any of the Acquired Companies after the date of this Agreement.

(b) Sellers shall cause the Acquired Companies to not enter into any agreement having a term of more than six months, or any agreement reasonably expected to require expenses or expenditures of more than \$50,000; provided, however, that with respect to

agreements for the capital expenditures contemplated in the loan agreement between AIDEA and Fairbanks Natural Gas, LLC dated May 19, 2014, Fairbanks Natural Gas, LLC may enter into such agreements without the prior approval of AIDEA.

(c) Sellers shall cause the Acquired Companies to use reasonable efforts to preserve their business organizations and relations with their customers, suppliers and employees. Sellers shall cause the Acquired Companies to not increase salaries, wages or benefits for any of the Acquired Companies' employees and to not pay or promise any bonuses to employees, except in the ordinary course of business and consistent with past practices so long as the cumulative effect of such increases or bonuses is not greater than \$50,000 per year.

(d) Sellers shall cause the Acquired Companies to confer with AIDEA on any material matters affecting the Operations and to report periodically to AIDEA concerning the status of their businesses and finances.

**5.04 Negative Covenant.** Between the date of this Agreement and the Closing Date, Sellers will not, and will cause each of the Acquired Companies not to, take any action or fail to take any action reasonably within their control as a result of which any of the changes or events listed in Section 3.22 is likely to occur, except to fulfill existing contractual obligations of the Acquired Companies, and Sellers may cause the Acquired Companies to make distributions to Sellers from the sales proceeds under the Harvest Alaska Contracts so long as the Purchase Price is adjusted as provided for in Section 5.07(b) and the Acquired Companies, at any time prior to Closing, may make other

distributions to Sellers provided that such distributions do not result in the Net Working Capital being negative.

**5.05 Notification; Updates to Disclosure Schedules.**

(a) Between the date of this Agreement and the Closing Date, Sellers will promptly notify AIDEA in writing: (1) if Sellers or any of the Acquired Companies becomes aware of a fact or condition that causes or constitutes a breach of any of Sellers' representations and warranties of Article 3, or would have constituted a breach if the fact or condition had existed at the time this Agreement was made; and (2) if Sellers or any of the Acquired Companies learn of the occurrence of any event that may make the satisfaction of the conditions to Closing impossible or unlikely.

(b) Prior to the Closing Date, the Sellers shall supplement or amend the Disclosure Schedules required by this Agreement with respect to any matter hereafter arising which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in such Disclosure Schedule. Each supplement or amendment to the Disclosure Schedules pursuant to this Section shall be subject to the approval in writing of AIDEA (which approval by AIDEA will not be unreasonably withheld), except as provided in Section 5.05(c). No supplement or amendment of the Disclosure Schedules made pursuant to this Section 5.05 shall be deemed to cure any breach of any representation or warranty made in this Agreement unless the parties agree thereto in writing.

(c) As soon as reasonably possible after June 30, 2015, Sellers shall cause the Acquired Companies to prepare Quarterly Reports for the second calendar quarter of

2015 to present the Acquired Companies' financial position as of the end of the period and the results of Operations and cash flows for the period. Sellers shall provide the same to AIDEA as soon as they are available. The Quarterly Reports for the second calendar quarter of 2015 shall constitute a supplement to Disclosure Schedule 3.06, but such supplement shall not be subject to AIDEA's review or approval so long as it does not show or indicate that a Material Adverse Effect has occurred after the Effective Date of this Agreement.

**5.06 Cancellation of Obligations.** On or before the Closing Date, Sellers will cause all indebtedness, contracts, claims and other obligations, including all of the Excluded Liabilities, that any of the Acquired Companies owe to any of the Sellers, or to any of the Sellers' Related Persons, to be canceled, terminated, and forever released without any payment being made by, or any other consideration being provided by, any of the Acquired Companies. The obligations to be canceled, terminated and release shall include obligations due Daniel Britton upon termination of his employment or upon a change in control of his employer (12 months' salary and COBRA insurance payments and \$30,000 relocation allowance). However, with respect to the deferred compensation agreement with Seller Daniel Britton dated December 11, 2013, the obligation to make additional contributions under that agreement after the Closing Date shall be terminated, but AIDEA accepts that the actual payment of Seller Daniel Britton's vested amount shall occur after the Closing in accordance with the terms of the agreement.

**5.07 Harvest Alaska Contracts.**



(a) AIDEA acknowledges that Pentex, Titan Alaska LNG, LLC and Arctic Energy Transportation, LLC have an existing contract, dated November 5, 2014, as amended February 4, 2015 and May 5, 2015, to sell substantially all of the assets of Titan Alaska LNG, LLC and Arctic Energy Transportation, LLC to Harvest Alaska, LLC, which contract will remain a binding obligation of Pentex, Titan Alaska LNG, LLC and Arctic Energy Transportation, LLC following the Closing, and which contract is subject to the satisfaction of the conditions precedent set out in the contract. AIDEA further acknowledges that Fairbanks Natural Gas, LLC has an existing contract, dated November 5, 2014, as amended February 4, 2015 and May 5, 2015, to purchase LNG from Harvest Alaska, LLC, which contract will remain a binding obligation of Fairbanks Natural Gas, LLC following the Closing, and which contract is subject to the satisfaction of the conditions precedent set out in the contract. AIDEA covenants that its obligation to purchase the LLC Membership Interests is not affected by the Harvest Alaska Contracts, and AIDEA, as a corporation with its own separate existence, agrees that it will not take any action prior to the Closing Date to (i) challenge the validity of the Harvest Alaska Contracts in any regulatory proceeding, or (ii) otherwise delay or impede the approval of the Harvest Alaska Contracts in any regulatory proceeding. Notwithstanding the foregoing, AIDEA makes no covenant or agreement as to any actions that any other agency or department of the State of Alaska may take with respect to challenging the validity of or delaying or impeding the approval of the Harvest Alaska Contracts.

(b) If the Harvest Alaska Contracts receive the necessary regulatory approvals prior to the Closing of the Contemplated Transactions the net proceeds received by the Sellers from such sale of assets will automatically reduce, on a dollar-for-dollar basis, the amount of the Purchase Price owed to Sellers under this Agreement at Closing.

(c) Without the prior written consent of AIDEA, Sellers shall not, prior to the Closing, amend the Harvest Alaska Contracts or waive any of the rights any of the Acquired Companies have under the Harvest Alaska Contracts.

(d) Without derogating AIDEA's obligations under Section 5.07(a), between the Effective Date and the Closing, Sellers acknowledge that AIDEA may directly confer with Harvest Alaska, or any company affiliated with Harvest Alaska, about the Harvest Contracts and related matters, and Sellers acknowledge that AIDEA may propose amendments and reach agreement on amendments to the Harvest Alaska Contracts, or propose additional contracts and reach additional contracts with Harvest Alaska or its affiliates that would be effective only after the Closing Date and only so long as the Contemplated Transactions are consummated.

**5.08 Environmental Assessments.** AIDEA has engaged, or is in the process of engaging, one or more environmental consulting or engineering firms to conduct Phase I environmental assessments of the real properties on which the Operations are conducted. If AIDEA elects, Phase II environmental assessments will also be performed. The Phase I and Phase II environmental assessments shall at AIDEA's sole cost and expense. AIDEA will use all reasonable efforts to have the Environmental Assessments completed by no later than July 1, 2015. Sellers and the Acquired Companies will cooperate with

AIDEA and the environmental consulting or engineering firms, provide any requested information on the real properties where the Operations are conducted, and allow full access to those real properties for purposes of completing the Environmental Assessments. Whether or not the Closing occurs, AIDEA shall provide to Sellers complete copies of the reports on the Environmental Assessments once they have been completed.

**5.09 Tax Matters.**

(a) Sellers shall be responsible for filing all Tax Returns of or with respect to the Acquired Companies for all taxable periods ending on or prior to the Closing Date (each such period a “Sellers Tax Period”). AIDEA will have no liability for Taxes relating to the income derived from the operations and business of Acquired Companies for any Sellers Tax Period. AIDEA shall be responsible for filing all Tax Returns of or with respect to the Acquired Companies for all taxable periods ending after the Closing Date (each such period an “AIDEA Tax Period”), if any such Tax Returns are legally required. If any Taxes are due for an AIDEA Tax Period, AIDEA shall cause the Acquired Companies to pay such the same when due. Sellers or AIDEA, as the case may be, shall be entitled to any refund or credit relating to any such Taxes based upon or related to income or receipts for any taxable period (or portion thereof) during which Sellers or AIDEA, as the case may be, owned the Acquired Companies.

(b) Any Tax Return prepared pursuant to the provisions of Section 5.09 shall be prepared in a manner consistent with practices followed in prior years with respect to similar Tax Returns, except as otherwise required by law.

(c) AIDEA and Sellers shall provide the other with any records as may reasonably be requested by the other party in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each shall retain and provide the requesting party with any records or information which may be relevant to such return, audit, examination or proceedings.

**5.10 Regulatory Matters.** Subject to the terms and conditions of this Agreement, each party will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under this Agreement and applicable laws to consummate the Contemplated Transactions as soon as practicable after the date hereof, including (a) preparing and filing, in consultation with the other parties and as promptly as practicable and advisable after the date hereof, all documentation to effect all necessary applications, notices, petitions, filings, and other documents and to obtain as promptly as practicable all consents, clearances, waivers, licenses, orders, registrations, approvals, permits, and authorizations necessary to be obtained from any third party and/or any governmental authority to consummate the Contemplated Transactions, and (b) taking all reasonable steps as may be necessary to obtain all such material consents, clearances, waivers, licenses, registrations, permits, authorizations, orders and approvals, including the approval by the Regulatory Commission of Alaska to the change in ownership of Fairbanks Natural Gas, LLC. AIDEA agrees it will submit an application for approval by the Regulatory Commission of Alaska to the change in ownership of Fairbanks Natural Gas, LLC within

ten working days after the Effective Date, and a motion for expedited consideration to allow for a decision by the Regulatory Commission of Alaska by July 31, 2015. Sellers shall cooperate with and assist AIDEA in making the necessary filings with the Regulatory Commission of Alaska.

**5.11 Control of Actions Involving Excluded Liabilities.** Effective as of the Closing, AIDEA appoints Sellers' Representative (or its designee) as the agent of the Acquired Companies for the limited purpose of investigating, defending, compromising, or settling any claim, demands, suits, actions or proceedings involving the matters described in clause (b) and clause (c) in the definition of Excluded Liabilities. This appointment includes the right of Sellers' Representative (or its designee) to interact with, and direct, the insurers of the Acquired Companies with respect to any insurance policy under which coverage may be available in respect to such matters. Sellers shall retain the exclusive right to investigate, defend, compromise, or settle such matters and the applicable Acquired Companies will be bound by any determination so defended or any compromise or settlement by Sellers. Sellers shall not admit any Liability with respect to, or settle, compromise or discharge, such matters without AIDEA's prior written consent (which consent shall not be unreasonably withheld or delayed) unless (a) there is no finding or admission of any violation of applicable law or any violation of the rights of any person, or (b) the sole relief provided is monetary damages that are paid in full by the insurers for the Acquired Companies or by Sellers and a full and complete release is provided to the applicable Acquired Company.

## **Article 6**

## **AIDEA'S CONDITIONS PRECEDENT**

AIDEA's obligation to consummate the Contemplated Transactions is subject to the satisfaction to the reasonable satisfaction of AIDEA, on or before the Closing Date, of the following conditions (subject to AIDEA's right to waive satisfaction of any of these conditions):

**6.01 Accuracy of Representations and Warranties.** Each and every representation and warranty of Sellers made in this Agreement must be true and accurate as of the date when made and as of the Closing.

**6.02 Performance of Covenants and Agreements.** Sellers must have performed or complied with in all material respects all of the covenants and agreements required to be performed by or complied with by Sellers at or prior to the Closing in accordance with this Agreement.

**6.03 Permits, Consents, Agreements, Etc.**

(a) All consents, approvals or authorizations of, or filings with, any person, entity, government or governmental agency that are required in connection with the Contemplated Transactions must have been accomplished or obtained. The authorization of the Regulatory Commission of Alaska to a change in the ownership control of Fairbanks Natural Gas, LLC must have been obtained.

(b) To the extent that the approval of the other parties to any of the Material Contracts is needed, those approvals must have been obtained.

**6.04 Environmental Assessments.** By no later than July 1, 2015, the Environmental Assessments must be completed and AIDEA must be reasonably satisfied with the results.

**6.05 Litigation.** No action, suit, proceeding, or investigation, by any third person (including but not limited to any government or governmental agency) must be instituted or threatened against Sellers or AIDEA that challenges, or reasonably may be expected to lead to subsequent challenging of, the validity or legality of this Agreement or the Contemplated Transactions.

**6.06 Change in Law.** The consummation of the Contemplated Transactions must not be prohibited by any statute, regulation, order or directive of any government or governmental agency that is binding upon AIDEA and enacted, issued or made after the date of this Agreement.

**6.07 No Material Adverse Effect.** No Material Adverse Effect must have occurred that, after notice of such Material Adverse Effect by AIDEA to Sellers, has not been remedied to AIDEA's satisfaction prior to the Closing; provided, however, that in no event shall the consummation by Sellers of the closing under the Harvest Alaska Contracts described in Section 5.07 constitute a Material Adverse Effect.

**6.08 Approval of Revised Disclosure Schedules.** AIDEA must have approved in writing all supplements or amendments Sellers have made to the Disclosure Schedules after the Effective Date (which approval by AIDEA will not be unreasonably withheld), other than as provided in Section 5.05(c).

**6.09 Sellers' Deliveries at the Closing.** Sellers must have delivered to AIDEA at the Closing, duly executed and in the proper form, all instruments, assignments, agreements, certificates and other documents required under Section 8.02.



## **Article 7**

### **SELLERS' CONDITIONS PRECEDENT**

All obligations of Sellers to consummate the Contemplated Transactions are subject to the satisfaction to the reasonable satisfaction of Sellers on or before the Closing Date, of the following conditions (subject to the rights of Sellers to waive satisfaction of any of these conditions):

**7.01 Accuracy of Representations and Warranties.** Each and every representation and warranty of AIDEA made in this Agreement must be true and accurate in all material respects as of the date when made and as of the Closing.

**7.02 Performance of Covenants and Agreements.** AIDEA must have performed or complied with in all material respects all of the covenants and agreements required to be performed by or complied with by AIDEA at or prior to the Closing in accordance with this Agreement.

**7.03 AIDEA's Actions at the Closing.** AIDEA must have paid to or for the benefit of Sellers at the Closing all amounts required under Section 8.03, and AIDEA must have delivered to Sellers at the Closing, duly executed and in the proper form, all instruments, assignments, agreements, certificates and other documents required under Section 8.03.

## **Article 8**

### **THE CLOSING**

**8.01 Closing Date.** The Closing shall take place as soon as reasonably possible after the satisfaction or waiver of all of the conditions precedent, but in no event later than July 31, 2015, time being of the essence. The Closing will be held at AIDEA's offices in Anchorage, Alaska, or at such other place as the parties shall agree in writing.

**8.02 Sellers' Actions at the Closing.** At the Closing:

(a) Sellers shall deliver to AIDEA the wire transfer instructions and an allocation of the Purchase Price between the Sellers as contemplated by Section 2.03(c).

(b) Sellers shall deliver to AIDEA assignments of the LLC Membership Interests and any other instruments of sale, conveyance, transfer and assignment as AIDEA may reasonably request in order to vest in AIDEA all of Sellers' right, title and interest in and to the LLC Membership Interests.

