



Pentex Alaska Natural Gas Company, LLC



November 14, 2013

VIA EMAIL: mdavis@aidea.org
gardiner@westernfinancialgroup.com

Alaska Industrial Development & Export Authority (AIDEA)
Attn: Mark Davis, Infrastructure Development
813 West Northern Lights Boulevard
Anchorage, AK 99503

Re: Northern Gas Supply Plant – Final Term Sheet

Dear Mr. Davis,

Pentex and its subsidiaries Polar LNG, LLC (“Polar”) and Fairbanks Natural Gas, LLC (“FNG”) are pleased to submit the attached Term Sheet and related documents for consideration by AIDEA as requested in your letter to Pentex dated November 13, 2013.

Pentex is uniquely qualified to work with AIDEA to ensure Alaskans receive the maximum benefit of the State involvement in the Interior Energy Project (“IEP”). Pentex has the necessary operating experience to ensure all aspects of the IEP are met, including production, transportation and storage of Liquefied Natural Gas (“LNG”). In addition, through its wholly-owned subsidiary FNG, Pentex can maximize the availability of natural gas to consumers in Fairbanks, resulting in increased market demand to achieve the desired economic goals of the IEP.

Pentex and its Alaskan employees and management team are committed to the successful implementation of the Interior Energy Project and completion of an LNG plant on the North Slope. We look forward to working with AIDEA to finalize this important project for Alaska, and to begin bringing additional quantities of natural gas to the Interior as soon as possible.

Sincerely,

Daniel W. Britton, President
Pentex Alaska Natural Gas Company, LLC

Attachments: Pentex – AIDEA Term Sheet
Appendices to Pentex - AIDEA Term Sheet

Item	Terms
1. Borrower	Polar LNG, LLC (“POLAR”) <i>A company formed by PENTEX to own, design, permit, construct, operate and maintain the Northern Gas Supply Plant (“NGSP” or “Project”) in order to produce and sell LNG for the Interior Alaska energy market.</i>
2. Sponsor Parties	Pentex Alaska Natural Gas Company, LLC (“PENTEX”), Fairbanks Natural Gas, LLC (“FNG”), PENTEX affiliate companies (“PENTEX Affiliates”) with interests or obligations related to the NGSP
3. Lender/Lessor	Alaska Industrial Development & Export Authority (“AIDEA”)
4. Project Description	<p>The NGSP will be an LNG production facility with initial 9 Bcf annual capacity located in the Prudhoe Bay Unit on the North Slope. The Plant will be developed to the following requirements:</p> <p>NGSP Capacity Requirements</p> <ul style="list-style-type: none"> • First gas targeted for September 1, 2015. <p>LNG Availability Requirements</p> <ul style="list-style-type: none"> • System designed, built & operated to North Slope requirements & standards • Redundant production capacity <ul style="list-style-type: none"> ▪ At least 2 trains ▪ At least 2 truck loaders • Adequate storage capacity for efficient plant operation <p>LNG Site Requirements</p> <ul style="list-style-type: none"> • Development plan adequate for ultimate 12-18 Bcf annual production system capacity at minimum • Prudhoe Bay Unit Owner site standards/approval. Approvals, permitting, site development in time for Q3 2015 gas <p>Propane Availability</p> <ul style="list-style-type: none"> • propane capability to be the maximum that is consistent with the gas supply and plant design <p>Project Budget</p> <ul style="list-style-type: none"> • Attached as Appendix #1, is Polar LNG’s capital budget. Note the capital budget at \$160,000,000 is inclusive of a \$20,052,641 contingency and is based on 2012 dollars. Further contingency refinements and inflation estimates may be agreed to by Pentex and AIDEA for final project budgeting. The Low estimate established by the sources and uses of funds (Appendix A) is greater than Polar’s capital budget projection, and should be sufficient to allow for

