Alaska Tax Credit Financings

Presentation to Alaska Senate Oil and Gas Tax Credit Working Group

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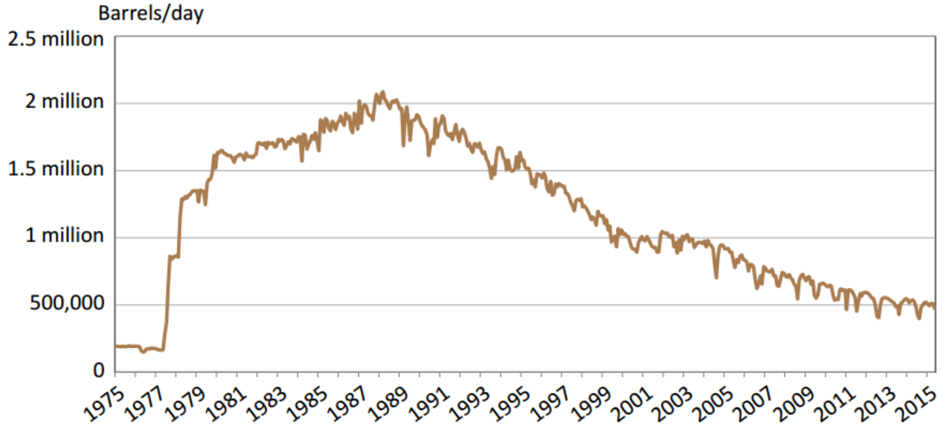
Tax Credit Program Overview

Overview of Alaska State Tax Credit Program

- The State of Alaska has adopted several exploration and development incentive programs to encourage active exploration and the timely development of the State's oil and gas reserves for export purposes and to meet in-state demand;
- Incentives are mostly available through the State's tax code and vary by production region, project size and project development stage;
- Any developer is eligible for incentives, however some incentives under the Exploration Incentive Credit program ("tax credit program") require preapproval of projects from the State. Additionally, expenditures underlying tax credits are subject to approval;
- In order to incentivize and facilitate smaller E&P companies without a large capital base and/or a tax liability, the State, since 2006, has given companies producing less than 50,000 bbl/day, with no tax liability, the option of exchanging generated tax credits with the State for cash;
- The tax credit program is subject to annual appropriation by the Alaskan State Legislature, for FY 2016, $500 million was appropriated;
- Furthermore, E&Ps have the ability to assign credits to 3rd parties, opening up various options for leveraging these receivables;
- Continued investment in the oil and gas sector is necessary to sustain volumes, which have been in secular decline since the 1980s;
- The tax credit program has recently come under scrutiny due to budgeting constraints, as a result of the sustained low commodity price environment;
- All parties are interested to know what changes may be necessary to continue.

ALASKA CRUDE OIL, 1975 TO 2015



Source: U.S. Energy Information Agency

Tax Credit Financing Structures

Tax Credit Financing Options

- Over the last several years there has been an evolution in the form and providers of Tax Credit Financings for small E&P companies:

Private Equity Firms, Oil & Gas Investors through equity financings → **Specialty Debt Funds / Mezzanine Lenders through PF, Borrowing Base lending** → **Commercial Lenders through tax credit only financings**