(c) Sellers shall deliver to AIDEA copies of the resolutions of the board of directors, general partner, managers, or members, as the case may be, of each of the Sellers approving of this Agreement and the performance of this Agreement. In case of the Seller Pentex Alaska Natural Gas Co. resolutions of both the board of directors and the shareholders shall be provided and the resolutions shall be accompanied by a certificate of the secretary of the corporation verifying the authenticity of the resolutions and confirming that the resolutions remain in full force and effect.

(d) Seller shall deliver to AIDEA at the Closing duly executed Sellers' Release in the form of Exhibit 8.02(d).

(e) Sellers shall deliver to AIDEA at the Closing certificates of each of the Sellers, signed by the duly authorized representatives of Sellers, certifying that (1) each

and every representation and warranty of Sellers under this Agreement was true and accurate in all material respects as of the date when made and is true and accurate in all material respects as of the Closing; and (2) Sellers have performed, in all material respects at or prior to the Closing, all of the covenants and agreements required to be performed by Sellers at or prior to the Closing in accordance with this Agreement.

(f) Sellers shall deliver to AIDEA at the Closing the legal opinion(s) of their counsel substantially in the form of Exhibit 8.02(f).

**8.03 AIDEA's Actions at the Closing.** At the Closing:

(a) AIDEA shall deliver to Sellers, or to third parties for the benefit of Sellers, in immediately available funds, the amount of money that is due under this Agreement at the Closing.

(b) AIDEA shall deliver to Sellers a certificate signed by AIDEA's Executive Director certifying that (1) each and every representation and warranty of AIDEA under this Agreement was true and accurate in all material respects as of the date when made and is true in all material respects as of the Closing, and (2) AIDEA has performed in all material respects at or prior to the Closing all of the covenants and agreements required to be performed by AIDEA at or prior to the Closing in accordance with this Agreement.

**8.04 Effectiveness of Closing.** No action to be taken, and no delivery to be made, at the Closing shall be effective until all of the actions to be taken and all of the deliveries to be made at the Closing have been completed.

## Article 9

### **HOLDBACK CLAIMS; INDEMNIFICATION; DIRECT DAMAGES**

#### **9.01 Claims against Holdback Amount.**

(a) After the Closing but before the Holdback Amount held by the Escrow Agent under the Escrow Agreement is disbursed to Sellers' Representative, AIDEA shall be entitled to be paid from the Holdback Amount, on a dollar-for-dollar basis, to the extent that AIDEA or any of the Acquired Companies incurs any Damages during the one-year period in which the Holdback Amount is in the Escrow Account, which Damages are caused by or arising out of: (1) the failure of Sellers to perform and fulfill any agreement or covenant to be performed and fulfilled by Sellers under this Agreement; or (2) the breach of any representation or warranty set forth in Article 3; or (3) any Excluded Liabilities; or (4) any Pre-Closing Environmental Liability; or (5) any Liability of any of the Sellers for Taxes; or (6) any Liability of Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC to indemnify, defend and hold harmless Harvest Alaska, LLC, or its affiliates, under Section 7.1 of the Purchase and Sale Agreement between them dated November 5, 2014, as amended on February 4, 2015; provided that the provisions of this clause (6) shall apply only if (i) the closing under such Purchase and Sale Agreement shall have occurred, and (ii) the Liability of Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC to indemnify, defend and hold harmless is not attributable to a breach or default by Pentex, Titan

Alaska LNG, LLC or Arctic Energy Transportation, LLC that corresponds to any act or omission of them occurring after the Closing Date.

(b) To obtain payment from the Holdback Amount under Section 9.01(a), AIDEA must give Sellers' Representative written notice of the amount AIDEA is claiming and explain the basis for the claim against the Holdback Amount. Sellers' Representative shall to respond to AIDEA's notice within 10 days. If Sellers concur in AIDEA's claim, then AIDEA and Sellers' Representative shall jointly instruct the Escrow Agent to disburse sufficient funds from the Holdback Amount to pay the amount of AIDEA's claim. If Sellers dispute AIDEA's claim, Sellers' Representative shall give AIDEA written notice of the basis for the dispute. The parties shall then confer with one another in good faith in attempt to resolve the dispute. Any dispute that remains unresolved by the parties for a period of 60 days after Sellers' dispute notice was given shall be submitted to non-binding mediation. The mediation shall be conducted in Anchorage, Alaska with a mediator the parties jointly select. AIDEA and Sellers shall equally share, on a 50/50 basis, the mediator's fees. If mediation is unsuccessful, then either party may initiate litigation to adjudicate the dispute. In any event, the amount in dispute shall be retained by the Escrow Agent under the Escrow Agreement until the dispute is resolved.

**9.02 Indemnification by Sellers for Third Party Claims.**

(a) Subject to any dollar amount limitation of Section 9.04, after the Closing and regardless of the disbursement of the Holdback Amount to Sellers or the termination of the Escrow Agreement, Sellers' Representative shall indemnify and defend AIDEA

and its members, directors, officers, and employees, and the Acquired Companies, from and against any Damages attributable to Third Party Claims that are made during the three-year period after the Closing Date and that are caused by or arise out of: (1) the failure of Sellers to perform and fulfill any agreement or covenant to be performed and fulfilled by Sellers under this Agreement; or (2) the breach of any representation or warranty set forth in Article 3, other one of Sellers' Fundamental Representations; or (3) any Excluded Liabilities; or (4) any Pre-Closing Environmental Liabilities, other than a Pre-Closing Environmental Liability for any fines or penalties imposed by any federal, state or local governmental authority.

(b) Subject to any dollar amount limitation of Section 9.04, after the Closing and regardless of the disbursement of the Holdback Amount to Sellers or the termination of the Escrow Agreement, Sellers' Representative shall indemnify and defend AIDEA and its members, directors, officers, and employees, and the Acquired Companies, from and against any Damages attributable to Third Party Claims that are made at any time after the Closing Date and that are caused by or arise out of: (1) any breach of one of Sellers' Fundamental Representations; or (2) any Pre-Closing Environmental Liability for any fines or penalties imposed by any federal, state or local governmental authority; or (3) any Liability of Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC to indemnify, defend and hold harmless Harvest Alaska, LLC, or its affiliates, under Section 7.1 of the Purchase and Sale Agreement between them dated November 5, 2014, as amended on February 4, 2015; provided that, the provisions of this clause (3) shall apply only if (i) the closing under such Purchase and Sale Agreement shall have

occurred, and (ii) the Liability of Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC to indemnify, defend and hold harmless is not attributable to a breach or default by Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC that corresponds to any act or omission of them occurring after the Closing Date.

**9.03 Compensation by Sellers for Direct Damages.**

(a) Subject to any dollar amount limitation of Section 9.04, after the Closing and regardless of the disbursement of the Holdback Amount to Sellers or the termination of the Escrow Agreement, Sellers' Representative shall pay AIDEA or any of the Acquired Companies, as the case may be, for any Damages that AIDEA or any of the Acquired Companies incurs or suffers during the three-year period after the Closing Date, which are not attributable to Third Party Claims, and which are caused by or arise out of: (1) the failure of Sellers to perform and fulfill any agreement or covenant to be performed and fulfilled by Sellers under this Agreement; or (2) the breach of any representation or warranty set forth in Article 3, other than one of Seller's Fundamental Representations; or (3) any Excluded Liabilities; or (4) any Pre-Closing Environmental Liability, other than a Pre-Closing Environmental Liability for any fines or penalties imposed by any federal, state or local governmental authority.

(b) Subject to any dollar amount limitation of Section 9.04, after the Closing and regardless of the disbursement of the Holdback Amount to Sellers or the termination of the Escrow Agreement, Sellers' Representative shall pay to AIDEA or any of the Acquired Companies, as the case may be, for any Damages that AIDEA or any of the Acquired Companies incurs or suffers at any time after the Closing Date, which are not

attributable to Third Party Claims, and which are caused by or arise out of: (1) any breach of any of Sellers' Fundamental Representations; or (2) any Pre-Closing Environmental Liability for any fines or penalties imposed by any federal, state or local governmental authority; or (3) any Liability of Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC to indemnify, defend and hold harmless Harvest Alaska, LLC, or its affiliates, under Section 7.1 of the Purchase and Sale Agreement between them dated November 5, 2014, as amended on February 4, 2015; provided that the provisions of this clause (3) shall apply only if (i) the closing under such Purchase and Sale Agreement shall have occurred, and (ii) the Liability of Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC to indemnify, defend and hold harmless is not attributable to a breach or default by Pentex, Titan Alaska LNG, LLC or Arctic Energy Transportation, LLC that corresponds to any act or omission of them occurring after the Closing Date.

**9.04 Dollar Limitation on Sellers' Obligations.** Notwithstanding any other provision of this Agreement, the aggregate maximum amount Sellers shall be obligated to pay or expend in meeting their obligations under Section 9.01, Section 9.02, and Section 9.03 shall not exceed \$12,000,000, except in the event of fraud or willful misconduct or the breach of one of Sellers' Fundamental Representations. For the avoidance of doubt, any disbursement from the Holdback Amount to AIDEA under Section 9.01 shall be counted against Sellers' maximum dollar limitation established under this Section.

**9.05 Indemnification by AIDEA.** Subject to a specific appropriation by the Alaska State Legislature for this purpose, and subject to any dollar limitation of Section



9.06, from and after the Closing, AIDEA will indemnify and defend Sellers and their respective affiliates, officers, directors, partners, and managers from and against any Damages sustained by any of them during the three-year period after the Closing Date that are caused by or arise out of AIDEA's breach of any representation, warranty, or covenant in this Agreement or that arise from AIDEA's ownership of the Acquired Companies, including any Damages attributable to, or arising in connection with, a breach or default by any of the Acquired Companies under either of the Harvest Alaska Contracts occurring after the Closing Date, but not including any matter against which Sellers are obligated to indemnify and defend AIDEA. Sellers acknowledge that AIDEA has no appropriation currently available to it to indemnify and defend Sellers under this Section 9.05 and that enactment of an appropriation in the future to fund a payment under this Section 9.05 remains in the sole discretion of the Alaska State Legislature and its failure to make such an appropriation creates no further liability or obligation of AIDEA. Nevertheless, if Sellers and AIDEA agree on the amount of any indemnity obligation AIDEA owes to Sellers under this Section 9.05, or if Sellers obtain a final and non-appealable judgment against AIDEA that establishes AIDEA's Liability for indemnity under this Section 9.05, then AIDEA's Executive Director shall request the State of Alaska's Office of Management and Budget seek, and AIDEA shall use reasonable efforts to obtain, a legislative appropriation to pay the same.

**9.06 Dollar Limitation on AIDEA's Obligations.** Notwithstanding any other provision of this Agreement, the aggregate maximum amount AIDEA shall be obligated to pay or expend in meeting its obligations under Section 9.05 shall not exceed

\$12,000,000, except in the event of fraud or willful misconduct, or except for AIDEA's failure to pay the Purchase Price at Closing (in which case Sellers' exclusive remedy is the retention of the Deposit as provided for in Section 11.03(a)).

**9.07 Exclusivity.** From and after the Effective Date, and except in the case of fraud or willful misconduct, the provisions set forth in this Article 9 shall be the exclusive remedies of the parties for any misrepresentation or breach of warranty, covenant or other agreement hereunder and otherwise with respect to the Contemplated Transactions, and, in any event, the parties shall not be entitled to a rescission of this Agreement or to any further indemnification rights or claims of any nature whatsoever in respect thereof, all of which the Parties hereby waive, except in the event of fraud or willful misconduct.

**9.08 Indemnity Procedure.**

(a) As soon as reasonably possible after a party entitled to indemnity or a defense ("Indemnified Party") is notified of any Third Party Claims within the scope of the indemnity and defense obligations of the other party ("Payer Party"), the Indemnified Party shall notify the Payer Party of the same. However, the failure to timely notify the Payer Party of the Third Party Claim will not relieve the Payer Party from its indemnity and defense obligations, except to the extent the Payer Party can demonstrate that the defense of the Third Party Claim was prejudiced by the failure to give timely notice.

(b) The Payer Party shall engage counsel at the Payer Party's expense to defend the Indemnified Party against any Third Party Claims within the scope of the indemnity and defense obligations. The Payer Party may exclusively control the defense and settlement of the Third Party Claims, except that the Payer Party must obtain the

Indemnified Party's consent to any settlement if the settlement involves any relief other than the payment of money. In any case, the Indemnified Party may engage, at its own expense, its own separate counsel to participate in defending against the Third Party Claims and assist the defense counsel the Payer Party engages.

(c) In addition to any other limitations contained in this Article 9 hereof, the obligations of the parties hereto to indemnify each other, as applicable, are subject to, and limited by, the following:

The amount of any Damages sustained by an Indemnified Party and owed by a Payer Party shall be reduced by any amount received by such Indemnified Party with respect thereto under any insurance or reinsurance coverage, or any recovery from any judgment or settlement, or from any other party alleged to be responsible therefor, less any costs associated with such efforts. The Indemnified Party shall use commercially reasonable efforts to collect any amounts available under such insurance or reinsurance coverage and from such other party alleged to have responsibility. If the Indemnified Party receives an amount under insurance or reinsurance coverage or from such other party with respect to Damages sustained at any time subsequent to any indemnification actually paid pursuant to this Article 9, then, subject to the immediately preceding sentence, such Indemnified Party shall promptly reimburse the applicable Payer Party for any such indemnification payment made by such Paying Party up to the actual amount so received by the Indemnified Party.

## **Article 10**

### **NOTICES**

**10.01 Procedure and Addresses.** All notices, requests, demands and other communications required or permitted to be given under this Agreement shall be deemed to have been duly given upon actual receipt if given in writing and delivered personally, by facsimile transmission, overnight courier service or email to the following addresses:

**If to Sellers' Representative:**

Harrington Partners, L.P.  
601 Carlson Parkway, Suite 200  
Minnetonka, MN, 55305  
Attn: Tom Rock: General Counsel  
Fax: 952-276-7201  
Email: tom.rock@mercedcapital.com

**With a copy to:**

Raymond W. Faricy III  
Lindquist & Vennum LLP  
4200 IDS Center  
80 South Eighth Street  
Minneapolis, Minnesota 55402  
Fax: (612) 371-3507  
Email: [rfaricy@lindquist.com](mailto:rfaricy@lindquist.com)

**And to:**

Daniel Britton  
Fairbanks Natural Gas, LLC  
3408 International Street  
Fairbanks, Alaska 99701  
Fax: (907) 457-8111  
Email: dwbritton@fngas.com

If to AIDEA:

Executive Director  
Alaska Industrial Development and Export Authority  
813 West Northern Lights Boulevard  
Anchorage, Alaska 99503  
Fax: (907) 771-3044  
Email: ssiverson@aidea.org

With a copy to:

Jerome H. Juday  
Assistant Attorney General  
1031 West 4<sup>th</sup> Avenue, Suite 200  
Anchorage, Alaska 99501  
Fax: (907) 375-8282  
Email: jerry.juday@alaska.gov

**10.02 Change of Notice Address.** Any party may change the address to which communications are to be directed by giving written notice of the new address to the other party in the manner provided in Section 10.01.

