

IGU
Board Packet
Part B

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- A Resolution Authorizing the General Manager of the Interior Gas Utility to Execute a Purchase & Sales and Finance Agreement with the Alaska Industrial Development and Export Authority for the Acquisition of Pentex and Financing of the Development of the Interior Energy Authority

Interior Gas Utility
BOARD MEMORANDUM
No. 2017 – 02

Meeting Date: December 5, 2017

From: Jomo Stewart, General Manager

Subject: Recommendation to Approve Resolution No. 2017-06R Authorizing the General Manager to enter into Agreements to finance the acquisition of Pentex Alaska Natural Gas Company, LLC., from the Alaska Industrial Development & Export Authority and construction of necessary Interior Energy Project natural gas liquefaction, transportation, storage, regasification and distribution infrastructure.

Management recommends the Interior Gas Utility (IGU), under the conditions outlined in Resolution No. 2017-06R, proceed with the acquisition of the membership interest in Pentex Alaska Natural Gas Company (Pentex), LLC., from the Alaska Industrial Development & Export Authority (AIDEA) and accept funding to advance construction of necessary Interior Energy Project (IEP) infrastructure subject to the terms and conditions of the attached LLC Membership Purchase and Sale Agreement (PSA) and Financing Agreement (FA) and associated agreements (hereafter referred to as the “Agreements”). Specifically, Resolution No. 2017-06R authorizes the General Manager to execute the Agreements and other associated agreements, and take all steps necessary to complete the Pentex acquisition.

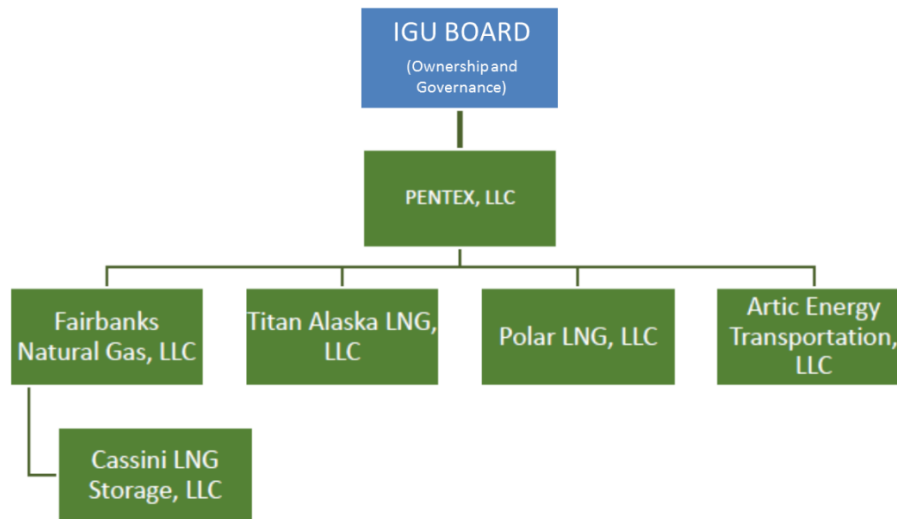
Project Description and Summary:

The “Interior Energy Project” is a community-based, State supported initiative to increase availability of natural gas in the Fairbanks North Star Borough and environs through construction of expanded natural gas liquefaction, transportation, storage, regasification and distribution infrastructure, delivered to the community and customers under a “benefit-maximization” not-for-profit public utility model under local control. Interior Energy Project also refers to the State of Alaska funding package, administered by AIDEA, appropriated and authorized to finance said development, and the unification and integration of local natural gas distribution utilities.

The Goal of the IEP, as established by the community and adopted by the IGU as its Mission, is to “bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible” and thereby, by making cheaper, cleaner-burning natural gas more available, stabilize the local energy economy and help improve Air Quality within the EPA PM 2.5 Non-Attainment Area.

To achieve a unified base-of-development for pursuit of the goal (ostensibly the firmest and most efficient foundation for such a pursuit), the IEP calls for the purchase of Pentex by IGU and the integration of same under a single corporate structure. Utility integration planning has been ongoing since Spring of 2017, and utility integration plan(s) have been produced, reviewed by the General Manager and Board Chairman, and await consideration by the IGU Board of Directors. In the immediate term, the utility integration plan will entail replacement of the

AIDEA Board of Directors with the IGU Board of Directors as the directive and oversight body for Pentex and its subsidiaries, with subsequent modification of the corporate structure of Pentex occurring over time as circumstances require or the IGU Board, as ownership and governance body, desire.