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	<p>additional contingency and reduction in unfunded project completion overrun risk.</p>
<p>5. AIDEA SETS Loan</p>	<p>AIDEA SETS Loan for plant system acquisition and construction</p> <ul style="list-style-type: none"> • Initially estimated to be \$115 million (Up to \$125.0 million subject to the AIDEA / PENTEX negotiated budget) • 30 year term • 3.00% annual interest • 30 year level debt service amortization • Capitalized interest payments during the development period (closing to commissioning) • Any principal deferred during the first 5 years to be re-amortized over the remaining 25 years <p>Subordination of cash flow:</p> <ul style="list-style-type: none"> • AIDEA will have a subordinate claim on POLAR cash flows, as set forth in Section 13. If cash flows in any period are insufficient to fully pay principal and interest payments to AIDEA under the AIDEA SETS Loan that are due for such period, such unpaid amounts will amortize and accrue to later periods. <p>Security:</p> <ul style="list-style-type: none"> • AIDEA will have a security interest in all of the POLAR Project assets, which security interest will be subordinate to the security interest in such Project assets and revenues that is held by a non-affiliated lender providing financing to POLAR for the NGSP. AIDEA and such non-affiliated Project lender will enter into an Inter-creditor Agreement that will provide for the rights and remedies of AIDEA and such Project lender following an event of default under the AIDEA SETS Loan and/or such Project lender’s loan.
<p>6. AIDEA Site & Equipment Lease</p>	<p>AIDEA will finance an estimated \$40 million in certain permitting, site leasing, site improvements, infrastructure, pipeline connections and gas treatment equipment (collectively the “AIDEA Site & Equipment Assets”) which will be leased to POLAR:</p> <ul style="list-style-type: none"> • 30 year term • NGSP Operating lease payments to AIDEA based on actual annual costs to operate and maintain the AIDEA Site and Equipment assets • Capital lease payments recovery would be required in certain circumstances due to, for example, sale of assets, uncured PENTEX events of default, etc. <p>The AIDEA SETS Loan and the AIDEA Site & Equipment Lease will be,</p>

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	collectively, the “AIDEA Financing”.
<p>7. PENTEX Investment</p>	<p>Up to \$50 million investment funded through combination debt or equity financing with a minimum of \$20 million funded by PENTEX as equity to POLAR. PENTEX will be credited funds already expended in the development of a North Slope LNG plant estimated at \$5MM, making PENTEX’s additional cash equity investment in POLAR \$15MM. PENTEX will use its best commercial efforts to arrange for the remaining \$30 million investment from third parties. All costs associated with this capital raise will be considered Project expenses and will not be part of the rate of return calculation outlined below.</p> <p>Pentex allowed return on equity shall be 12.5% after tax and the weighted average cost of capital associated with the Pentex investment shall be calculated based on actual cost of third party debt and the 12.5% equity return.</p> <p>A portion of the revenue generated from sales to non-Preferred Customers will flow to POLAR with the remainder used to defray the cost of plant operations.</p>
<p>8. Sources & Uses of Funds</p>	<p>The Project will be funded as detailed in <u>EXHIBIT A – SOURCES & USES</u></p> <p>Prior to reaching definitive agreement for the AIDEA Financing, PENTEX and AIDEA will each be responsible for its own transaction costs except as provided under any Reimbursement Agreement between PENTEX and AIDEA.</p> <p>AIDEA will advance-fund certain AIDEA Site and Equipment Assets. PENTEX will be required to commit equity at “closing” – when full development agreements and financing documents are completed and executed.</p>
<p>9. Development Process</p>	<p>The NGSP will be developed by PENTEX in conformance with a Plan of Development as revised and adopted by PENTEX and AIDEA in the relevant financing agreements.</p> <p>AIDEA will provide assistance and guidance to PENTEX/POLAR in determining the development process, specific plant configuration and elements, etc.</p>
<p>10. Escrow/ Disbursement of Project Funds</p>	<p>AIDEA and PENTEX will enter into a Project Disbursement Agreement which will provide, among other things, that:</p> <ul style="list-style-type: none"> • AIDEA Financing and PENTEX equity Investment will be escrowed in