## **Article 11**

### **TERMINATION**

**11.01 Termination.** This Agreement may be terminated at any time prior to the Closing in the following manner:

- (a) by written agreement of the parties;
- (b) by AIDEA, if the conditions set forth in Article 6 have not been satisfied or waived on or before the Closing Date, and the termination shall be effective upon notice served on Sellers' Representative in accordance with Article 10;

(c) by Sellers, if the conditions set forth in Article 7 have not all been satisfied or waived on or before the Closing Date, and the termination shall be effective upon notice served on AIDEA in accordance with Article 10;

(d) by either Sellers or AIDEA, if the Closing shall not have been consummated on or before July 31, 2015, or any extension of that date the parties mutually agree upon, and the termination shall be effective upon receipt of notice served on the other party in accordance with Article 10; or

(e) by AIDEA, if prior to the Closing there is a Material Adverse Effect that, after notice of such Material Adverse Effect by AIDEA to Sellers, has not been remedied to AIDEA's satisfaction prior to the Closing, and the termination shall be effective upon notice served on Sellers' Representative in accordance with Article 10;

(f) by AIDEA, if prior to the Closing Sellers supplement or amend any of the Disclosure Schedules in accordance with Section 5.05(b) and AIDEA does not approve the supplement or amendment where AIDEA has the right to approve (which approval by AIDEA will not be unreasonably withheld), and the termination shall be effective upon notice served on Sellers' Representative in accordance with Article 10; and

(g) by AIDEA, if AIDEA is not reasonably satisfied with the Environmental Assessments, and the termination shall be effective upon notice served on Sellers' Representative in accordance with Article 10.

**11.02 Effect of Termination.** Notwithstanding anything to the contrary, any termination under Section 11.01(b), (c), (d), or (e) shall not relieve any party of any Liability for a breach of this Agreement or for any misrepresentation prior to the Closing,

and any such termination shall not be deemed to be a waiver of any available remedy for any breach or misrepresentation.

**11.03 Disposition of Deposit on Termination.**

(a) If Closing fails to occur because of (1) AIDEA's failure to perform and fulfill any agreement or covenant to be performed and fulfilled by AIDEA under this Agreement, or (2) AIDEA's breach of any representation or warranty set forth in Article 4, Sellers shall be entitled to retain the Deposit as liquidated damages. In that event, Sellers and AIDEA shall jointly instruct the Escrow Agent to disburse the Deposit to Sellers' Representative and close the escrow. The parties acknowledge that the Damages Sellers will suffer as a result of the Closing failing to occur because of any breaches within (1) or (2) of the first sentence of this Section 11.03(a) will be difficult or impossible to accurately ascertain. Payment of the Deposit to Sellers in those circumstances is estimated to be fair and reasonable compensation and not a penalty. Sellers' retention of the Deposit as liquidated damages shall constitute Sellers' sole and exclusive remedy in the circumstances described in this Section 11.03(a).

(b) If Closing fails to occur because of any reason other than (1) AIDEA's failure to perform and fulfill any agreement or covenant to be performed and fulfilled by AIDEA under this Agreement, or (2) AIDEA's breach of any representation or warranty set forth in Article 4, then Sellers' Representative and AIDEA shall jointly instruct the Escrow Agent to remit the Deposit to AIDEA and close the escrow.

(c) If the parties dispute whether the Deposit should be disbursed to Sellers' Representative or remitted to AIDEA, the parties shall confer with one another in good

faith in attempt to resolve the dispute. Any dispute that remains unresolved by the parties for a period of 60 days or more shall be submitted to non-binding mediation. The mediation shall be conducted in Anchorage, Alaska with a mediator the parties jointly select. AIDEA and Sellers shall equally share, on a 50/50 basis, the mediator's fees. If mediation is unsuccessful, then either party may initiate litigation to adjudicate the dispute. In any event, the Deposit shall be retained by the Escrow Agent under the Escrow Agreement until the dispute is resolved.

## **Article 12**

### **MISCELLANEOUS**

**12.01 Expenses.** Each party to this Agreement shall pay all expenses incurred by that party, or on that party's behalf, in connection with the preparation, authorization, execution and performance of this Agreement or the completion of the Closing, including, but not limited to, all fees and expenses of agents, representatives, counsel and accountants engaged by it. Each of AIDEA and Sellers' Representative will pay one-half of the fees charged by the Escrow Agent for establishing the escrow account.

**12.02 Further Assurances of Sellers.** At any time and from time to time from and after the Closing, Sellers shall, at the request of AIDEA, take all action AIDEA shall reasonably request in order to (a) fully and effectively vest in AIDEA all of Sellers' right, title and interest in and to the LLC Membership Interests, and (b) permit AIDEA full and effective control over the Acquired Companies and the Operations.

**12.03 Governing Law; Forum Selection.** This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska. Any lawsuit regarding



this Agreement, or the Contemplated Transactions, shall only be brought in the Superior Court for the State of Alaska, Third Judicial District at Anchorage, and not elsewhere.

**12.04 WAIVER OF TRIAL BY JURY.** TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HEREBY EXPRESSLY WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY PROCEEDING BROUGHT BY OR AGAINST ANY PARTY HERETO (INCLUDING ANY OF ITS AFFILIATES) RELATING IN ANY WAY TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE PARTIES ACKNOWLEDGE THAT THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY INVOLVE COMPLEX TRANSACTIONS AND THAT DISPUTES HEREUNDER WILL BE MORE QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT DECISION MAKER. ACCORDINGLY, THE PARTIES AGREE THAT ANY DISPUTE HEREUNDER BE RESOLVED BY A STATE OF ALASKA JUDGE APPLYING APPLICABLE LAW.

**12.05 Litigation Expenses.** In the event of any litigation between the parties with respect to this Agreement or any of the Contemplated Transactions, the prevailing party shall be entitled to recover its full reasonable Litigation Expenses incurred in connection with the litigation in addition to any other relief the court grants.

**12.06 No Other Representations, Etc.** No representation, warranty, promise, inducement or statement of intention relating to the Contemplated Transactions has been made by or on behalf of any party that is not set forth in this Agreement or the Disclosure

Schedules or Exhibits to this Agreement or the documents delivered at Closing in furtherance of this Agreement.

**12.07 Counterparts; Electronic Signatures.** This Agreement may be executed in multiple counterparts, each of which shall be an original, but all of which shall constitute a single agreement. The exchange of signature pages by email shall constitute effective execution and delivery of this Agreement.

**12.08 Binding Agreement; Assignment.** This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, but this Agreement shall not be assignable by either party without the prior written consent of the other party.

**12.09 Amendment.** This Agreement may be amended only in a writing that is signed by the authorized representatives of the parties and that specifically states it amends this Agreement.

**12.10 No Waiver.** Failure of any party to insist upon strict observance of or compliance with any term of this Agreement in one or more instances shall not be deemed to be a waiver of the party's rights to insist upon such observances or compliance with the other terms hereof, or in the future.

**12.11 No Third Party Benefit.** Nothing in this Agreement is intended to or shall be construed as to create any third party beneficiary to this Agreement or otherwise confer any right in or upon any persons except the parties and the respective permitted assigns.

**12.12 Survival.** All promises, covenants, representations and warranties made in this Agreement shall survive the Closing, except only to the extent that they are fulfilled or fully performed in the Closing.

**12.13 Time of the Essence.** Time is of the essence under this Agreement.

**12.14 Entire Agreement.** This Agreement, the Disclosure Schedules and Exhibits hereto, and the other agreements, documents, and instruments to be delivered at the Closing set forth the entire agreement and understanding of the parties with respect to the Contemplated Transactions and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof, whether written or oral.

**IN WITNESS WHEREOF,** the parties have executed this Agreement effective as of the date stated above.

**SELLERS:**

**HARRINGTON PARTNERS, L.P.**

By: LYDIARD PARTNERS, L.P.  
General Partner

By: SERIES L1 OF MERCED CAPITAL  
PARTNERS, LLC  
General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PENTEX ALASKA NATURAL GAS COMPANY**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**DANIEL BRITTON**

\_\_\_\_\_  
Daniel Britton  
As an individual

**AIDEA:**

ALASKA INDUSTRIAL DEVELOPMENT AND  
EXPORT AUTHORITY

By: \_\_\_\_\_

John Springsteen  
Executive Director

### **CONSENT OF SPOUSE**

Jamie K. Britton, spouse of Seller Daniel Britton, consents to Seller Daniel Britton's sale of his portion of the LLC Membership Interests in accordance with the terms of this Agreement. Jamie K. Britton acknowledges that she has no joint ownership, joint tenancy interest, community property interest, marital interest, or other interest of any kind in Seller Daniel Britton's portion of the LLC Membership Interests. Jamie K. Britton agrees that AIDEA has no obligation to pay any of the sale proceeds due under this Agreement to her or for her benefit.

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Jamie K. Britton

**LIST OF DISCLOSURE SCHEDULES AND EXHIBITS TO  
LLC MEMBERSHIP PURCHASE AND SALE AGREEMENT**

**Disclosure Schedules**

Disclosure Schedule 3.05 .....	Consents Required
Disclosure Schedule 3.06 .....	Financials and Quarterly Reports
Disclosure Schedule 3.08(a).....	Real Estate Interests
Disclosure Schedule 3.08(b).....	Personal Property
Disclosure Schedule 3.08(c).....	Clear Title Exceptions
Disclosure Schedule 3.09 .....	Good Condition Exceptions
Disclosure Schedule 3.11 .....	Contested Accounts Receivables
Disclosure Schedule 3.12 .....	Material Contracts
Disclosure Schedule 3.13(b).....	Permits and Licenses
Disclosure Schedule 3.14 .....	Legal Proceedings
Disclosure Schedule 3.16(b).....	Environmental Liabilities
Disclosure Schedule 3.16(d).....	Environmental Contamination
Disclosure Schedule 3.16(e).....	Hazardous Substance Discharges
Disclosure Schedule 3.16(f) .....	Underground Storage Tanks
Disclosure Schedule 3.17(a).....	Employee Benefit Plans
Disclosure Schedule 3.17(b).....	Proceedings Involving Employees
Disclosure Schedule 3.19 .....	Interested Party Contracts
Disclosure Schedule 3.21(a).....	Insurance Coverages

Disclosure Schedule 3.21(b).....	Insurance Claims
Disclosure Schedule 3.22 .....	Absence of Changes

### **Exhibits**

Exhibit 2.03(a).....	Escrow Agreement
Exhibit 4.04 .....	AIDEA CFO Certificate
Exhibit 8.02(d).....	Sellers’ Release
Exhibit 8.02(f) .....	Sellers’ Legal Opinion(s)



## PROJECT SUMMARY – PENTEX ALASKA NATURAL GAS COMPANY, LLC ACQUISITION

### PROJECT OVERVIEW

- AIDEA’s acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of all Interior residents and businesses.
- AIDEA’s proposed temporary ownership of Pentex, Fairbanks Natural Gas (“FNG”) will be in a position to work closely with one or more “local control entities” in the Fairbanks North Star Borough (“FNSB”) to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers’ price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single, locally controlled utility serving the Interior.
- The current return to Pentex’s owners is substantially higher than AIDEA’s cost of capital. AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers by approximately 13.3% and assist the Interior Energy Project to provide energy relief to Interior residents by the winter of 2015-2016.

### MISSION SUITABILITY/ECONOMIC IMPACT

- AIDEA’s acquisition of Pentex, the eventual transfer of that system to a consolidated FNSB gas distribution utility, and the AIDEA/AEA effort through the Interior Energy Project to secure additional LNG sources provide some assurance to FNSB businesses that a diversity of energy sources, at potentially significantly lower costs, will be available for business expansion and location.
- AIDEA’s acquisition of FNG will result in significantly reduced costs due to the elimination of corporate-related expenditures – almost all of which “leaks” out of the FNSB. These costs include taxes, investor fees and profits. The benefits of these cost reductions can be passed on to FNSB commercial and residential ratepayers.

### BUSINESS CASE AND FINANCING

- \$54 million dollar investment to purchase LLC membership interests
- Expected sale of Titan and AET assets for \$15.15 million, Q3 2015
- Pass on elimination of corporate costs (taxes, return, etc.) to ratepayers and to build capital for expansion
- Develop and negotiate process to transition FNG to a Local Control Entity (LCE) as soon as possible
- Secure additional LNG /natural gas supplies
- Structure financing, using SETS, State Appropriation, Bonds to take out AIDEA investment and finance distribution system expansion.
- Exit investment in two years with estimated return of \$2.91 million (5.06%)

### RISKS & MITIGATION

Potential Risk	Mitigation
Regulatory approval	<ul style="list-style-type: none"><li>• RCA approval of change of control (from Pentex to AIDEA) is a condition of closing.</li><li>• If RCA or Attorney General disapproves Titan/AET sale to Harvest, AIDEA / IEP has contingency plans.</li></ul>
Economic / Financial	<ul style="list-style-type: none"><li>• AIDEA’s Financial Plan, which must be approved by the AIDEA board, will contain provisions to protect against the risk of non-economic pressure on rates.</li><li>• By lowering the overall cost of delivered gas through the FNG distribution system, AIDEA has enhanced the competitive position of natural gas as an alternative fuel.</li><li>• If market conditions keep alternative fuel costs low, AIDEA (and/or the LCE) can defer the system expansion program and focus on existing customer base, which can generate sufficient revenues to meet all costs.</li></ul>
LNG / Natural gas supplies.	<ul style="list-style-type: none"><li>• AIDEA’s acquisition of Pentex and FNG is not dependent on securing a supply of lower cost natural gas from Cook Inlet or using any particular supply of gas for expanded demand.</li><li>• AIDEA and AEA are continuing to evaluate all other options for LNG supplies for the Interior space heating markets – for both IGU and FNG – and for potential electric generation purposes as well.</li></ul>



FINANCIAL PLAN

# PENTEX ACQUISITION

May 15, 2015

**PENTEX ALASKA NATURAL GAS UTILITY**





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# DUE DILIGENCE AND FINANCIAL PLAN

PENTEX ALASKA NATURAL GAS COMPANY, LLC ACQUISITION

## EXECUTIVE SUMMARY

### Project Overview

The Alaska Industrial Development and Export Authority purchase of Pentex Natural Gas Company, LLC (“Pentex”) would be a strategic short-term investment that can play a significant role in helping achieve long-term success for the Interior Energy Project. AIDEA’s acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of all Interior residents and businesses.



Photo ES-1.

Through AIDEA’s proposed temporary ownership of Pentex, Fairbanks Natural Gas (“FNG”) will be in a position to work closely with one or more “local control entities” in the Fairbanks North Star Borough (“FNSB”) to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers’ price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single, locally controlled utility serving the Interior.

AIDEA’s financial projections for the consolidated FNSB utility indicate that significant savings – up to \$30 million or 18% over the first 10 years – can be achieved as a result of this AIDEA investment.

The project plan calls for an initial \$54 million investment by AIDEA, reduced to \$38.85 million by the sale of the Titan/ Port MacKenzie LNG plant to Harvest/Hilcorp in Q4 2015, then a transfer of the remaining (principally FNG) assets to the locally controlled utility by the end of 2016. AIDEA would provide “launch” financing to recapitalize the FNSB utility, taking out the proposed AIDEA Pentex investment with an appropriate return, and providing the FNSB community with the lowest-cost alternative to current energy sources.

In addition to the long-term benefit AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers. The current return to Pentex’s owners is substantially higher than AIDEA’s cost of capital, and certain other costs related to corporate ownership would be eliminated or

reduced. AIDEA's acquisition of Pentex will result in significantly reduced costs due to the elimination of corporate-related expenditures – almost all of which “leaks” out of the FNSB. These costs include taxes, investor fees and profits. The benefit of these cost reductions can be passed on to FNSB commercial and residential ratepayers. This should enable an immediate rate reduction of approximately 13.3% and will assist the Interior Energy Project to provide energy relief to Interior residents by the winter of 2015-2016.