Graphic 1

To achieve the expansion of natural gas supplies delivered to and through the FNSB, and advance toward achievement of project goals, the IEP calls for the construction of new, larger or expanded natural gas liquefaction, storage, regasification and distribution infrastructure. Specifically, the scope of work includes:

- Safety, reliability and capacity upgrades to the existing Titan I LNG production facility
- Construction &/or installation of two (Titan II and Titan III) 3 billion cubic feet per year (Bcf/y) LNG production trains
- Purchase of additional high-capacity LNG transportation trailers and equipment
- Construction of a 5.25 million gallon LNG storage and balance-of-plant facility to service the Fairbanks system
- Construction &/or installation of a 150,000 gallon LNG storage and balance-of-plant facility to service the North Pole system
- Construction of natural gas peak-shaving facility or facilities
- Installation of natural gas distribution mains and feeder lines to complete infill of the Fairbanks system
- Installation of gas distribution mains and feeder lines to complete Phase 2 and Phase 3 of the North Pole system
- Installation of service lines and meters
- Establishment (through membership interest purchase) of a single, unified and integrated investment-grade utility providing secure, reliable and cost-effective service under a not-for-profit public-utility corporate operating model

- Establishment and operation of utility-offered customer conversion and onboarding program(s) and service(s)

Funds to make these transactions and developments possible were appropriated by the State of Alaska in 2013, in the form of a blended-financial package of grants, low-interest loans and bonds totaling \$332.5 million dollars. Additional funding, in the form of an LNG Storage Reimbursement (up to \$15 million dollars per facility), has also been authorized in statute.

Purchase & Sale Agreement and Financing Agreement

The Purchase & Sale Agreement and Financing Agreement define, at high level, the scope, schedule and budget for the IEP moving forward and are the contracts which will command deployment and repayment of the State appropriated, AIDEA-administered funds as they are spent to a) purchase Pentex Alaska, LLC (parent company of Fairbanks Natural Gas) from AIDEA and unify Fairbanks and North Pole's natural gas utilities under local control, and b) develop the expanded natural gas liquefaction, transportation, storage, regasification and distribution infrastructure needed to bring more gas to more residents and businesses across our community.

High-Level PSA/FA Scope, Schedule and Budget:

IEP Capital Program	Already Invested	Stage 1 & 2 - Consolidated Utility - Immediate	Stage 3 - Demand Dependent	Total
SOURCES OF FUNDS				
Capital Appropriation	\$ 15,060,000	\$ 42,440,000	\$ -	\$ 57,500,000
SETS Loans	42,400,000	82,600,000	-	125,000,000
Bond Financing - Capital	-	19,451,400	121,092,600	140,544,000
Storage Tax Credits	-	18,500,000	-	18,500,000
Commercial Financing	-	1,825,000	2,920,000	4,745,000
Utility Revenues	-	-	-	-
Total - Sources of Funds	\$ 57,460,000	\$ 164,816,400	\$ 124,012,600	\$ 346,289,000
USES OF FUNDS				
Pentex Acquisition	\$ -	\$ 59,575,000	\$ -	\$ 59,575,000
Liquefaction Development	-	46,200,000	25,000,000	71,200,000
Transportation	-	1,825,000	2,920,000	4,745,000
Storage & Regasification	-	52,000,000	-	52,000,000
Distribution	42,400,000	5,216,400	96,092,600	143,709,000
Other Project Costs (NS, etc.)	15,060,000	-	-	15,060,000
Total - Uses of Funds	\$ 57,460,000	\$ 164,816,400	\$ 124,012,600	\$ 346,289,000

Table 1

Though the specific repayment terms for any bonds sold for the project will be determined by the market, the PSA and FA define the repayment terms for the \$125 million dollars of State of Alaska appropriated SETS loans in the funding package. The basic repayment terms under the AIDEA SETS loan under the Financing Agreement call for a 15 year deferral period (no interest

or principal payments, no interest accruing) followed by a 35 year amortization period at an interest rate of .25%.

Basic IEP SETS Loan Terms

Item	Deferment	Repayment Term	Total Loan Term	Interest Rate	Annual Debt Service
SETS Loan Terms	15 yrs	35 yrs	50 yrs	0.25%	\$3.73 m

Graphic 2

These basic loan terms, however, are dependent on the level of demand the IEP has achieved by close of year 15 and may, at IGU's election, be amended to include an addition five-year deferral of principal payments. Termed within the Financing Agreement as the "Demand Deferral Period", and based on the CardnoEntrix forecast of a 50% conversion-rate estimate culminating in 5.29Bcf of sales in 2032, this mechanism allows IGU to:

- Elect to make interest-only payments for five years
- Base subsequent repayments on a 35yr amortization schedule, with balance due at end of 50yr term

Election of the Demand-Based Deferral will allow IGU to make payments of \$312,500 for years 16-20 as oppose to the \$3.73 million which would otherwise be required, and maintain for years 21-50 a \$3.73 million payment schedule should continued reduced-payments also be required. As the total loan term is fixed at 50 years, election to make repayments under a 35 year amortization schedule will result in a balloon payment at end of term.