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	<p>a Project Disbursement Fund</p> <ul style="list-style-type: none"> • PENTEX will have until December 31, 2014 to fund the disbursement account. • The Project Disbursement Agreement will cover contingencies in disbursement if plant cost completion estimates are below or above the figures set forth in item #8 above. • Although AIDEA may expend certain funds on the AIDEA Site & Equipment Lease Assets early in order to meet development timelines, after closing, PENTEX funds will be drawn pro rata with AIDEA funds.
<p>11. Project Completion</p>	<p>AIDEA will require a development process that ensures that the PENTEX Investment will be sufficient to complete the Project, with a maximum AIDEA completion reserve limited to \$10 million and only drawn after the PENTEX Investment is expended.</p> <p>PENTEX will arrange for financing commitments totaling up to \$50 million available to POLAR, with a minimum contribution by PENTEX of \$20 million. A Project development and construction budget will be agreed to by POLAR and AIDEA. The parties shall agree to an appropriate mechanism for dealing with cost overruns above and beyond those covered by project contingency funds and AIDEA completion reserve.</p>
<p>12. Project Operations</p>	<p>The NGSP will be operated by POLAR in accordance with an Operating Agreement to be negotiated between PENTEX and AIDEA. The Operating Agreement will provide for a base fee, which will include a pass through of direct costs and an incentive fee based on operating performance. The Operating Agreement will be benchmarked against comparable operating contracts. Attached, as Appendix #2 is Polar's projected annual operating costs, excluding transportation and feed gas.</p>
<p>13. Operating Flow of Funds</p>	<p>The flow of funds for NGSP during the operating period of the Project will be as follows:</p> <ol style="list-style-type: none"> 1. POLAR operating costs 2. AIDEA Site & Equipment Lease Operating Payments 3. Debt service on POLAR Project lender debt 4. Deposits into reserves (as required under the terms of the AIDEA Financings) 5. Base return on PENTEX equity investment and return of PENTEX equity investment as agreed to by negotiation as set forth in # 7 above 6. AIDEA SETS financing payments and (to the extent applicable) Capital lease payments under AIDEA Site & Equipment Lease <p><i>IF funds are sufficient AND LNG pricing targets are met, subject to</i></p>

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	<p><i>adjustment over time to account for inflation:</i></p> <p>7. PENTEX incentive return (terms to be negotiated)</p>
<p>14. PENTEX Covenants</p>	<p>As a condition of the AIDEA SETS Financing and the AIDEA Site and Equipment Lease, PENTEX, FNG and any relevant PENTEX Affiliates will:</p> <ul style="list-style-type: none"> • FNG shall commit to purchase all of its LNG requirements from POLAR other than those currently supplied by the Pt. Mackenzie LNG Facility. • FNG shall enter into a minimum take commitment on the schedule detailed in <u>EXHIBIT B –Minimum Take Commitment Schedule</u>. These minimum take commitments are subject to AIDEA providing financing to FNG for its distribution expansion. • Commit to a build-out schedule for FNG’s FNSB distribution system negotiated with AIDEA, and as initially detailed in <u>EXHIBIT C – Distribution Build-out Schedule</u>. AIDEA and PENTEX will negotiate a funding agreement to support the negotiated build-out schedule, on the principle that AIDEA funding will be sufficient to achieve the schedule in EXHIBIT C. • PENTEX agrees that AIDEA must approve any PENTEX change of control that affects NGSP terms, conditions, obligations and rights. AIDEA will agree to commercially reasonable change of control approval terms and conditions. • PENTEX will agree to negotiate for AIDEA to have an option to buy out any third party debt in POLAR, subject to make whole payments, on terms to be negotiated prior to closing. • PENTEX will agree to financial transparency on all entities engaged in the NGSP and to cap Preferred Customer returns to PENTEX. The following entities will be subject to economic return limits: <ul style="list-style-type: none"> ▪ POLAR – to be negotiated in AIDEA financing agreements ▪ FNG - rate of return will be set by the Regulatory Commission of Alaska ▪ Any PENTEX trucking entity carrying LNG from the North Slope plant – pricing of inter company transportation services will be subject to RCA review. Alternatively this contract can be subject to competitive bid. ▪ Titan – to the extent that it supplies LNG to FNSB space-heating and utility customers; pricing of inter-company sales of LNG will be subject to RCA review.
<p>15. Supplying Preferred Customers</p>	<p>POLAR will offer LNG FOB Deadhorse to preferred customers (“Preferred Customers”) that make appropriate volume and term commitments in the following priority:</p> <p>1. LNG sold under agreements to FNSB LDC(s) for residential and commercial space heating</p>