## Business Plan

- \$54 million dollar investment to purchase LLC membership interests
- Expected sale of Titan and AET assets for \$15.15 million, Q3 2015
- Pass on elimination of corporate costs (taxes, return, etc.) to ratepayers and to build capital for expansion
- Develop and negotiate process to transition FNG to a Local Control Entity (LCE) as soon as possible
- Secure additional LNG /natural gas supplies
- Structure financing, using SETS, State Appropriation, Bonds to take out AIDEA investment and finance distribution system expansion.
- Exit investment in two years with estimated return of \$2.91 million (5.06%).

## Economic Impacts & AIDEA Suitability

The proposed acquisition have Pentex qualifies as development project under AS 44.88.172. The acquisition of Pentex would meet AIDEA's mission of promoting economic growth in Alaska through lowering energy cost in Interior Alaska. AIDEA's acquisition of Pentex would be a key strategic step in the implementation of the Interior Energy Project, the core goal of which is to bring affordable energy to Interior Alaska, and specifically to the Fairbanks North Star Borough. The current methods of space heating in the FNSB limit economic development and growth due to high cost of energy to businesses and residents and significant air quality issues.

## Risk Analysis & Risk Mitigation

POTENTIAL RISK	MITIGATION
REGULATORY APPROVAL	<ul style="list-style-type: none"> <li>• RCA approval of change of control (from Pentex to AIDEA) is a condition of closing.</li> <li>• If RCA or Attorney General disapproves Titan/AET sale to Harvest, AIDEA / IEP has contingency plans.</li> </ul>
ECONOMIC/FINANCIAL	<ul style="list-style-type: none"> <li>• By lowering the overall cost of delivered gas through the FNG distribution system, AIDEA has enhanced the competitive position of natural gas as an alternative fuel.</li> <li>• If market conditions keep alternative fuel costs low, AIDEA (and/or the LCE) can defer the system expansion program and focus on existing customer base, which can generate sufficient revenues to meet all costs.</li> </ul>
LNG/NATURAL GAS SUPPLIES	<ul style="list-style-type: none"> <li>• AIDEA's acquisition of Pentex and FNG is not dependent on securing a supply of lower cost natural gas from Cook Inlet or using any particular supply of gas for expanded demand.</li> <li>• AIDEA and AEA are continuing to evaluate all other options for LNG supplies for the Interior space heating markets – for both IGU and FNG – and for potential electric generation purposes as well.</li> </ul>

Table ES-1. Risk and Risk Mitigation Analysis

## Summary

AIDEA's staff recommends Board approval of the Pentex Acquisition and approval of Resolutions: No. G15-09, No. G15-10 and No. G15-11 to implement the acquisition. The acquisition of Pentex would be a strategic investment in support of the Interior Energy Project and its goals of bringing affordable energy to Interior Alaska. The proposed project supports AIDEA's mission of promoting economic growth and would have a significant positive economic impact on Interior Alaska by lowering energy cost in the region.





Figure ES-2.



Figure ES-3.



Figure ES-4.

## A. PROJECT OVERVIEW

### Project Description & AIDEA Investment Strategy

The potential purchase of Pentex Natural Gas Company, LLC (“Pentex”) by AIDEA is a short-term strategic investment that can play a significant role in helping achieve long-term success for the Interior Energy Project. AIDEA’s acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of all Interior residents and businesses. It avoids duplication between competing utilities. Under AIDEA’s proposed temporary ownership of Pentex, Fairbanks Natural Gas (“FNG”) will be in a position to work closely with one or more “local control entities” in the Fairbanks North Star Borough (“FNSB”) to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers’ price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single, locally controlled utility serving the Interior.

The current return to Pentex’s owners is substantially higher than AIDEA’s cost of capital. AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers by approximately 13.3% and assist the Interior Energy Project to provide energy relief to Interior residents by the winter of 2015-2016.

AIDEA plans to develop LNG storage in consultation and cooperation with the local entities, including IGU and GVEA. Expanded storage is a key component in creating an integrated and efficient gas distribution system for Fairbanks. This integrated natural gas utility system will benefit from substantial efficiencies – both capital and operating, and will enable more rapid expansion to new customers. It is estimated that operational efficiencies from the consolidation of the distribution systems could result in potential savings of up to \$1.8 million annually.

FNG, under AIDEA’s ownership, will continue ongoing plans to expand service to more customers by building out the distribution system and will work with IGU and GVEA to acquire agreements to purchase additional LNG volumes at a price that will meet the goals of IEP. It is an expressed objective of the IEP to add LNG capacity to meet the needs of the community, either through direct expansion of the plant, or by partnering with private entities for additional capacity.

## Acquisition Terms - Pentex Alaska Natural Gas Company, LLC

Since the approval of a Letter of Intent by the AIDEA board in February, AIDEA's negotiating team of Mark Davis, Jerry Juday, Ted Leonard and Mark Gardiner has worked diligently with the Pentex business and legal representatives to negotiate the definitive documents required to complete the transaction. If approved by the AIDEA Board, AIDEA would acquire Pentex under the terms of an LLC Membership Purchase and Sale Agreement ("PSA") to be presented to the AIDEA Board for approval in May 2015. The negotiated PSA is summarized as follows:

### **Nature of Transaction:**

- AIDEA is to buy 100% of the membership interests in Pentex Alaska Natural Gas Company, LLC, a Delaware limited liability company.
- The transaction is structured as a "stock purchase," not as an "asset purchase." AIDEA will acquire the entire Pentex entity. After Closing, Pentex and its Subsidiaries under AIDEA's ownership will continue to hold their existing assets and liabilities, including: (1) all gas purchase contracts; (2) the contract to sell the Titan LNG plant to Harvest Alaska; (3) service contracts under which FNG supplies gas to business and residential customers; and (4) any liabilities, such as an existing remediated spill site.
- There are three Sellers:
  - (1) Harrington Partners, L.P., a Delaware limited partnership (85% owner);
  - (2) Pentex Alaska Natural Gas Company, a Texas corporation (10% owner);
  - (3) Daniel Britton (5% owner).
- Pentex's assets include anything that it owns or controls through its Subsidiaries, which together with Pentex constitute the Acquired Companies under the terms of the Purchase Agreement:
  - (1) Fairbanks Natural Gas Company, LLC (Fairbanks gas distribution utility);
  - (2) Titan Alaska LNG, LLC (LNG plant and trucking operator);
  - (3) Arctic Energy Transportation, LLC (LNG fueling station operator);
  - (4) Polar LNG, LLC (North Slope LNG plant developer – inactive);
  - (5) Cassini LNG Storage, LLC (Fairbank storage facility developer – inactive).

**Basic Purchase Terms:**

- Purchase Price is \$52.5 million plus Net Working Capital of the Acquired Companies as of the Closing Date.
- Net Working Capital is the amount by which current assets exceed current liabilities, but it cannot be more than \$1.5 million.
- AIDEA is to pay the Deposit of \$2,675,000 upon signing the PSA. The Deposit will be held by U.S. Bank as Escrow Agent.
- The Deposit converts into the Holdback Amount at Closing. AIDEA can make claims against the Holdback Amount for one year after Closing. At the one-year anniversary, the remaining Holdback Amount is to be disbursed to Sellers.
- Remainder of the Purchase Price is to be paid in cash at the Closing, including an estimated amount for Net Working Capital. After Closing, the CPAs will “true up” the Net Working Capital to match finalized numbers.
- Closing is to occur as soon as all conditions are satisfied, but in no event later than July 31, 2015.

**Sellers’ Representations and Warranties:**

- Article 3 of the Agreement contains extensive representations and warranties Sellers are making for AIDEA’s benefit. These representations and warranties are standard for this type of transaction.
- Sellers’ representations and warranties extend to matters such as:
  - (1) Sellers have clear title and the necessary authority to transfer ownership of Pentex to AIDEA;
  - (2) The financial statements of the Acquired Companies provided to AIDEA are accurate;
  - (3) The Acquired Companies have good title to all the real and personal property listed, and all the property is in good condition and repair and sufficient to continue the existing businesses;
  - (4) Accounts receivable are valid and collectible, subject to the bad debt reserve on the accounting books;
  - (5) The Acquired Companies have all the Permits and Licenses needed to conduct the businesses;
  - (6) There are no legal proceedings against the Acquired Companies and no undisclosed liabilities;
  - (7) The Acquired Companies are in compliance with all Environmental, Health and Safety Laws, with no release of hazardous substances;
  - (8) The Acquired Companies have no tax liabilities.
- Any exceptions to the Sellers’ representations and warranties must be listed in the Disclosure Schedules to the Agreement.
- If Sellers breach any of the representations and warranties, AIDEA may seek to collect for losses out of the Holdback Amount, or AIDEA may seek indemnity under Article 9.

**AIDEA's Representations and Warranties:**

- AIDEA is making a few representations and warranties to Sellers that are standard for this type of transaction, focused principally on AIDEA's authority to enter into and perform the Agreement.
- AIDEA is also representing that it has sufficient funds to complete the transaction and this is to be supported by a certificate from AIDEA's Chief Financial Officer.

**Conduct of Business Prior to Closing:**

- The Acquired Companies are to operate their businesses in the ordinary course prior to Closing, preserving their assets and businesses.
- AIDEA is to seek expedited approval of the Regulatory Commission of Alaska (RCA) for the change in control of Fairbanks Natural Gas, and Sellers are to cooperate with AIDEA in doing so. The RCA must determine that AIDEA can operate a utility.
- Sellers are to give AIDEA access to the businesses and records of the Acquired Companies pending Closing. This includes allowing AIDEA to complete environmental assessments of real property at AIDEA's expense.
- Sellers are to update the Disclosure Schedules as necessary prior Closing, with AIDEA having the right to approve of any changes made (other than the addition of the second quarter 2015 financial reports).
- Pending the Closing, AIDEA is entitled to discuss contract amendments or new gas supply contracts with Harvest Alaska and Hilcorp so long as no amendment or new contract goes into effect until AIDEA's purchase of Pentex is completed.

**Harvest Alaska Contracts:**

- AIDEA's purchase of Pentex will leave the two Harvest Alaska contracts in place:
  - (1) The contract for Titan Alaska LNG to sell the Point Mackenzie LNG plant and the trucking equipment, and for Arctic Energy Transportation (AET) to sell the two LNG fueling facilities, for total of \$15,150,000; and
  - (2) Harvest Alaska's 10-year contract to supply LNG to Fairbanks Natural Gas for its existing customer base at \$15 per Mcf delivered to Fairbanks, subject to price adjustments over time.
- The two Harvest Alaska contracts are subject to the approval of the RCA and require the consent of the Alaska Attorney General under antitrust laws. AIDEA is committed under the Agreement to not challenge the validity the Harvest Alaska contracts or to delay their approvals.
- The Harvest Alaska contracts are expected to close after AIDEA's purchase of Pentex is completed. Pentex under AIDEA's ownership would therefore receive the purchase price to be paid for the Titan Alaska LNG and AET assets (\$15,150,000).
- If the Harvest Alaska contracts close first, Sellers are entitled to disburse to themselves the purchase price paid for the Titan Alaska LNG and AET assets, and AIDEA's purchase price for Pentex will be reduced by the same amount.
- Pending the Closing, AIDEA is entitled to discuss contract amendments or new gas supply contracts with Harvest Alaska and Hilcorp so long as no amendment or new contract goes into effect until AIDEA's purchase of Pentex is completed.



**Conditions to Closing:**

- Closing is subject to fulfillment of certain conditions, most of which are standard for this type of Agreement (e.g., no adverse events; no litigation against the transaction; no breach of any representation or warranty).
- Approval of the RCA for AIDEA assuming control over Fairbanks Natural Gas is a condition to Closing.
- AIDEA's obligation to close is conditioned on its satisfaction with the results of the environmental assessments it is conducting.
- AIDEA's obligation to close is conditioned on it approving any amendments to Sellers' Disclosure Schedules (other than the addition of the second quarter 2015 financial reports).

**Sellers' Indemnity Obligations:**

- AIDEA can recover for any losses it incurs because of a breach in Sellers' obligations under the Agreement, a breach in Sellers' representations and warranties, a Pre-Closing Environmental Liability, a tax liability of Sellers, or a pre-Closing liability under the Harvest Alaska contracts.
- AIDEA can recover for such matters in various ways:
  - (1) For one year after the Closing, AIDEA can proceed against the Holdback Amount;
  - (2) For a period of three years after Closing, AIDEA can seek indemnity from Harrington Partners, L.P. for such matters; the indemnity obligation is "capped" at an aggregate amount of \$12 million, except for fraud, intentional misconduct, or breach of Sellers' Fundamental Representations.
- For the period of time allowed by the statute of limitations, AIDEA can also seek to recover from Harrington Partners, L.P. for certain specified matters (a breach of the Fundamental Representations; government fines for Pre-Closing Environmental Liabilities; an indemnity obligation to Harvest Alaska related to the pre-Closing period).

**AIDEA's Indemnity Obligations:**

- For a period of three years after Closing, AIDEA is obligated to indemnify Sellers from any losses they suffer as a result of AIDEA's breach of its obligations under the Agreement, or its representations and warranties, or its ownership of the Acquired Companies after Closing.
- AIDEA's indemnity obligation is subject to legislative appropriation, if necessary, to make payment from AIDEA funds, and AIDEA is committed to seek an appropriation if one is needed to satisfy an indemnity obligation.
- AIDEA's indemnity obligation is "capped" at an aggregate amount of \$12 million, except for fraud or intentional misconduct.

**Termination:**

- Either party can terminate the Agreement if the conditions to Closing are not satisfied by July 31, 2015.
- AIDEA can terminate the Agreement if there is Material Adverse Effect on the Acquired Companies that is not remedied.
- AIDEA can terminate the Agreement if Sellers amend the Disclosure Schedules and AIDEA does not approve the amendment.
- AIDEA can terminate the Agreement if AIDEA is not reasonably satisfied with the results of the environmental assessments it conducts.
- Upon termination, Sellers can retain the Deposit if the termination occurs because AIDEA breached the Agreement. Otherwise, the Deposit is to be refunded to AIDEA.

**Project Funding**

AIDEA's investment in Pentex will be funded from the Economic Development Account (AS 44.88.172) within the Revolving Fund. The investment has a planned horizon of approximately two years, with the intent to exit ownership of Pentex as a consolidated FNSB utility achieves long-term financing. A portion (\$15.15 million) of the expected \$54.0 million investment is expected to be returned to AIDEA in Q4 2015, assuming the sale of Titan and AET assets to Harvest closes (currently targeted at 9/30/15).

At that point, AIDEA's net investment in Pentex will be reduced from \$54.0 million to \$38.85 million. It is then anticipated that AIDEA, after reaching agreement with relevant parties for transfer of utility plant and operations to the FNSB local control entity, will provide bond financing or other funds (under the SB23 authorization for the Interior Energy Plan) to finance "take-out" of AIDEA's investment in Pentex, including an appropriate return on investment of approximately \$2.91 million (5.06% yield).

The table below summarizes the projected investment cash flows for AIDEA's Pentex acquisition.

	\$000	Jul-15	Sep-15	Q1 '17
<b>AIDEA Pentex Acquisition Cash Flows</b>				
Initial Purchase		\$(54.00)	\$ -	\$ -
Titan / AET Sale		\$ -	\$ 15.15	\$ -
AIDEA return on investment		\$ -	\$ -	\$ 2.91
AIDEA FNG sale to Local Control Entity		\$ -	\$ -	\$38.85
AIDEA Investment Balance		\$(54.00)	\$(38.85)	\$ -

*Estimated return rate (as of 4/21/15) 5.06%*

## Project/Investment Schedule

The project schedule for AIDEA's Pentex investment is summarized in the table below. This schedule assumes that all milestones are achieved in approximately 18 months from closing of the PSA.