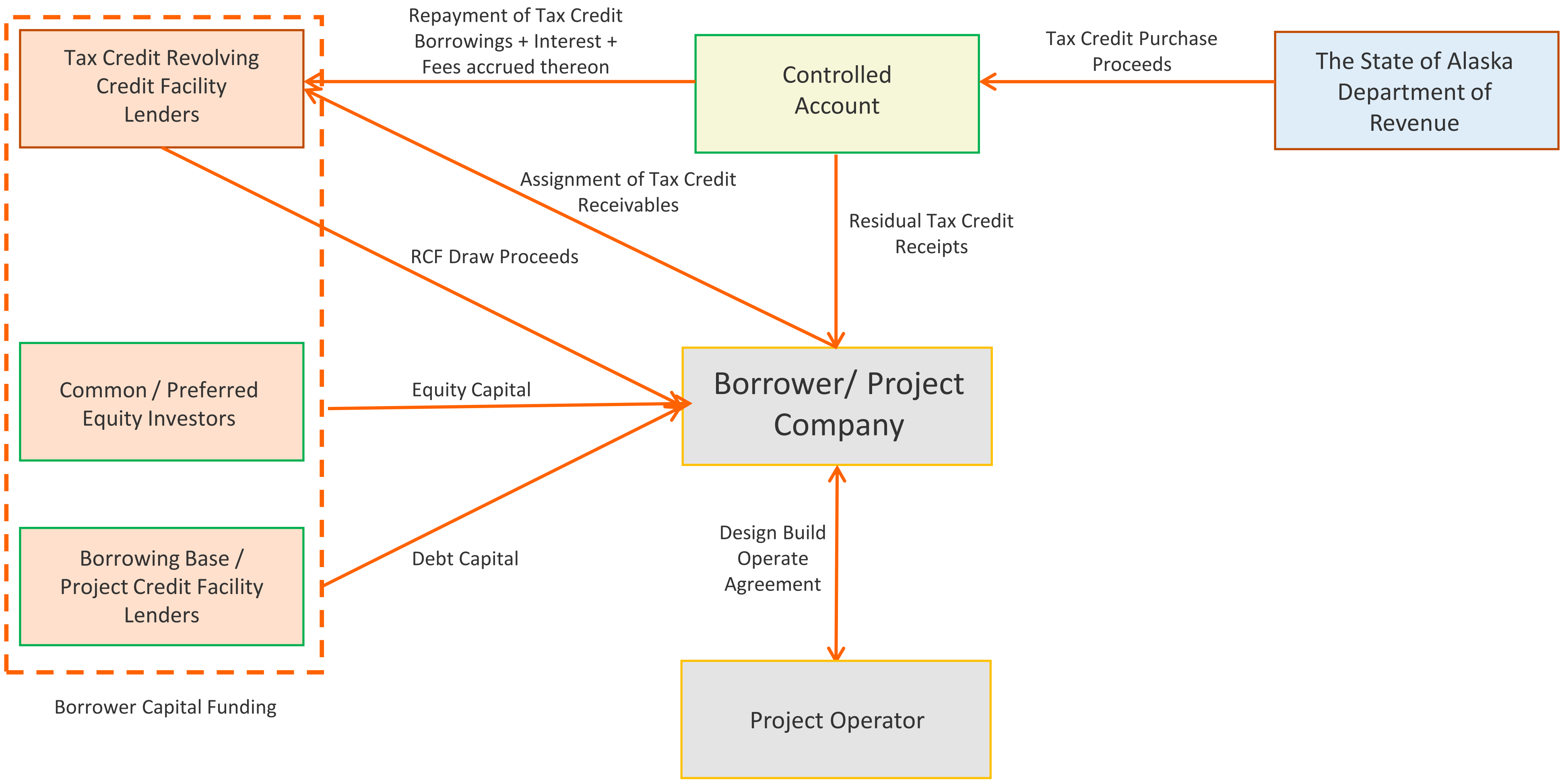
- Historically, E&P companies have been financed by a combination of private equity, and in some cases uni-tranche corporate credit facilities, which relied on tax credits as well as the project cash flows for repayment;
- Uni-tranche funding was very expensive and often involved equity features as it generally combines overall project/discovery risk, production risk, and the lower risk tax credits. The tax credit component do not therefore generally receive a pricing benefit;
- Once the tax credits became both exchangeable for cash and assignable then that gave E&P companies the ability to carve tax credits out of the borrowing base and finance them on a standalone basis;
- Specialty Debt Funds have high threshold return requirements so they continue to provide expensive funding even against assigned tax credits but the commercial banks may now lend, against the credits, to E&P companies that they otherwise would not provide financing to;
- A Borrower may be able to borrow against qualified expenditures and/or losses as soon as 30 days after the expenses are incurred as opposed to waiting up to 20 months;
- Bank financing can come together quickly in as little as 45-60 days from initial term sheet to deal close.