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	<p>2. LNG sold under an agreement with GVEA for electric utility purposes provided GVEA makes appropriate volume and term commitments</p> <p>3. LNG sold under agreements with regulated utilities (LDCs and electric) outside of the FNSB</p> <p>4. LNG sold under agreement to industrial customers located in Interior Alaska (e.g., refineries, mines)</p> <p>For the avoidance of doubt, the following categories of users will not be considered Preferred Customers:</p> <ol style="list-style-type: none"> 1. Any use by parties that are not regulated utilities and are located outside of Interior Alaska. 2. Any use of LNG as a transportation fuel other than LNG used as fuel in the transport of LNG to Preferred Customers. <p>All propane produced will be made available to Preferred Customers on the same priority basis as LNG.</p>
16. Expansion	<p>PENTEX, with prior approval from AIDEA, such approval not be unreasonably withheld, has the option to expand the NGSP using its own financing under the AIDEA Site and Equipment Assets lease agreement. Any such expansion that is 100% funded by PENTEX will not be subject to the supply priorities outlined in section 15.</p> <p>AIDEA has the option to expand the NGSP using its own financing to ensure adequate capacity to provide LNG sales to Preferred Customers.</p>
17. Tax Incentives	<p>PENTEX may apply for and receive the benefit of any applicable federal or state tax credits, deductions, depreciation treatment, or payments.</p>
18. Alternative Gas Supply	<p>The initial definition of Alternative Gas Supply will be a supply which:</p> <ul style="list-style-type: none"> • Brings a long-term, substantial supply of natural gas to FNSB, more than sufficient to meet the requirements of utilities that have or are purchasing LNG from the plant. • Otherwise meets the SB23 and other public policy objectives being addressed by the POLAR North Slope LNG plant. <p>PENTEX and AIDEA will make an annual determination whether there is significant probability that an Alternative Gas Supply will become available at a known future date. In the event of an Alternative Gas Supply Determination, PENTEX would have a one-time option to terminate its future participation in POLAR.</p> <p>Based on an Alternative Gas Supply Determination, and on the election of PENTEX to terminate future participation, the AIDEA financing agreements</p>

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	<p>will provide that:</p> <ul style="list-style-type: none"> • Payments on the AIDEA SETS Financing will be suspended • All available POLAR net revenues beyond scheduled Project lenders' debt service payments will be used <ul style="list-style-type: none"> ○ to retire remaining PENTEX equity principal ○ to satisfy any accrued but unpaid PENTEX return on investment • PENTEX return on investment will terminate with the retirement of PENTEX equity. • All Project assets will be transferred to AIDEA. <p>If PENTEX elects to continue future participation, PENTEX's ownership in POLAR will continue and all related rights and all existing operations agreements, lease agreements, contracts, loan agreements, loan covenants, and conditions between POLAR and AIDEA will remain in effect.</p>
19. Right of First Offer	<p>AIDEA will have a right of first offer to purchase PENTEX/POLAR's interest in the NGSP site and assets in the event that PENTEX/POLAR seeks to sell or otherwise dispose of the plant site and assets.</p>
20. Default	<p>The NGSP financing agreements will include customary default conditions as well as provision for the treatment and effect of cross-defaults under any other relevant agreements. Without limitation, such defaults will include:</p> <ul style="list-style-type: none"> • Payment default • Covenant default • Abandonment of the Project • Failure of POLAR or the Sponsor Parties to apply insurance proceeds as approved by AIDEA (and, if applicable, the Project lenders) following destruction of the NGSP • Cessation of operation of the Project other than a temporary suspension of operations resulting from a force majeure event • Cessation, delay in the expansion of the PENTEX / FNG local distribution system expansion beyond an agreed expansion completion date, and assuming AIDEA financing has been provided as agreed. <p>Failure to complete or secure Conditions Precedent or Conditions Subsequent shall constitute events of default.</p> <p>In the event of an uncured default, customary remedies will be available to non-defaulting parties.</p>
21. Conditions Precedent to Closing	<p>Customary conditions precedent to closing, including, but not limited to:</p> <ul style="list-style-type: none"> • Negotiated NGSP development agreement