MILESTONE	APPROXIMATE DATE(S)
AIDEA Board Approval	May 19, 2015
Signed Purchase Agreement	5/31/15
RCA change of control approval	June / July 2015
Closing of Pentex purchase	7/31/15
Closing of Titan / AET sale to Harvest	9/30/15
Agreement for FNSB utility consolidation completed	12/31/15
Consolidated utility financing structured	6/30/16
Consolidated utility implementation completed / AIDEA sale of Pentex	12/31/16

Table 1. Milestone Schedule for Pentex Investment.



## B. BUSINESS PLAN

### Overall AIDEA Operating & Transition Plan

AIDEA's Pentex project team has developed a business and financial plan for AIDEA's acquisition, temporary 3rd-party operation and then sale of Pentex. The key premise underlying this plan is that Pentex is a strategic acquisition that enables the more cost-effective and timely provision of space-heating natural gas in the Fairbanks North Star Borough. Although the acquisition and investment return do not require (nor rely upon) participation by GVEA, the separate Department of Commerce, Community, and Economic Development ("DCCED") effort to secure additional LNG supply could serve those needs along with the expanded FNSB space-heating customer base. The pace and economics of the expanded LNG supply system will depend on participation by those additional parties. AIDEA's business plan for Pentex includes the following stages:

#### Acquisition/Transition of FNG

- AIDEA acquires Pentex under the terms of the PSA.
- The Harvest/Hilcorp transaction closes during 2015 – with proceeds reducing AIDEA's investment in Pentex and leaving Pentex with the business of FNG, Polar (interest in a potential North Slope LNG plant) and Cassini (a company set up by Pentex to own LNG storage and re-gas facilities in FNSB) – and with a long-term LNG supply agreement from Hilcorp.
- FNG continues to operate as currently structured, with the current staff and management under AIDEA ownership, until a consolidated utility plan and structure is established, at which point AIDEA sells (or leases) its interest in Pentex to the FNSB local utility entity or entities.

#### Financing of Pentex/FNG

- AIDEA's acquisition of Pentex would be financed as a Development Project under AS44.88.172, with an anticipated return on equity of approximately 5.06% per year, reflecting the status of Pentex as an ongoing concern with substantial annual cash flow.
- AIDEA's existing distribution system loan participation to FNG stays in place – with debt service deferred under the terms of that loan until expansion LNG capacity is available.
- AIDEA (or a comparable 3rd-party) finances the local FNSB utility entity or entities to acquire AIDEA's Pentex assets once the local utilities have the appropriate structure in place. At the transition financing, AIDEA's receives its equity plus return, and the two loans for distribution system and storage are wrapped into the new long term utility financing. Debt service on this long term financing begins in 2018. This financing can be achieved through a combination of 3rd-party debt, IEP financing tools, or a combination of the two.
- The overall amount of the long term financing is reduced by a "contribution" from FNG cash flow achieved by the projected rates from 2015-2017.

## **FNG Capacity, Sales & Operating Expenses**

- FNG's operating costs can be lowered immediately by eliminating "corporate" cost elements, including taxes, return on equity, investor management overhead, and regulatory affairs expenses.
- Subject to feasibility, FNG uses additional storage financed by AIDEA to expand capacity incrementally from 2017-2019, activating customers on the newly expanded distribution system.
- All of FNG's base demand (up to 0.95Bcf) is provided under the Hilcorp agreement at \$15.00 / Bcf, escalated by 2% per year starting 24 months after the effective date (assumed to be 9/30/15). After five years, the Hilcorp agreement provides for price reductions (or FNG can secure alternate sources) if lower cost gas is available from 3rd-parties. Additionally, the agreement allows AIDEA to negotiate directly with Hilcorp on this agreement after the PSA is executed.
- Expansion capacity is provided under a competitive offer basis as anticipated by the State's program to secure additional sources of LNG – currently being managed by AIDEA and AEA – with an assumed 2016 price (for planning purposes) to FNG of \$11.00 / Mcf. (Target price for new LNG is \$10-11 / Mcf for the IEP efforts. The high end of the range has been selected for evaluation purposes).
- FNG base operating costs are estimated from the 5-year average historical income statement costs, adjusted for the non-cash items and other expenses related to current corporate ownership.
- FNG operating expenses increase marginally as customer counts expand and additional gas is provided to customers.

## **Projected Pro Forma Financials & Rates**

Based on the business plan and assumptions noted above, AIDEA's pro forma analysis indicates that FNG rates can be reduced from current and projected levels assuming continued expansion of the distribution system, additional storage and sufficient LNG supply. The table below summarizes the projected potential rate savings in 2016 and 2020 under the AIDEA Pentex acquisition, vs. the current and requested FNG rates. It should be noted that the Regulatory Affairs & Public Advocacy Section of the Attorney General's office has filed with RCA that FNG's rate (in their opinion) should be reduced by 10.25% to \$20.96 / Mcf.

<b>FNG Rates</b>			
		<b>2016</b>	<b>2020</b>
FNG Rate per Mcf	\$	23.35	\$ 24.85
Rate Case Per Mcf	\$	24.96	\$ 26.56
Projected Rate per Mcf	\$	20.25	\$ 15.00
\$ Reduction from Current	\$	3.10	\$ 9.85
<b>% Reduction from Current</b>		<b>13.3%</b>	<b>39.6%</b>
\$ Reduction from Rate Case	\$	4.71	\$ 11.56
<b>% Reduction from Rate Case</b>		<b>18.9%</b>	<b>43.5%</b>

To reiterate some key points noted above, the pro forma projected rates are based on the assumption that the Harvest/Hilcorp agreement is closed during 2015 (and the \$15.00-basis rate locked in for all existing demand) and estimate lower-cost LNG can be acquired for the expansion capacity required to provide service to the build-out of the FNG system expansion. If the lower cost gas does not become available or the system expansion does not proceed on planned pace, the rate reductions would be more modest.

The table below summarizes a projected cash-flow pro forma for FNG, assuming it continues to operate as a stand-alone utility (although owned/operated by a local control entity).

<b>Cash-Basis Projection (000)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Beginning Balance</b>	\$ 1,076	\$ 2,930	\$ 2,545	\$ 3,325	\$ 1,385	\$ 2,378	\$ 5,484	\$ 4,605	\$ 4,727
Base Sales Revenues	\$ 19,238	\$ 17,100	\$ 13,775	\$ 14,013	\$ 14,250	\$ 14,250	\$ 13,775	\$ 14,250	\$ 14,488
Expansion Sales Revenues	-	7,380	26,245	37,465	45,900	48,750	48,140	49,950	50,935
<b>Operating Revenues</b>	<b>\$ 19,338</b>	<b>\$ 24,580</b>	<b>\$ 40,235</b>	<b>\$ 51,692</b>	<b>\$ 60,365</b>	<b>\$ 63,215</b>	<b>\$ 62,130</b>	<b>\$ 64,415</b>	<b>\$ 65,637</b>
<b>Operating Expenses</b>									
Natural gas purchases - FNG Base	\$ 14,250	\$ 14,350	\$ 14,637	\$ 14,929	\$ 13,788	\$ 11,391	\$ 11,618	\$ 11,851	\$ 12,088
Natural gas purchases - Expansion	-	4,600	20,714	29,650	36,435	39,471	41,127	42,076	43,047
Operating Expenses	3,234	3,506	3,594	3,851	3,947	4,046	4,147	4,251	4,357
<b>Total Operating Expenses</b>	<b>\$ 17,484</b>	<b>\$ 22,456</b>	<b>\$ 38,945</b>	<b>\$ 48,430</b>	<b>\$ 54,170</b>	<b>\$ 54,907</b>	<b>\$ 56,893</b>	<b>\$ 58,178</b>	<b>\$ 59,491</b>
<b>Net Operating Income</b>	<b>\$ 1,854</b>	<b>\$ 2,124</b>	<b>\$ 1,290</b>	<b>\$ 3,262</b>	<b>\$ 6,194</b>	<b>\$ 8,307</b>	<b>\$ 5,237</b>	<b>\$ 6,237</b>	<b>\$ 6,146</b>
Debt Service	-	-	-	4,693	4,693	4,693	5,606	5,606	5,606
Capital R&R	-	509	509	509	509	509	509	509	509
<b>Total Capital Costs</b>	<b>\$ -</b>	<b>\$ 509</b>	<b>\$ 509</b>	<b>\$ 5,202</b>	<b>\$ 5,202</b>	<b>\$ 5,202</b>	<b>\$ 6,115</b>	<b>\$ 6,115</b>	<b>\$ 6,115</b>
<b>Cash Flow After Capital Costs</b>	<b>\$ 1,854</b>	<b>\$ 1,615</b>	<b>\$ 781</b>	<b>\$ (1,940)</b>	<b>\$ 993</b>	<b>\$ 3,106</b>	<b>\$ (879)</b>	<b>\$ 122</b>	<b>\$ 30</b>
<b>Ending Balance</b>	<b>\$ 2,930</b>	<b>\$ 2,545</b>	<b>\$ 3,325</b>	<b>\$ 1,385</b>	<b>\$ 2,378</b>	<b>\$ 5,484</b>	<b>\$ 4,605</b>	<b>\$ 4,727</b>	<b>\$ 4,757</b>
<b>Estimated Rate (Per Mcf)</b>	<b>\$ 20.25</b>	<b>\$ 18.00</b>	<b>\$ 14.50</b>	<b>\$ 14.75</b>	<b>\$ 15.00</b>	<b>\$ 15.00</b>	<b>\$ 14.50</b>	<b>\$ 15.00</b>	<b>\$ 15.25</b>

The table below summarizes the assumptions for the “FNG-only” 10-year projection.

<b>PRO FORMA INPUTS / ASSUMPTIONS</b>									
<b>FNG Gas Sales</b>									
Estimated Sales - Base (Bcf)	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
Estimated Sales - Expansion (Bcf)	-	0.41	1.81	2.54	3.06	3.25	3.32	3.33	3.34
Total FNG Area Sales (Bcf)	0.95	1.36	2.76	3.49	4.01	4.20	4.27	4.28	4.29
Blended cost of Gas (per Mcf)	\$ 15.00	\$ 13.93	\$ 12.81	\$ 12.77	\$ 12.52	\$ 12.11	\$ 12.35	\$ 12.60	\$ 12.85
<b>CAPITAL FINANCING (000)</b>	<b>TOTAL</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
LCE Acquisition of Pentex from AIDEA	\$ 41,848	\$ 41,848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage (net of State tax credit)	\$ 30,000	30,000	-	-	-	-	-	-	-
FNG Distribution System financing	\$ 30,000	30,000	-	-	-	-	-	-	-
<b>Total Capital Requirements</b>	<b>\$ 101,848</b>	<b>\$ 101,848</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Preliminary estimated sources and uses of funds for the FNG-Only plan are summarized below:

<b>FNG CAPITAL FINANCING</b>	
<b>SOURCES OF FUNDS (000)</b>	
Accumulated Revenues	\$ 2,000
Bond Financing	69,848
SETS Financing	30,000
State Appropriation	-
<b>Total - Sources</b>	<b>\$ 101,848</b>
<b>USES OF FUNDS (000)</b>	
FNG System Acquisition	\$ 41,848
Storage	30,000
Distribution System	30,000
<b>Total - Uses</b>	<b>\$ 101,848</b>

Note - \$15 million of Sets financing approved for original distribution expansion in Resolution G14-07.

## Transition To Local Control Entity

Central to AIDEA's strategy, and achievement of the IEP goals, is the consolidation of natural gas distribution utilities in FNSB. AIDEA's plan anticipates a transition of FNG from private (Pentex) to AIDEA to consolidated public (local control entity). The table below lays out some of the initial parameters of that process anticipated in the AIDEA plan.

ITEM	OUTLINE
PARTIES & ROLES	<p>AIDEA</p> <ul style="list-style-type: none"> <li>• Financing and acquisition of Pentex</li> <li>• Securing LNG supply expansion</li> <li>• Temporary operation of FNG</li> <li>• Coordination of system capital and operational planning with the Local Control Entity ("LCE")</li> <li>• Financing of consolidated LCE/FNG storage, re-gas and distribution system, and any ownership transfer of FNG to local ownership</li> <li>• Transfer to local control and possibly sale of FNG to LCE</li> </ul> <p>LCE</p> <ul style="list-style-type: none"> <li>• Coordination of system capital and operational planning with AIDEA</li> <li>• Establishment of a fully-capable municipal natural gas distribution utility with capacity to serve all FNSB space-heating requirements over time</li> </ul> <p>FNSB BOROUGH, CITY OF FAIRBANKS, CITY OF NORTH POLE</p> <ul style="list-style-type: none"> <li>• Advice and consultation regarding AIDEA Pentex purchase and strategic plan for LCE consolidation</li> </ul>

ITEM	OUTLINE
TIMELINES	<p>Final plan for consolidated LCE capital system and governance / operation</p> <ul style="list-style-type: none"> <li>• 12/31/15</li> </ul> <p>Transition implementation – LCE financing structure established</p> <ul style="list-style-type: none"> <li>• 6/30/16</li> </ul> <p>Transition implementation – LCE financing secured, transition of FNG to local control (and possibly ownership)</p> <ul style="list-style-type: none"> <li>• 12/31/16</li> </ul>
SYSTEM CAPITAL PLANNING	<p>AIDEA and LCE will cooperate on intensive system capital planning for:</p> <ul style="list-style-type: none"> <li>• A consolidated storage and re-gas system serving the entire FNG and LCE service area</li> <li>• A consolidated natural gas distribution system serving the entire FNG and LCE service area</li> <li>• Comprehensive program for marketing, planning and financing customer conversions</li> </ul>
OPERATIONS/ MANAGEMENT INTEGRATION	<ul style="list-style-type: none"> <li>• FNG continues to operate status quo under AIDEA ownership</li> <li>• AIDEA and LCE cooperate to design and implement governance and management structure for consolidated utility</li> <li>• AIDEA and LCE jointly seek any required Borough, city and RCA approvals</li> <li>• AIDEA and LCE cooperate on the transition of FNG operations to the new LCE utility</li> </ul>
LCE COMMITMENTS	<ul style="list-style-type: none"> <li>• Establishment of credit-worthy utility structure</li> <li>• Complete system expansion within financial capability</li> <li>• Cooperation on FNG/LCE planning, transition, consolidation</li> <li>• All requirements as purchase agreement to AIDEA-secured supply</li> </ul>
AIDEA COMMITMENTS	<ul style="list-style-type: none"> <li>• Pentex acquisition and FNG transition to a local control entity</li> <li>• Cooperation on FNG/LCE planning, transition, consolidation</li> <li>• Cost controls to minimize ultimate cost of acquisition and transition of FNG from private to local control entity</li> <li>• Commitment to lowest-practical-cost optimized use of SETS / SB23 /AIDEA financing and funding for conversion to a Local Control Entity</li> <li>• Capital appropriation</li> <li>• Moral-obligation bonds</li> <li>• SETS financing</li> <li>• AIDEA loan participation finance</li> <li>• Assistance with methods of conversion financing / incentives</li> <li>• Best-efforts commitment to secure long-term, lowest- practical-cost, expanded LNG supply (as a part of the overall State IEP initiative in this area)</li> </ul>

AIDEA has begun the process of discussing the long-term Pentex business plans with the relevant FNSB parties and will, assuming Board approval and closing of the transaction, enter into an intensive process with goal of having the transition fully structured by the end of 2015. Fortunately, all of the parties have been engaged for some time in attempts to solve the problem of high cost and environmental issues related to current space-heating methods in FNSB, so there's a base of understanding both of the problems and the potential solutions.