Basic IEP SETS Loan Terms & SETS with Demand Deferral

Item	Deferment	Repayment Term	Total Loan Term	Interest Rate	Annual Debt Service
SETS \$125 million Loan	15 yrs	35 yrs	50 yrs	0.25%	\$3.73 m
SETS \$125 million Loan	20 yrs	30 yrs	50 yrs	0.25%	\$3.73 m

Graphic 3

Net Present Value (NPV) analyses have been performed to assess the benefit to the IEP of both the negotiated basic SETS loan terms and negotiated SETS loan terms with demand deferral using a 4% discount rate – market rate for tax-exempt financing for public utilities. Per the analysis, the NPV of the \$125 million SETS loan without demand-deferral is \$38.7 million. The NPV of the SETS loan with five-year demand-deferral, followed by 35 year amortization schedule and balloon payment, is \$32.8 million.

As noted earlier in the Project Summary, the above described development, transactions and financing terms are meant to support achievement, either immediately or through continuing

effort, achievement of the IEP goals and fulfillment of the IGU mission, with the ultimate measures of success in that enterprise being, from a citizen's perspective: a) improved cost of energy; b) improved air quality; and c) a healthy, solvent, locally-controlled utility efficiently providing secure, reliable natural gas service to the residents and businesses of the FNSB.

To gauge proximity to achieving the first criteria, modeling and analyses have been performed with the Agreed Financial Model using as data, assumption and factoring sets the terms of the Pentex/Hilcorp natural gas contract (escalated after year 3 at 2% per annum), the negotiated financing terms within the PSA/FA, best available information regarding the cost to purchase, construct and operate the PSA/FA-described expanded plant, and a CardnoEntrix-based conversion rate. Per the Model, at a 35% conversion rate for residential consumers and 70% conversion rate for commercial consumers, the estimated price for natural gas delivered to meter in 2021, the second year of system operation with the expanded LNG production and storage capacity, is projected to decrease from today's pricing to roughly \$17.00mcf (equivalent to \$2.35gal fuel oil).

Summary Cost of Gas - With Storage Tax Credit			IGU FINANCIAL MODEL - BASE CASE - 35% CONVERSIONS							
Anticipated Demand (Bcf)	0.74	0.74	1.19	1.83	2.55	3.25	3.90	4.41	4.75	4.95
Cost of Gas (\$/Mcf nominal)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Natural Gas - Cook Inlet	\$8.37	\$8.37	\$8.37	\$8.54	\$8.71	\$8.88	\$9.06	\$9.24	\$9.43	\$9.61
Pipeline Trans. Cost to Pt. Mac. (3rd-party)	(included in cost of gas above)									
LNG Production - Titan Plant	4.74	4.82	3.78	2.97	2.49	2.22	2.06	1.98	2.02	2.02
Trucking - Pt. Mac. To Fairbanks	2.38	2.43	2.48	2.53	2.58	2.63	2.68	2.73	2.79	2.84
Subtotal - Cost to Utilities	\$15.49	\$15.62	\$14.62	\$14.03	\$13.78	\$13.73	\$13.80	\$13.95	\$14.24	\$14.48
Distribution, Storage, Vaporization	3.42	3.49	3.26	2.87	2.58	2.42	2.21	2.09	2.02	1.99
Total Cost of Gas before Financing	\$18.92	\$19.11	\$17.88	\$16.89	\$16.35	\$16.15	\$16.02	\$16.04	\$16.26	\$16.47
Debt	-	-	-	-	0.75	1.27	1.75	2.16	2.28	2.26
Total Cost of Gas (nominal)	\$18.92	\$19.11	\$17.88	\$16.89	\$17.10	\$17.43	\$17.76	\$18.20	\$18.54	\$18.73
Total Cost of Gas (real)	\$ 18.54	\$ 18.37	\$ 16.85	\$ 15.61	\$ 15.49	\$ 15.47	\$ 15.46	\$ 15.53	\$ 15.51	\$ 15.36
Equivalent Fuel Oil Price (nom. \$/gal)	\$ 2.61	\$ 2.64	\$ 2.47	\$ 2.33	\$ 2.36	\$ 2.40	\$ 2.45	\$ 2.51	\$ 2.56	\$ 2.58
Equivalent Fuel Oil Price (real \$/gal)	\$ 2.56	\$ 2.53	\$ 2.32	\$ 2.15	\$ 2.14	\$ 2.13	\$ 2.13	\$ 2.14	\$ 2.14	\$ 2.12
Planned Average Customer Rates	\$18.69	\$18.69	\$18.13	\$17.00	\$17.26	\$17.67	\$18.11	\$18.63	\$18.99	\$19.20
Equivalent Fuel Oil Price (nom. \$/gal)	\$ 2.58	\$ 2.58	\$ 2.50	\$ 2.35	\$ 2.38	\$ 2.44	\$ 2.50	\$ 2.57	\$ 2.62	\$ 2.65