Sample Summary of Terms

Credit Facility	Revolving Credit Facility which may be drawn and repaid several times during Availability Period
Credit Facility Commitment	Equal to the maximum loans outstanding at any given time on a pro forma basis
Availability Period	For periods of up to 3 years; subject to extensions of the tax credit program
Loan Advance Amount	Equals Validated Expenditures * Available Tax Credit (25-45%) * Advance Rate less Expected Loan Interest. Loans on the basis of invoicing, not certification
Validated Expenditures	Expenditures set forth in supporting invoices that are eligible for production tax credits, as determined by a Lender in consultation with its advisors
Anticipated Loan Repayment Date	Anticipated date, based on historical track record and/or legislated dates, of payment of cash in exchange for tax credit certificates
Interest Rate Basis	Fixed interest rate for the period from the Loan Advance date to the Anticipated Repayment Date
Interest Payment Date	Quarterly accrual with interest added to the outstanding principal balance of each Loan
Extended Loan	For loans not repaid within 30 days after the Anticipated Loan Repayment Date, Loan shall automatically convert to an Extended Loan at a TBD Extended Loan Interest Rate

Transaction Flow Diagram

(For E&P Companies not yet generating income and paying Production Taxes)



Financing Considerations

Key Risk Factors & Considerations – Lender Perspective

	Lender Consideration	Mitigants
Tax Credit Qualification Risk	- The risk of expenditures not qualifying under State guidelines for credits - The risk of expenditures and invoices not being genuine	- Assessment of the Project's expenditures by a qualified industry expert (Auditor) will be a condition precedent to advances under the credit facilities - State has issued clear guidance regarding qualification conditions and additionally there is established precedent for expenditure acceptance and denial
Lien Perfection Risk	- Lender exposure to the pre-perfection risk from the time of relevant borrowing to the earlier of 90 days post filing and the end of the calendar year (at which point the lien on the tax credit receivables is perfected)	- A portion of the certain credits can be filed for quarterly (for non-NS), which reduces amount of time it will take to have perfected security interest in respect to those credits - Lender security interest in tax credits is delineated in the Intercreditor Agreement executed pre-closing
Loan Repayment Risk	- When tax credits are generated and financed during a given tax year it is unknown what the State of Alaska appropriation for the tax credit program will be and if it will be adequate to cover tax credit filings for that year	- The Financing Agreement allows the Borrower to delay repayment (no event of default) due to funding shortfalls - State funding has provided 100% coverage on tax credit claims for CY2014 expenditures
Change in Law Risk	- Risk that retroactive tax credit program changes will adversely affect outstanding tax credit claims	- State of Alaska has displayed a clear commitment to the tax credit program which has provided Lenders comfort to date in financing tax credits - Any program changes are likely to be forward looking rather than retroactive

Key Risk Factors & Considerations – Lender Perspective (cont'd)

	Lender Consideration	Mitigants
Intercreditor Risk	- Interface risk between a Tax Credit Lender and the Project Finance / Borrowing Base Lender	- Lenders will enter into Intercreditor Agreement which provides Tax Credit Lender a 1st priority interest on the tax credits and 2nd priority interest (after PF/BB Lender) on all other assets. - PF Lender will agree to forbear from forcing Borrower into bankruptcy reorganization for ~1 year from event of default under PF Facility
Borrower Liquidity	- Borrower requires sufficient liquidity to continue to finance exploration and/or extraction activities over the medium term.	- Lender evaluates cash on hand, proforma free cash flow generation and committed credit lines to gauge Borrower's liquidity position - Borrower provides monthly reports regarding capital requirements/outlays and cash position - Minimum liquidity requirement in Credit Agreement - Loan proceeds must be used to pay project vendors
Construction / Project Operating Risk, compliance with DNR requirements	- Project completion or exploration risk	- Continuous monitoring & evaluation of Project by technical engineer, including due diligence regarding contracts, environmental and regulatory concerns, and reserves
Interest Rate Risk	- Interest on Loans will be subject to accrual and repaid in full at maturity or upon repayment from tax credit payments - Each advance will be a separate loan with an expected maturity and an interest rate	- Borrower will have an option to either fix or use floating base rate (i.e. use 3-month LIBOR) for loans shorter than 9 months. The [65%-95%] advance rate ensures sufficient cushion to absorb floating interest rate movements above what was forecasted for each advance - Interest rates are fixed for loans longer than 9 months