## Natural Gas Distribution System Consolidation Economics

Under the current structure in FNSB, two independent utilities will be responsible for serving the residential and commercial space-heating needs with natural gas distribution systems. FNG has an existing customer base of approximately 1,100 with an overall annual demand of 0.85 to 0.95 Bcf. If the areas covered by FNG's certificate were fully served, the customer base would be approximately 6,600 and total annual demand of 4.29 Bcf. The Interior Gas Utility ("IGU") is not yet an operating utility, but has a certificate covering an area that could serve approximately 5,100 customers and represent slightly more than 1.42 Bcf in annual demand in Phases 1-3 (with additional 7,000 customers and 1.6 Bcf demand in Phases 4-6).

If the utilities continued to develop separate systems, the capital costs would be higher than a consolidated system, due the requirements for potentially redundant and expensive LNG storage and re-gas system as well as foregone economies of scale. IGU, AIDEA and AEA are developing estimates of the capital costs under both separate and consolidated systems and those estimates will be made available to the AIDEA board as soon as they are available.

In addition to capital costs, there are considerable potential operating costs savings with a consolidated entity operating a single natural gas distribution system. AIDEA's team has developed estimates of the administrative and direct operating costs of the two utilities assuming they were separately administered, and of a single, consolidated utility serving the same customer base.

Western Financial Group ("WFG") – AIDEA's business and financial advisor for the Pentex acquisition project – built the FNSB natural gas distribution operating cost estimates based on WFG's knowledge of FNG's current operations and experience with similar municipal utilities. These estimates were roughly benchmarked versus IGU's preliminary estimates of projected operating costs.

Highlights of WFG's operating cost comparisons include:

- Estimated FNG annual operating costs under AIDEA ownership would be \$2.38 million. Combined with IGU separate operations, the full annual cost would be \$5.34 million.
- WFG estimates that a combined/consolidated utility would require approximately \$3.54 million to operate – an annual savings of \$1.8 million.
- Operating cost savings from consolidation would represent approximately a \$1.10 per Mcf rate reduction for FNSB gas utility customers at projected 2017 demand levels.



The table below provides some additional details of the WFG operating cost comparison estimates.

	AIDEA - FNG Operations FTE Cost		IGU Operations* Cost	Total Separate Cost Cost	Combined Operations FTE Cost		Total Savings
Personnel Expenses	12	\$ 1,458,000			20	\$ 2,170,125	
Other Operating Exp.		922,000				1,372,329	
<b>Total Operating Expenses</b>		<b>\$ 2,380,000</b>	<b>\$ 2,959,970</b>	<b>\$ 5,339,970</b>		<b>\$ 3,542,454</b>	<b>\$ 1,797,516</b>

\* Breakdown for IGU operation expenses not available.

The table below summarizes WFG's estimated pro forma for a consolidated FNSB natural gas distribution utility assuming that:

- Additional LNG capacity is made available through the Interior Energy Project ("IEP") to enable the planned expansion of Phases 1-3 of the distribution system.
- The alternative gas supply is competitively priced (starting at \$11.00/Mcf in 2016, then escalating 2.0% per year)
- Low cost state financing is available to offset a portion of the capital costs for the distribution system – approximately \$15mm of State appropriation and ~\$73mm of low-cost SETS financing.
- Storage capacity required for the expanded system is constructed for a total of \$50 million.
- Projected efficiency savings from FNG-LCE consolidation are realized.

Cash-Basis Projection (000)	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Beginning Balance</b>	\$ 1,076	\$ 2,792	\$ 3,385	\$ 4,442	\$ 1,940	\$ 3,238	\$ 8,238	\$ 11,017	\$ 13,252
Base Sales Revenues	\$ 19,238	\$ 17,100	\$ 14,250	\$ 14,963	\$ 15,112	\$ 15,263	\$ 15,416	\$ 15,570	\$ 15,728
Expansion Sales Revenues	-	9,540	34,050	52,920	65,698	73,103	76,430	77,886	78,794
<b>Operating Revenues</b>	<b>\$ 19,338</b>	<b>\$ 26,740</b>	<b>\$ 48,618</b>	<b>\$ 68,205</b>	<b>\$ 81,132</b>	<b>\$ 88,688</b>	<b>\$ 92,168</b>	<b>\$ 93,578</b>	<b>\$ 94,842</b>
<b>Operating Expenses</b>									
Natural gas purchases - FNG Base	\$ 14,250	\$ 14,350	\$ 14,837	\$ 14,929	\$ 13,788	\$ 11,391	\$ 11,618	\$ 11,851	\$ 12,088
Natural gas purchases - Expansion	-	5,947	25,979	39,222	49,175	55,259	58,346	59,892	61,348
Operating Expenses	3,372	4,747	5,830	6,500	6,862	6,829	6,999	7,174	7,354
<b>Total Operating Expenses</b>	<b>\$ 17,622</b>	<b>\$ 25,043</b>	<b>\$ 46,446</b>	<b>\$ 60,651</b>	<b>\$ 69,625</b>	<b>\$ 73,479</b>	<b>\$ 76,964</b>	<b>\$ 78,918</b>	<b>\$ 80,790</b>
<b>Net Operating Income</b>	<b>\$ 1,716</b>	<b>\$ 1,697</b>	<b>\$ 2,173</b>	<b>\$ 7,553</b>	<b>\$ 11,507</b>	<b>\$ 15,210</b>	<b>\$ 15,204</b>	<b>\$ 14,681</b>	<b>\$ 14,052</b>
Debt Service	-	-	-	8,939	9,084	9,084	11,310	11,310	11,310
Capital R&R	-	1,104	1,116	1,116	1,116	1,116	1,116	1,116	1,116
<b>Total Capital Costs</b>	<b>\$ -</b>	<b>\$ 1,104</b>	<b>\$ 1,116</b>	<b>\$ 10,055</b>	<b>\$ 10,209</b>	<b>\$ 10,209</b>	<b>\$ 12,426</b>	<b>\$ 12,426</b>	<b>\$ 12,426</b>
<b>Cash Flow After Capital Costs</b>	<b>\$ 1,716</b>	<b>\$ 593</b>	<b>\$ 1,057</b>	<b>\$ (2,501)</b>	<b>\$ 1,298</b>	<b>\$ 5,001</b>	<b>\$ 2,778</b>	<b>\$ 2,235</b>	<b>\$ 1,627</b>
<b>Ending Balance</b>	<b>\$ 2,792</b>	<b>\$ 3,385</b>	<b>\$ 4,442</b>	<b>\$ 1,940</b>	<b>\$ 3,238</b>	<b>\$ 8,238</b>	<b>\$ 11,017</b>	<b>\$ 13,252</b>	<b>\$ 14,878</b>
<b>Estimated Rate (Per Mcf)</b>	<b>\$ 20.25</b>	<b>\$ 18.00</b>	<b>\$ 15.00</b>	<b>\$ 15.75</b>	<b>\$ 15.91</b>	<b>\$ 16.07</b>	<b>\$ 16.23</b>	<b>\$ 16.39</b>	<b>\$ 16.55</b>

The table below summarizes the key assumptions underlying the Consolidated- Utility 10-year projection.

PRO FORMA INPUTS / ASSUMPTIONS	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>FNG Gas Sales</b>									
Estimated Sales - Base (Bcf)	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
Estimated Sales - Expansion (Bcf)	-	0.41	1.81	2.54	3.06	3.25	3.32	3.33	3.34
Total FNG Area Sales (Bcf)	0.95	1.36	2.76	3.49	4.01	4.20	4.27	4.28	4.29
<b>IGU Gas Sales</b>									
Estimated sales (Bcf)	-	0.12	0.46	0.82	1.07	1.30	1.39	1.41	1.42
<b>Estimated FNSB Gas Sales - Total</b>	<b>0.95</b>	<b>1.48</b>	<b>3.22</b>	<b>4.31</b>	<b>5.08</b>	<b>5.50</b>	<b>5.66</b>	<b>5.69</b>	<b>5.71</b>
Blended cost of Gas (per Mcf)	\$ 15.00	\$ 13.71	\$ 12.61	\$ 12.56	\$ 12.39	\$ 12.12	\$ 12.36	\$ 12.61	\$ 12.86
<b>CAPITAL FINANCING (000)</b>	<b>TOTAL</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
LCE Acquisition of Pentex from AIDEA	\$ 41,848	\$ 41,848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage (net of State tax credit)	\$ 50,000	50,000	-	-	-	-	-	-	-
FNG Distribution System financing	\$ 30,000	30,000	-	-	-	-	-	-	-
IGU Distribution System financing	\$ 101,288	98,988	2,300	-	-	-	-	-	-
<b>Total Capital Requirements</b>	<b>\$ 223,136</b>	<b>\$ 220,836</b>	<b>\$ 2,300</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Sources & uses of funds for the Consolidated Utility plan are summarized below.

#### CONSOLIDATED SYSTEM CAPITAL FINANCING

##### SOURCES OF FUNDS (000)

Accumulated Revenues	\$ -
Bond Financing	135,358
SETS Financing	72,778
State Appropriation	15,000
<b>Total - Sources</b>	<b>\$ 223,136</b>

##### USES OF FUNDS (000)

FNG System Acquisition	\$ 41,848
Storage	50,000
FNG Distribution System	30,000
IGU Distribution System	101,288
<b>Total - Uses</b>	<b>\$ 223,136</b>

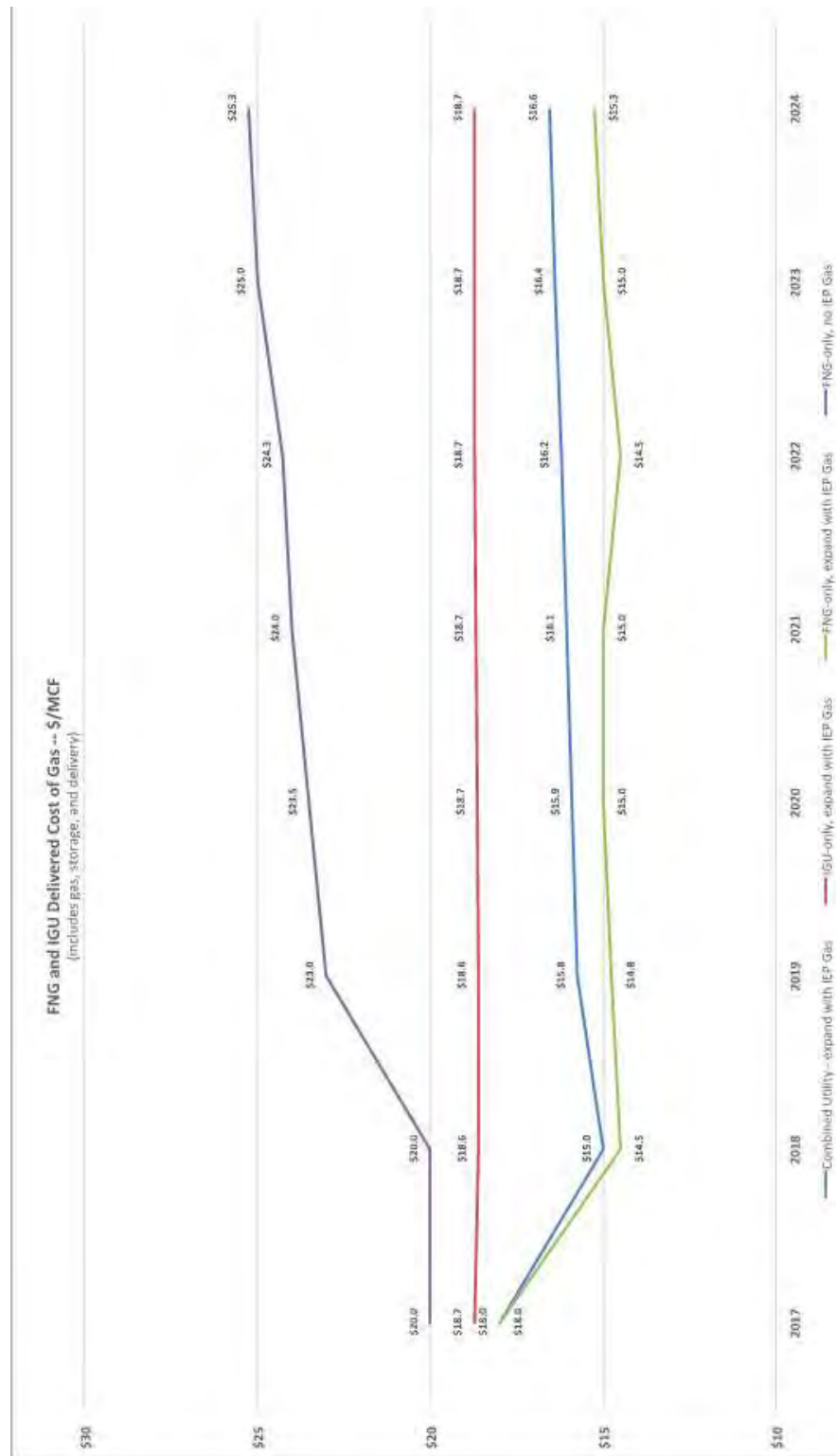
Note - \$52.78 million of Sets financing approved for original distribution expansion for FNG & IGU in Resolutions G14-07, G14-08, and G15-03.

The table below highlights the potential rate savings at 2016 and 2020 from the current FNG rates and the rates requested in the pending FNG RCA rate filing.

Consolidated Utility Rates			
	2016		2020
FNG Rate per Mcf	\$	23.35	\$ 24.85
Rate Case Per Mcf	\$	24.96	\$ 26.56
Projected Rate per Mcf	\$	20.25	\$ 15.91
\$ Reduction from Current	\$	3.10	\$ 8.94
<b>% Reduction from Current</b>		<b>13.3%</b>	<b>36.0%</b>
\$ Reduction from Rate Case	\$	4.71	\$ 10.65
<b>% Reduction from Rate Case</b>		<b>18.9%</b>	<b>40.1%</b>



The chart below summarizes the effect of all the potential savings on rates for natural gas in the FNSB. Of particular interest is the savings projected for the Combined Utility vs. IGU-Only and the Combined Utility vs. FNG-only, No IEP Gas.



## C. ECONOMIC DEVELOPMENT & AIDEA SUITABILITY

AIDEA's acquisition of Pentex is a key strategic step in the implementation of the Interior Energy Project, the core goal of which is to bring affordable energy to Interior Alaska, and specifically to the Fairbanks North Star Borough. The current methods of space heating in the FNSB limit economic development and growth due to high cost of energy to businesses and residents and significant air quality issues.

### Economic Impact Analysis

The Pentex acquisition and eventual consolidation into a single FNSB natural gas distribution utility provide numerous economic benefits, including:

- Air quality capacity for economic expansion

FNSB has been challenged to meet federal air quality standards due to health and environmental risks due to currently prevalent oil and wood-fired space heating. These environmental issues curtail economic development both because of potential limits on commercial and industrial emissions and the dampening effect of the potential health risks on employer relocations to FNSB. A 2012 analysis conducted for the FNSB estimated that converting to natural gas space-heating could reduce overall emissions of particulate matter by as much as 90%.

- Fuel costs / Alternatives

Because heating oil costs have recently abated as global prices for crude oil declined, fuel costs for businesses and residents continue to be a potential obstacle to expansion of existing businesses and recruitment of new businesses. As a related matter, the lack of diversity of commercial space-heating fuel (currently limited to fuel oil outside the FNG- served area) is a further obstacle to business investment decisions. A 2012 study for the Fairbanks North Star Borough estimated that a fully built-out natural gas distribution system could result in fuel cost savings of more than \$200 million per year.