Pentex-AIDEA Term Sheet 11-14-13

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	<ul style="list-style-type: none"> • Negotiated FNSB FNG distribution system expansion agreement • Negotiated AIDEA / FNG distribution system financing agreement • Completion of mutual due diligence • Completed gas supply contract • Site secured • Trucking system plan completed, appropriate entities established • All available permits secured • 3Bcf minimum commitment purchases under contract • RCA approval / confirmation of FNG territory
22. Transfer restrictions/Change of Control	Neither PENTEX, nor any PENTEX affiliate, may transfer its interests or obligations under the POLAR Operating Agreement or under the PENTEX-AIDEA agreements without AIDEA’s prior approval, which approval shall not unreasonably be withheld. POLAR shall not sell all or substantially all of its assets without AIDEA’s prior approval, which approval shall not unreasonably be withheld.
23. Laws & Jurisdiction	All AIDEA financing agreements and any related agreements will be governed by Alaska law. Jurisdiction for all disputes under the agreements will be any court of appropriate jurisdiction in Anchorage.
24. Agreements List	TBD

EXHIBIT A – SOURCES & USES

	Low	Mid	High
Uses of Funds			
Northern Gas Supply Plant	\$125,000,000	\$135,000,000	\$145,000,000
Site & Equipment Leased from AIDEA	40,000,000	40,000,000	40,000,000
Working Capital	10,000,000	10,000,000	10,000,000
Total – Uses of Funds	\$175,000,000	\$185,000,000	\$195,000,000
Sources of Funds			
Pentex Investment	\$20,000,000	\$30,000,000	\$40,000,000
AIDEA – SETS Loan Financing	115,000,000	115,000,000	115,000,000
AIDEA Site & Equipment Funding	40,000,000	40,000,000	40,000,000
Total – Sources of Funds	\$175,000,000	\$185,000,000	\$195,000,000

EXHIBIT B – FNG MINIMUM TAKE COMMITMENT SCHEDULE

Contract Year	1	2	3	4	5	6
Bcf Committed	0.25	1.00	1.50	2.00	2.00	2.00

Requirements of Minimum Take Commitments can be satisfied with sales at any time of the year. In case ANS prices fall below \$75 per barrel for more than 30 days in any Contract Year, FNG's minimum take commitment shall be limited to no more than 1.0 BCF for such Contract Year.

EXHIBIT C – DISTRIBUTION BUILD-OUT SCHEDULE

	2014	2015	2016	2017	2018	2019	2020	Total
<i>(miles per year)</i>								
Existing Service Area	31	75	25	-	-	-	-	131
Expanded Service Area	-	-	50	75	75	75	75	350
Total Miles per Year	31	75	75	75	75	75	75	481

The PENTEX commitments are subject to the following qualifications:

- **For 2014 PENTEX’ build out commitment is subject to technical feasibility related to planning and mobilization.**
- **PENTEX’ commitment is subject to AIDEA financing being available.**
- **The expansion undertakings for the Expanded Service Area is subject to the RCA granting FNG the requested expansion of its certificated area.**
- **PENTEX’ commitment is subject to actual gas demand meeting conversion expectations and the build out not having a material adverse impact on rates for FNG’s customers.**