Lender Feedback on Tax Credit Program

Assignability of Tax Credits: Allows E&P co. to carve out tax credits and finance them separately from the project financing at a lower cost

Ability to Monetize Tax Credits/Cash Purchase by the State: Provides cash constrained borrowers with near term liquidity

DOR Pays Lender Controlled Account Directly

No Retroactive Actions / Tax Code Changes to date: Provided Lenders regulatory certainty surrounding this element of program

State Credit Risk: State's sizeable funded reserves combined with credit track record - AAA

Willingness to Support small Developers: State's issuance of tax credits for the benefit of small E&P entities

Clear Milestones Allow some Predictability with Regard to Expense Qualifications

Strong Tax Credit Program Track Record

Neutral

Availability of General Fund: State has heretofore been unwilling to backstop tax credit program with General Fund commitment

Certificate tradability: Tax credits are transferable to tax payers where there is insufficient funding, however changes in appropriations to purchase outstanding tax credits could lead to excess supply in the market leading to losses

Future Appropriation Risk: In the event that appropriations in a given year are insufficient to cover credits, they will be subject to repayment in future years when appropriation amounts are uncertain

Borrower Bankruptcy Risk: State has generally been unwilling to refund credits filed by a Borrower in the midst of bankruptcy proceedings

Delay in lien perfection: Inability to perfect lien until the end of the year (at the latest) creates Lender uncertainty

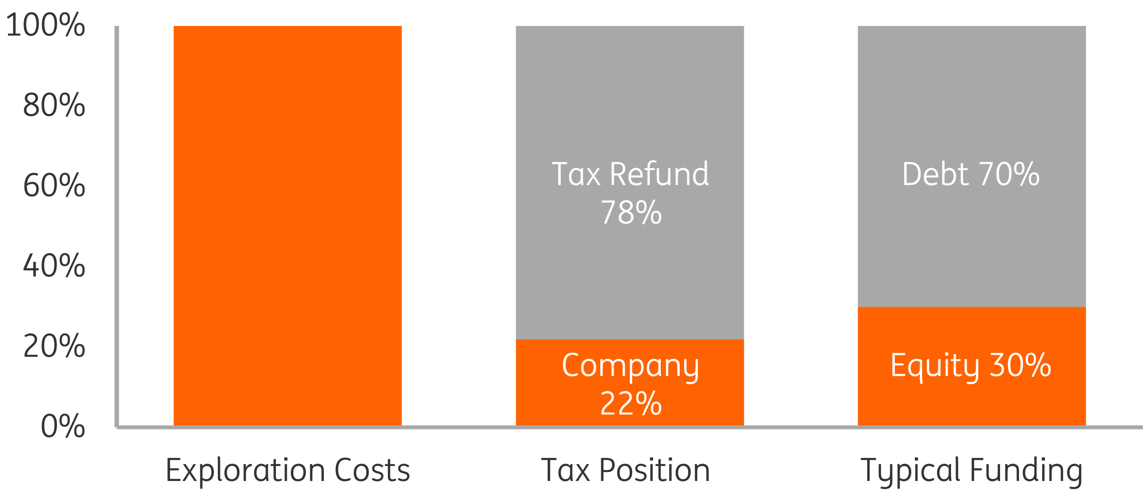
Political Uncertainty: As in FY2015, unforeseen changes to appropriations creates Lender uncertainty