- Assured Gas Supply / Expanded Distribution capacity

AIDEA's acquisition of Pentex, the eventual transfer of that system to a consolidated FNSB gas distribution utility, and the AIDEA/AEA effort through the Interior Energy Project to secure additional LNG sources provide some assurance to FNSB businesses that a diversity of energy sources, at potentially significantly lower costs, will be available for business expansion and location.

- Reduced FNG costs

AIDEA's acquisition of FNG will result in significantly reduced costs due to the elimination of corporate-related expenditures – almost all of which “leaks” out of the FNSB. These costs include taxes, investor fees and profits. The benefits of these cost reductions can be passed on to FNSB commercial and residential ratepayers.

- Utility Construction Savings

Fairbanks businesses and residential customers will also be the beneficiaries of significantly reduced operating costs and reduced long-term capital due to the consolidation savings enabled by AIDEA's acquisition of FNG and ultimate transfer of the utility to an FSNB consolidated local control entity. The

estimated reduction in pipe sizes and length of pipe due to the combined system operation is projected to result in approximate \$5.2 million in capital savings. One of the primary drivers for designing a distribution system in the IGU service territory which operates at 60psi was the ability to interconnect with the FNG service territory if the future dictated benefits to doing so; with the potential acquisition of FNG the resulting saving's that could be achieved by operating an integrated system at 100psi (not including existing meter change outs) is approximately \$11 million. Non-monetary benefits include potential to reduce by 3 years the time it takes to distribute gas to the furthest west areas of the FNSB. Operational efficiencies including potential flexibility in sizing and siting of storage facilities is greatly enhanced.

## AIDEA Suitability

AIDEA management has reviewed the project and determined that it meets AIDEA's statutory mission and the goals of the Interior Energy Project. AIDEA has the statutory authority to purchase Pentex and does not need any new legislation or any new appropriation to effectuate the possible acquisition.

The Table below provides a summary of the suitability criteria from AIDEA's regulations and a description of how the proposed Pentex acquisition meets these criteria.

CRITERIA	DESCRIPTION
Project is advantageous to the State and the public welfare, also contributes to the growth of the State	See economic benefits described in section above
Project applicant is financially responsible	FNG has a strong track record of cash flow positive operations, even in a low oil
Project is economically feasible	Project economics and anticipated revenues are robust
Source of project operating costs identified	FNG revenues will cover all operating costs
Increased demand on public facilities will be accounted	The project will not produce significant new impacts upon local infrastructure
The project will retain employment reasonably related to the financing proposed	AIDEA's acquisition of Pentex will maintain employment at FNG and will enable more secure and rapid establishment of a locally controlled natural gas utility in FNSB
Scope of project provides reasonable economic benefit to the State	In addition to the return on AIDEA's investment, the project will generate increased economic activity in FNSB by lowering energy cost for residences and businesses, generating additional State and local tax revenues in FNSB
Project complies with all applicable laws	The project complies with all AIDEA statutes and rules and, assuming RCA approval of the change of control, will comply with required regulatory approvals
Issuance of bonds does not impair ability of others to issue bonds.	The project will not require the issuance of bonds for the Pentex acquisition financing. There will be SETS bonds and, most likely, AIDEA moral obligations bonds issued to fund the completion of the FNSB distribution system. There is sufficient capacity for the projected bond financing without impairing the ability of others to issue bonds.

## Support of the IEP Goals

The acquisition of Pentex will lower costs to residents and businesses through increased efficiency and accumulation of demand. Savings to ratepayers gained through the acquisition of Pentex will not, in and of itself, result in pricing “at the burner tip” of \$15/Mcf for natural gas. The acquisition will, however, make it more likely for the IEP to meet that pricing goal. The combined pro forma demonstrates that, even with the Harvest supply contract for current demand at

\$15 for the first .95B of gas, scenarios for a combined utility exist that will allow pricing to approach the \$15/Mcf goal once capacity is expanded and savings in unifying the distribution systems occur. Effective use of IEP financing tools on the distribution and storage components, in coordination with the LNG capacity and supply components provide a number of possible options to deploy capital in a manner that will allow for the Interior Energy Project to meet the needs of Interior Alaska for lower cost energy.

The current Consolidated Utility projection for this project estimates that the \$15.00 per Mcf target rate will be achieved in 2018, with rate increases from that point forward driven by inflation and capital financing costs.

## Local Government Consultation

In accordance with statutory requirements, AIDEA has consulted with the Fairbanks North Star Borough, the City of Fairbanks, the City of North Pole, and the Mat-Su Borough regarding the Authority’s planned investment in the overall project and its effect on potential to meet the IEP goal of \$15/Mcf. The City of Fairbanks and the FNSB have issued resolutions supporting the analysis of the potential purchase of Pentex. AIDEA’s local government consultation is in process and will continue after the May 19th AIDEA board meeting. AIDEA’s staff will continue to bring back results of the consultations to the Board as AIDEA moves forward with the planned investment.



Map 1.

## D. DUE DILIGENCE

The AIDEA team devoted multiple resources to conducting due diligence to make a determination that the Pentex acquisition is a feasible investment by undertaking a technical, financial and legal review of the Pentex companies. This due diligence analysis entailed reviewing the Pentex financials, examining their ownership records, land titles, and a physical inspection of Pentex's facilities.

To facilitate this review process, Pentex established a virtual "data room" online into which they deposited dozens of documents for examination by AIDEA. This data room, provided an efficient manner for AIDEA to review and examine pertinent documents and serves as, a repository for relevant information regarding each of the Pentex entities: Titan (the Port MacKenzie plant), AET (trucking and fueling stations), Polar (North Slope plans), FNG (natural gas distribution) and Cassini (FNSB storage). Documents provided included LLC formations records, LLC operating agreements, correspondence with LLC members, management agreements, employee contracts, insurance policies, lease agreements, environmental compliance and remediation reports, and documents identifying major customers of each LLC.

AIDEA also requested that Pentex respond to a Due Diligence Document Checklist. This AIDEA Checklist requested 52 different types of Pentex documents relevant to the proposed acquisition. For example, AIDEA asked the Sellers to provide complete information of each LLC including its members, articles of organizations and certificates of good standing. The due diligence list asked all permits needed to operate each business, copies of all material insurance policies, and documents related to any liability issues, including litigation or insurance claims.

Pentex responded with a detailed spreadsheet that either provided information (such as the three states where Pentex is qualified to do business), or by identifying documents that were responsive to the questions. However, Pentex sought clarification on nine of the requests. For example, Pentex sought clarification of what AIDEA meant by its request to have copies of all permits and licenses necessary for each of the LLCs to conduct business.

AIDEA responded with a letter that described each of the nine requests in detail. For example, Pentex sought clarification of AIDEA's seeking correspondence with an auditor or accountant regarding threatened or pending litigation. AIDEA response that it was asking for documentation under Financial Accounting Standards Board Classification ASC 450 regarding the reporting of contingencies as well as documents prepared under Financial Reporting Council Standard 12 that provides when a contingent liability or asset should be recognized by an auditor.

Pentex then provided AIDEA with a letter that either identified the requested information or documents that pertained to the nine requests for which it has sought more information. These statements and further identification of documents meant that Pentex had responded completely to the Due Diligence Document Checklist and provided AIDEA with the ability to ascertain parameters of the potential acquisition, such as LLC governance structures, insured risk assessment, employment practices, the ability to conduct the same or similar business after closing, and potential environmental liabilities or threats.

Certain difficult to scan documents were examined in site visits to Pentex's facilities in Port MacKenzie and Fairbanks. Site visits were also made to both facilities to inspect the sites, buildings and equipment. HDR provided a detailed report on the condition of the properties that will be included in the sale. A Phase I Environmental Assessment of the real property owned by Pentex was carried out. That reconnaissance indicated that, for the most part, the environmental disclosures made by Pentex were accurate, and that a DEC resolution of a matter that involved Titian would continue in place after AIDEA closes so that no additional liability should accrue to AIDEA. All of the due diligence, with the exception of additional limited Phase II environmental reviews, will be completed prior to the close of the transaction.

## Legal/Regulatory Due Diligence

Mark Davis of AIDEA and Jerry Juday of the Department of Law examined the documents in the data room for legal matters and to evaluate legal risks. They identified a number of issues related to potential legal and liability matters and sought and received additional information on those matters. The purchase agreement was refined so that certain potential liabilities remain with Pentex after closing. AIDEA also ordered title reports on all the real property owned by Pentex and determined that the major lien on the properties is the AIDEA SETS loan that was approved by the Board. Additionally, Pentex provided updated title reports and AIDEA has compared all the extant title reports and obtained a needed correction on an easement in one instance.

AIDEA also received information, advice and analysis regarding utility regulatory matters from Lisa Ross at Birch Horton. Key to the regulatory analysis is the potential impact of RCA and Attorney General's actions regarding, respectively, FNG's rate case and the Harvest gas supply agreements.

RCA approval of the transfer of ownership of the FNG certificate will, of course, be a condition precedent to closing of the AIDEA Pentex acquisition. Ms. Ross is working with Pentex counsel to prepare in draft the needed RCA application for permission to transfer FNG's CPCN No. 514.

To date, the legal/regulatory due diligence has not found anything that would stop AIDEA from proceeding with the proposed investment in Pentex.

## Financial / Business Planning Due Diligence

Mark Gardiner of AIDEA's financial advisor, Western Financial Group, and Ted Leonard – AIDEA Director Emeritus – were responsible for financial due diligence. This involved reviewing all the financial statements provided in the Pentex data room, securing outside financial information sources, and financial analysis based on that information. WFG also developed business and financial plans for the potential AIDEA acquisition. To date, the Financial /Business Planning Due Diligence has not found anything that would stop AIDEA from proceeding with the proposed investment in Pentex. In fact based on a the financial analysis completed, this proposed strategic acquisition would promote an integrated distribution system that can be built and operated in a more efficient manner for the benefit of all Interior Residents and Businesses. This strategic investment will support the Interior Energy project and promote lowering energy



cost in Interior Alaska, which will have a positive economic impact to the region.

## Valuation Due Diligence

WFG engaged The Brattle Group (TBG) under a subcontract to evaluate whether the proposed Pentex acquisition price is within the expected range for comparable companies and transactions. The TBG report is available as a separate document. The TBG report confirms that, based on market valuations and comparable transactions, the negotiated price for AIDEA's purchase of Pentex is within the market range of potential prices.

The conclusion section of the TBG draft report is excerpted below:

*Using the acquisition price to be paid by AIDEA for Pentex (including and excluding the sale of Titan) as a proxy for Pentex's EV, we can estimate the implied multiples for Pentex (including and excluding the proposed sale of Titan) and compare those to the Trading and Transaction multiples for similar assets. These figures are summarized in Table 31 below*

Table 31: Summary of Multiples

US Dollar (in \$Millions), unless otherwise noted						
	2015	2014	2013	2015	2014	2013
<b>Pentex (incl. Titan, Using Book Value of Debt) <sup>(1)</sup></b>	<b>EV / BV (Incl. Cash)</b>			<b>EV / EBITDA (Incl. Cash)</b>		
Pentex EV - (at acquisition price)	1.49x	1.49x	1.80x	13.79x	22.47x	11.51x
Pentex EV - (assuming 10% acquisition premium)	1.35x	1.35x	1.64x	12.54x	20.43x	10.46x
Pentex EV - (assuming 20% acquisition premium)	1.24x	1.24x	1.50x	11.49x	18.73x	9.59x
<b>Pentex (excl. Titan, Using Book Value of Debt) <sup>(2)</sup></b>						
Pentex EV - (at acquisition price)	1.44x	1.44x	1.61x	10.36x	16.88x	8.64x
Pentex EV - (assuming 10% acquisition premium)	1.31x	1.31x	1.46x	9.41x	15.34x	7.86x
Pentex EV - (assuming 20% acquisition premium)	1.20x	1.20x	1.34x	8.63x	14.06x	7.20x
<b>Pentex (incl. Titan, Using Estimated Fair Value of Outstanding Debt) <sup>(3)</sup></b>	<b>EV / BV (Incl. Cash)</b>			<b>EV / EBITDA (Incl. Cash)</b>		
Pentex EV - (at acquisition price)	1.41x	1.41x	1.71x	13.10x	21.34x	10.93x
Pentex EV - (assuming 10% acquisition premium)	1.29x	1.29x	1.56x	11.91x	19.40x	9.94x
Pentex EV - (assuming 20% acquisition premium)	1.18x	1.18x	1.43x	10.91x	17.79x	9.11x
<b>Pentex (excl. Titan, Using Estimated Fair Value of Outstanding Debt) <sup>(4)</sup></b>						
Pentex EV - (at acquisition price)	1.34x	1.34x	1.50x	9.66x	15.75x	8.06x
Pentex EV - (assuming 10% acquisition premium)	1.22x	1.22x	1.36x	8.79x	14.32x	7.33x
Pentex EV - (assuming 20% acquisition premium)	1.12x	1.12x	1.25x	8.05x	13.12x	6.72x
<b>Trading Comparables Sample <sup>(5)</sup></b>						
Median		1.44x	1.31x		9.95x	12.00x
Min		1.20x	1.20x		7.80x	7.74x
Max		1.71x	1.54x		19.08x	22.84x
<b>Transactions Comparables Sample <sup>(6)</sup></b>						
Median		1.47x			9.57x	
Min		1.01x			6.17x	
Max		2.33x			11.82x	

Notes:

EV = Enterprise Value for Pentex is assumed to be the proposed equity purchase price with net working capital adjustment, plus interest-bearing debt.

2015 asset multiples are assumed to approximate 2014 asset multiples. 2015 EBITDA multiples are estimated based on the average of 2010 through 2014 EBITDA multiples.

[1] See Exhibit No. 1 for details of EV multiples. We assume the Titan Sale is NOT completed and used the book value of debt.

[2] See Exhibit No. 2 for details of EV multiples. We assume the Titan Sale is completed and used the book value of debt.

[3] See Exhibit No. 3 for details of EV multiples. We assume the Titan Sale is NOT completed and used the estimated fair value of outstanding debt.

[4] See Exhibit No. 4 for details of EV multiples. We assume the Titan Sale is completed and used the estimated fair value of outstanding debt.

[5] See Table 1 for details.

[6] See Table 2 for details.

The EV to BV ratios of Pentex are 1.4938 and 1.4131 (including Titan's assets) and 1.4434 and 1.3425 (excluding Titan's assets). The EV to EBITDA ratios are 13.79 and 13.10 (including Titan) and 10.36 and 9.66 (excluding Titan). The 2015 EV to BV ratios are in-line with below the median of both trading and transaction multiples. The 2015 EV to EBITDA ratios (including Titan) are above median but within the range observed for Trading Multiples of other LDCs, while 2015 EV to EBITDA ratios (excluding Titan) are in-line with below median. The EV to EBITDA multiples of Pentex (including Titan) are higher than the maximum of the Transaction Multiples range, while those excluding Titan are within the range – albeit at the higher end. As discussed earlier, Pentex's EBITDA has declined substantially in 2014 relative to historical values. As such, we used the average EV/EBITDA ratio for 2010 through 2014 as a normalized proxy for 2015 EV/EBITDA ratio. Further, Pentex has deferred loan at the acquisition date.

The estimated fair value of the deferred outstanding debt is much lower than the book value; therefore use of the book value of the long-term debt may overstate Pentex's enterprise value and the EV-based ratios. Finally, due to the variability in EBITDA leading up to the acquisition date, the EBITDA multiple might not be a meaningful indicator for the value of Pentex at the acquisition date.