Appendix #1 – Polar LNG Project Budget

POLAR LNG
 BUDGET DEVELOPMENT
 NOPRTH SLOPE PLANT CONSTRUCTION COST ESTIMATE BY CONTRACT
 12/10/2012 Rev J

ITEM	CURRENT FORECAST	SOURCE
OWNER COSTS		
PROJECT STAFF	\$ 6,199,295	EST
OPERATOR TRAINING	\$ 1,927,800	EST
CONTINGENCY	\$ 20,052,641	EST
OWNER'S ENGINEER	\$ 2,361,884	EST
CONSULTANTS	\$ 650,989	QUOTE
OWNER COSTS SUBTOTAL	\$ 31,192,609	
LNG TANKS		
DEADHORSE (100,000 GAL)	\$ 1,836,040	QUOTE
LNG TANKS SUBTOTAL	\$ 1,836,040	
PIPELINE		
LINE	\$ 10,010,775	QUOTE
METERING MODULE INSTALL	\$ 336,600	
PIPELINE SUBTOTAL	\$ 10,347,375	
POWER GENERATION		
DEADHORSE FACILITY	\$ 17,377,533	QUOTE
DEADHORSE STBY GEN	incl	QUOTE
POWER GENERATION SUBTOTAL	\$ 17,377,533	
PROCESS EQUIPMENT		
LIQUEFIER/LPG/AIR PRE-COOLER	\$ 27,470,625	QUOTE
PRE-TREATMENT	\$ 6,781,855	QUOTE
N2 MAKEUP	\$ 298,452	QUOTE
PROCESS EQUIPMENT SUBTOTAL	\$ 34,550,932	
BALANCE OF PLANT		
CHI SUPPLIED EQUIPMENT		QUOTE
PIPELINE METERING MODULE	\$ 953,872	QUOTE
GAS CHROMATOGRAPH MODULE	\$ 238,706	QUOTE
LARGE MOTOR SOFT STARTERS	\$ 228,421	QUOTE
LPG TANK TRIM	\$ 83,356	QUOTE
LPG TRAILER LOADING STATION	\$ 405,600	QUOTE
LNG TANK VALVE SKID	\$ 791,363	QUOTE
LNG TANK VALVE SKID	\$ 826,809	QUOTE
LNG TRAILER LOADING STATION	\$ 1,523,827	QUOTE
LNG TRACTOR FUELING STATION	\$ 745,884	QUOTE
BOIL-OFF COMPRESSORS & FUEL GAS	\$ 2,421,931	QUOTE
HOT OIL SYSTEM	\$ 1,671,009	QUOTE
WEG COOLING SYSTEM	\$ 1,708,986	QUOTE
FLARE MODULE	\$ 510,342	QUOTE
NITROGEN BOOSTER COMPRESSOR	\$ 185,371	QUOTE
RAW WATER SYSTEM & 3-PHASE SEP	\$ 757,699	QUOTE
CHI SUPPLIED EQUIPMENT FREIGHT	\$ 376,819	QUOTE
MODULE FABRICATION	\$ 26,612,438	QUOTE
DEADHORSE INSTALLATION	\$ 24,653,079	QUOTE
BALANCE OF PLANT SUBTOTAL	\$ 64,695,511	
DEADHORSE PLANT TOTAL	\$ 160,000,000	

Note: Project contingency and any inflation changes to be further agreed upon with AIDEA.



Appendix #2 – Annual Fixed Operating Expenses – Polar LNG, LLC

Fixed Expenses – 2013 Dollars

O&M	\$1,969,441
Insurance	\$437,091
Site Lease	\$145,000
Property Taxes	\$1,506,496
Personnel Expense	\$1,359,005
Miscellaneous	\$536,857
Overhead	<u>\$500,000</u>
Total Fixed Expense	\$6,453,890