Norwegian Exploration Refund Scheme

An Overview of the Norwegian Exploration Refund Scheme

Norwegian Exploration Facility

- Unique bank financing for Norwegian exploration companies (exploration is typically financed by equity only)
- Facility bridges the gap between cash out (exploration costs) and cash in (tax refund)
- Norwegian Government effectively pays for 78% of the exploration costs
- Banks typically lend 95% against the tax refund
- Since its introduction in 2005, the number of exploration companies active on the Norwegian Continental Shelf has increased sharply



Facility terms & conditions

- Tenors of typically 2-5 years
- Security typically consists of a pledge over: tax refunds, bank accounts, exploration licences and insurance proceeds
- Availability under the facility is the lower of (i) the facility limit less interest rate costs and (ii) 95% of the tax refund less interest expense
- Availability ends 1 year before final maturity date

Considerations

- Exploration costs for 78% paid by the Government
- Exploration costs for 70% funded by debt
- Mature program (banks are comfortable with it)
- Periodic reporting (tax position, forward looking group liquidity test)
- Only for Norwegian exploration costs

Sample Summary of Terms

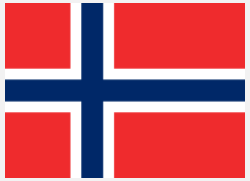
Credit Facility	Committed senior secured revolving credit facility; Borrower may borrow, reborrow, or prepay loans advanced under the Revolver (each, a "Loan") in whole or in part at any time prior to maturity
Commitment Amount	Initially equal to the maximum tax credits loans outstanding over the life of the facility. Availability is subject to adjustment based on, inter alia, the Borrower's taxable income, change in applicable law, Norwegian government declaration of set offs against tax refunds or change in Borrower tax status.
Tenor	2-5 year term
Maximum Advance Rate	Approximately 95% of the expected tax refund from the Norwegian State. Refunds expected annually.
Security Package	First priority security interest in the Norwegian Tax Refund, exploration licenses and certain insurance policies maintained by the Sponsor
Conditions Precedent to Borrowings	Independent Auditor confirmation regarding level of exploration costs and eligibility under relevant tax credit programs
Ongoing Monitoring	Reporting on tax positions and a forward looking group liquidity test to show sufficient funding to carry out its business plan in the next calendar year
Interest Payment Date	Interest on loans is subject to accrual and repayable with proceeds from the Norwegian State tax refund

Tax Credit Program Comparison: Alaska vs. Norway

- Borrowers under certain exploration credit programs are subject to prequalification
- Cap on tax credits equal to appropriations
- Funds subject to annual appropriation by Alaskan Legislature and veto by Governor
- State will monetize tax credits available on eligible exploration and production costs and losses
- Tax credits are generally available on up to 30-40% of exploration costs and 25-45% on NOLs
- Delay in perfecting Borrower security interest until the end of a calendar year (at the latest)
  - Subsequently State will pay tax credit proceeds to a 3rd party controlled account

Similarities

- Tax refunds paid annually
- Eligible capital expenditures are subject to review and certification by a State appointed auditor
- State provides reasonable clarity regarding qualified expenditures
- State is highly creditworthy
- Set offs of tax credits against Borrower taxable income
- Tax credits are assignable by the Borrower to a 3rd party



- Pre qualification / licensing of exploration companies under all tax credit programs
- No statutory cap on tax credits paid in a given year
- Funds for program are not subject to appropriation by the Norwegian government, credits are a statutory obligation.
- State will monetize tax credits on exploration costs only, not on Borrower losses or production related capital expenditures
- Tax credits can be up to 78% of exploration costs
- Lender security interest perfected immediately
- Tax credit proceeds are paid to Borrower
- ~1% of Annual Budget