AIDEA's financial advisor, Western Financial Group, translated the ratios from the Brattle Group report to estimated enterprise values for Pentex as a whole and for FNG. The table below summarizes that analysis. The conclusion of the Brattle Group and WFG analysis is that the price negotiated for the Pentex acquisition is within the range of comparable transactions.

Pentex Compared to the Brattle Group Market Valuation Ratios			Converted to \$ for Comparison to PENTEX Price (in \$millions)		PSA Pentex Price
	EV/BV	EV/EBITDA	Based on EV/BV (2014)	Based on EV/EBITDA (5 yr. avg.)	Based on Market Value Debt
Based on mkt. value debt	1.41	-			
Based on 5-year average		13.10			
<b>Brattle Group Trading Multiples</b>					
Max	1.75	18.59	\$ 71.4	\$ 90.6	
Median	1.42	11.29	\$ 57.9	\$ 55.0	\$ 57.78
Min	1.19	7.41	\$ 48.6	\$ 36.1	
<b>Brattle Group Transaction Multiples</b>					
Max	2.33	11.82	\$ 95.1	\$ 57.6	
Mean	1.54	9.19	\$ 62.8	\$ 44.8	
Median	1.47	9.57	\$ 60.0	\$ 46.6	\$ 57.78
Min	1.01	6.17	\$ 41.2	\$ 30.1	
FNG-only Compared to The Brattle Group Market Valuation Ratios			Converted to \$ for Comparison to FNG Price (in \$millions)		PSA FNG Price
	EV/BV	EV/EBITDA	Based on EV/BV (2014)	Based on EV/EBITDA (3 yr. avg.)	Based on Market Value Debt
Based on mkt. value debt	1.34	-			
Based on 3-year average		9.66			
<b>Brattle Group Trading Multiples</b>					
Max	1.71	19.08	\$ 54.4	\$ 73.5	
Median	1.44	9.95	\$ 45.8	\$ 38.3	\$ 42.63
Min	1.20	7.80	\$ 36.2	\$ 30.0	
<b>Brattle Group Transaction Multiples</b>					
Max	2.33	11.82	\$ 74.1	\$ 45.5	
2014 transactions only	1.92	11.49	\$ 61.1	\$ 44.2	
Median	1.47	9.57	\$ 46.8	\$ 36.9	\$ 42.63
Min	1.01	6.17	\$ 32.1	\$ 23.6	
EBITDA	Earnings before interest, taxes, depreciation & amortization				
BV	Book value				
EV	Enterprise value (price)				
Trading multiples	Multiples based on market valuation for publicly traded companies				
Transaction multiples	Multiples based on private market mergers and acquisitions				



## Technical/Environmental Due Diligence

Kirk Warren of AEA and Mark Davis of AIDEA, respectively, led AIDEA's technical and environmental review of the Pentex transaction. AEA undertook responsibility for a physical inspection of the Fairbanks properties as well as a review of the environmental disclosure documents that were provided by Pentex. AIDEA undertook the retention of HDR and a subcontractor, Shannon & Wilson, to conduct what are termed Phase I assessments of four properties owned by Pentex as well as a site review of a leased property.

### Technical Due Diligence

Mr. Warren reviewed the relevant documents in the Pentex data room and has requested additional documents which were either electronically presented, or presented in person during the physical inspection of FNG records in Fairbanks. He conducted also oversaw site visits to Fairbanks to review construction documents and to evaluate the condition of the FNG physical plant. Mr. Warren also coordinated a site visit for AIDEA's team (including HDR and MEI as technical advisors) to inspect the Titan LNG facilities in Port MacKenzie and the regasification and storage facilities in Fairbanks.

Reports have been completed for the inspection of the Titan LNG Plant Facility at Port McKenzie, for the regasification and storage facilities in Fairbanks and finally for the inspection of the construction records and operational controls in place for FNG. These reports contain proprietary information and are confidential. The AIDEA Board will be briefed in executive session regarding these reports.

### Environmental Due Diligence

AIDEA retained HDR, which has served as project engineer and consultants to the project to conduct Phase I assessments of four Pentex properties. To conduct this work, HDR subcontracted with Shannon & Wilson, Inc., a firm that specializes in geotechnical and environmental assessments.

The purpose of a Phase I environmental assessment is set out, in pertinent part, in the commentary to ASTM E1527, an industry standard recognized by the EPA as follows:

1.1 *Purpose*—The purpose of this practice is to define good commercial and customary practice in the United States of America for conducting an *environmental site assessment* of a parcel of *commercial real estate* with respect to the range of contaminants within the scope of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) (42 U.S.C. §9601) and *petroleum products*.

A Phase I assessment was completed on four Pentex properties: (1) the Titan LNG property at Point McKenzie; (2) two properties used by FNG in Fairbanks for LNG storage and regasification; and (3) a property in Wasilla that is used as an LNG fueling station that is leased by Pentex from a third party.

### **Environmental Assessment of Titan Property**

The review of the Titan real property identified a matter that Pentex has disclosed regarding a spill of petroleum products that has been partially remediated. This resulted in the property being listed on an Alaska Department of Environmental Conservation database as a contaminated site. Essentially, ADEC is satisfied with the remediation, but it is recognized that that DRO impacted soils in quantities above clean-up levels remain on site. These soils are underneath an existing building. As long as the building stays in place and the utilization of the building does not change, then further remediation is not needed. HDR confirmed with ADEC that AIDEA's proposed purchase of Titan will not alter this exempt status. If the building was removed, it is estimated that excavation and disposal of the impacted soils would cost in the range of \$80,000 to \$100,000.

However, one matter at the Titan site involving an industrial drain was deemed to need further investigation by the contractors. AIDEA has authorized HDR and Shannon & Wilson to conduct what is known as a Phase II environmental assessment of the drain issue. A Phase II assessment is conducted on sites where it is likely that contaminants will be found to ascertain if remediation or corrective steps are needed. As with the Phase I examination, this process is governed by an industry standard, ASTM E 1903.

### **Environmental Assessment of FNG Properties in Fairbanks**

At FNG's site at the Metro Industrial Airpark in Fairbanks it was noted that there is a potential for offsite contamination migration coming in from an adjacent parcel of land owned by a third party. AIDEA's consultants indicate that this matter is under investigation by ADEC and should not pose a financial risk to AIDEA if Pentex is purchased.

FNG also has real property in the Tanana Levee Industrial park in Fairbanks. Several areas of surface staining were observed during a site visit and there are no records regarding those stained areas. As a result, AIDEA asked its consultants to perform a Phase II environmental assessment of these surface stained areas to determine if the stains represent the presence of environmental hazardous substances in quantities that would require remediation or removal of soils.

## E. RISK ANALYSIS & RISK MITIGATION

### Risk Mitigation

The table below presents the major potential risks in the Pentex acquisition transaction as well as mitigation measures for these risks. AIDEA will actively monitor these and any other risks that may develop through the life of the project, employing appropriate mitigation measures as necessary.

RISK	ISSUES	MITIGATION MEASURE
Environmental	<ul style="list-style-type: none"><li>• There is no indication, either in documentation or in other information available, that there is likely to be any significant environmental liability at Pentex sites.</li><li>• There are two known environmental issue at the Port MacKenzie plant site – a past lubricating oil spill.</li><li>• Future operations of both the Titan and FNG facilities involve some level of potential environmental risk</li></ul>	<ul style="list-style-type: none"><li>• AIDEA has contracted with HDR to conduct a Phase II Environmental Assessment of the Port MacKenzie plant site in order to determine the order of magnitude of, and mitigation plan for the known environmental issue.</li><li>• AIDEA sign-off on all environmental risks / remediation will be a condition precedent to closing. AIDEA has also negotiated for sufficient liability responsibility to remain with the current Pentex owners for some period after closing.</li></ul>

Regulatory	<ul style="list-style-type: none"> <li>• Both the RCA and the Attorney General's office are reviewing the Pentex/Harvest agreements.</li> <li>• If the Harvest agreements don't close, AIDEA will be left with a higher than anticipated investment, and an LNG plant without a long-term natural gas supply contract.</li> <li>• AIDEA will need to develop a plan for this potential eventuality – both to plan for additional gas supply (in coordination with the overall State IEP effort in this area) and for the disposition of the Port MacKenzie facility.</li> <li>• FNG is the only private sector entity currently serving Interior Alaska customers with natural gas, and it has the RCA- granted certificate rights to provide the core Fairbanks area with natural gas.</li> <li>• The RCA must approve transfer of the FNG certificate first to AIDEA, then to the LCE.</li> </ul>	<ul style="list-style-type: none"> <li>• To close on the purchase, AIDEA must obtain RCA approval of certificate for the transfer is of control over FNG, a condition precedent certificated utility.</li> <li>• As a political subdivision of the state, a utility owned by the authority will not be regulated by the RCA, and an AIDEA-owned utility would be akin to closing this transaction a utility owned by a borough government.</li> <li>• In the event that the Pentex/Harvest agreements do not survive RCA or Attorney General review, and Hilcorp does not complete the purchase, AIDEA will implement contingency plans which include: <ul style="list-style-type: none"> <li>• Secure a long term agreement for gas supply from Hilcorp.</li> <li>• Seek a new agreement with Hilcorp to purchase and expand the Titan and AET assets under terms acceptable to the RCA and/or AG</li> <li>• Seek alternative sources of gas and/or purchasers of the Titan assets.</li> <li>• Since FNG has a contract with Hilcorp to supply gas until March 31, 2018, there will be time to evaluate options and implement an alternative plan.</li> </ul> </li> <li>• AIDEA will need to develop a plan for a potential failure of the Harvest transactions. <ul style="list-style-type: none"> <li>– both to plan for additional gas supply (in coordination with the overall State IEP effort in this area) and for the disposition of the Port MacKenzie facility.</li> </ul> </li> <li>• Implement an alternative plan.</li> </ul>
Trucking / transportation	<ul style="list-style-type: none"> <li>• FNG's contract with Carlile was terminated in March.</li> <li>• FNG has secured short-term contracts with two additional trucking firms, coterminous with the planned timing of the Titan and AET sale to Harvest.</li> <li>• If the Harvest agreements don't close, no long term trucking solution will be in place.</li> </ul>	<ul style="list-style-type: none"> <li>• In the event that the Harvest transaction does not close, AIDEA is confident that there will be sufficient competition for the LNG trucking business to ensure that this cost will not increase sufficiently to adversely affect FNG's cost of delivered LNG.</li> <li>• AIDEA/AEA will also be exploring the potential of rail transportation of LNG in the larger project to secure additional supplies of LNG.</li> </ul>

Economic / Financial	<ul style="list-style-type: none"> <li>• There is a concern among the AIDEA team that the financial plan for FNG would be at risk of political pressure to reduce rates, thereby endangering the feasibility of the financing.</li> <li>• When oil prices are low, natural gas is less competitive as an alternative space-heating fuel in FNSB. If oil prices are low for the initial period of the project, conversions will be stalled and the broader economic base of system expansion will be delayed.</li> <li>• AIDEA has not yet negotiated with an LCE to buy (or otherwise take over) FNG for the long term. There is some risk that AIDEA will be unsuccessful in seeking an LCE that will acquire FNG at AIDEA's desired price.</li> </ul>	<ul style="list-style-type: none"> <li>• AIDEA will be acquiring an established natural gas utility with a long track record of profitable, cash-flow-positive operations. In a status-quo operating environment, there is limited risk to AIDEA's investment.</li> <li>• By lowering the overall cost of delivered gas through the FNG distribution system, AIDEA has enhanced the competitive position of natural gas as an alternative fuel.</li> <li>• At current oil prices, FNG's demand for gas is down, but is still sufficient to cover current operating and capital costs. Should oil prices remain at the current low levels on an ongoing basis, FNG would need to develop a business plan based on supplying only the current core customers.</li> <li>• If market conditions keep alternative fuel costs low, AIDEA (and/or the LCE) can defer the system expansion program and focus on existing customer base, which can generate sufficient revenues to meet all costs.</li> <li>• AIDEA is confident that an LCE will accept AIDEA's proposed terms, given the substantial community savings involved in the potential consolidated utility. In the event, however, that AIDEA is unable to reach agreement with an LCE to acquire FNG on acceptable terms, AIDEA will seek offers from 3rd party utilities to lease or acquire the FNG system.</li> </ul>
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<p>LNG / Natural Gas Supply</p>	<ul style="list-style-type: none"> <li>• If the Pentex/Harvest agreements are not approved (and this occurs after AIDEA acquires Pentex), AIDEA would own the Port MacKenzie plant with a limited volume gas supply contract.</li> <li>• If the IEP is unsuccessful in securing additional long-term, lower cost natural gas supplies, the expansion plans for FNG and the combined utilities will be stalled.</li> </ul>	<ul style="list-style-type: none"> <li>• AIDEA's acquisition of Pentex and FNG is not dependent on securing a supply of lower cost natural gas from Cook Inlet or using any particular supply of gas for expanded demand.</li> <li>• Nothing in the proposed Pentex/AIDEA purchase restricts AIDEA and AEA from pursuing these other supply options.</li> <li>• AIDEA and AEA are continuing to evaluate all other options for LNG supplies for the Interior space heating markets – for both IGU and FNG – and for potential electric generation purposes as well.</li> <li>• AIDEA will develop a “limited growth” operating plan for FNG, which will include sufficient reductions in operating cost to maintain positive cash flow in a continuing low oil price environment. AIDEA's pro forma projections include estimates of the effects of these conditions.</li> </ul>
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## F. SUMMARY

Through AIDEA's proposed temporary ownership of Pentex, Fairbanks Natural Gas ("FNG") will be in a position to work closely with one or more "local control entities" in the Fairbanks North Star Borough ("FNSB") to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers' price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single, locally controlled utility serving the Interior.

AIDEA's financial projections for the consolidated FNSB utility indicate that significant savings – up to \$30 million or 18% over the first 10 years – can be achieved as a result of this AIDEA investment.

The project plan calls for an initial \$54 million investment by AIDEA, reduced to \$38.85 million by the sale of the Titan/Port MacKenzie LNG plant to Harvest/Hilcorp in Q4 2015, then a transfer of the remaining (principally FNG) assets to the locally controlled utility by the end of 2016. AIDEA would provide "launch" financing to recapitalize the FNSB utility, taking out the proposed AIDEA Pentex investment with an appropriate return, and providing the FNSB community with the lowest-cost alternative to current energy sources.

In addition to the long-term benefits, AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers. The current return to Pentex's owners is substantially higher than AIDEA's cost of capital, and certain other costs related to corporate ownership would be eliminated or reduced. AIDEA's acquisition of Pentex will result in significantly reduced costs due to the elimination of corporate-related expenditures – almost all of which "leaks" out of the FNSB. These costs include taxes, investor fees and profits. The benefits of these cost reductions can be passed on to FNSB commercial and residential ratepayers. This should enable an immediate rate reduction of approximately 13.3% and will assist the Interior Energy Project to provide energy relief to Interior residents by the winter of 2015-2016.

AIDEA has conducted extensive due diligence on the Pentex companies, their assets and liabilities and has identified no issues in that due diligence that prevent or should stall the acquisition.

AIDEA Management and the IEP Team recommend board approval of the Pentex Acquisition Project and the related Resolutions No. G15-09, No. G15-10, No. G15-11.

The project represents an opportunity for a strategic investment that can provide the catalyst for a much lower cost energy system for Interior Alaska and an appropriate investment return for AIDEA.



Investing in Alaskans

813 West Northern Lights Blvd. Anchorage, Alaska 99503

Phone: (907) 771-3000

Fax (907) 771-3044

Toll Free (Alaska Only) 888-300-8534