Table 2

Estimated order-of-magnitude air quality improvement under the defined project scope, as calculated by FNSB air quality consultant Sierra Research using a 50% residential conversion rate, is forecast to be nearly 10% in Fairbanks and 26% in North Pole. Achieved air quality improvement under the anticipated 35% residential conversion rate would, obviously, be less. However, under all reasonable scenarios, availability and use of natural gas is expected to contribute to a reduction in community-wide PM 2.5 production, and expanded gas infrastructure to provide a tool which may be of assistance in improving air quality.

Pentex Due Diligence

This leaves only ascertaining whether or not the acquired corporate asset, Pentex, can provide a sound base-of-system from which IGU can continue service to the community's existing natural gas customer-base and serve as a foundation upon which to grow and expand service. To determine this, robust asset and corporate (legal and economic & managerial) due diligence has been performed on Pentex and its subsidiaries.

Asset due diligence was performed by IGU lead-consultant, Stantec Engineering, along with PDC Inc. Engineers and CHI Engineering, and entailed both site visits and inspections of the Pentex physical infrastructure, review of data and reports relative to past and current operation of that infrastructure, and discussions with the operators of the infrastructure.

Physical due diligence included:

- Inspection and assessment of the local natural gas distribution network
- Inspection and assessment the liquefied natural gas (LNG) production facility at Pt. McKenzie
- Inspection and assessment of the local LNG storage facilities

Data-based due diligence included:

- Review of reports and filings in the AIDEA and Pentex Data Rooms
- Survey of PHMSA website, annual reports, and enforcement cases and corrective actions
- Environmental, health and safety (EHS) compliance review
- Regulatory and regulatory-filing compliance review

Products of this effort included reports relative to the local distribution infrastructure, LNG storage assets and Titan 1 LNG facility. Additionally, within the asset due diligence effort category, an Environmental, Health and Safety Program Review was produced. For the protection of both buyer and seller, and the corporation and assets which are the focus of the transaction, the asset due diligence reports have been provided to the Board under stamp of confidentiality and reviewed thereby in Executive Session. Publicly disclosable information derived from those reports, however, is provided below.

Gas Distribution System

The Pentex gas distribution system is operated by Pentex-subsiary Fairbanks Natural Gas (FNG), under a Certificate of Public Convenience and Necessity (No. 514) awarded by the Regulatory Commission of Alaska (RCA) in 1997. The FNG distribution system (less than 100 psig) was put into service in 1998 and consists of approximately 144 miles of polyethylene pipe. The system currently serves approximately 1100 residential and commercial customers.

Distribution Mains (polyethylene)

Size	Length (miles)
2" or less	32.39
> 2" to 4"	55.10
> 4" to 8"	37.30
> 8" to 12"	19.21
Total	144

Service Lines (average length 91')

Number	Size
1115	< 1"
13	> 2" to 4"
1	> 4" to 8"
1,129	Total

Graphic 4

Major findings of the distribution system due diligence are that the FNG system is operating under the proper permits properly in force and appears to be meeting the requirements of federal regulation. The distribution assets are in good repair, and have been and are being maintained in accordance with the schedules provided in regulation. Pentex Standard Operating Procedures (SOPs) address PHMSA issues, as required by 49 CFR 143, and training records of operating personnel meet the requirements set forth. Finally, to maintain the assets relative to the broader public, Pentex maintains an active public awareness program and is a member of 811 Dig-Line.

LNG Storage

Pentex, through FNG, maintains two LNG storage sites within the community. The first, and largest, is a 350,000 gallon storage and regas facility and the second is a 90,000 gallon facility. Both consist of three major systemic components - LNG offloading, LNG Storage, and LNG Vaporization – and both feed the FNG natural gas distribution system. Structural elements include control buildings, boiler buildings, four LNG storage vessels, and associated processing equipment and piping, all enclosed within restricted access security fencing.

The Pentex LNG storage facilities were deemed satisfactory, serviceable and suitable for continued use, with both meeting the N+1 requirement for their capacity, respectively. Recommendations were made, however, which should be initiated in the short term to improve safety, reliability and operations while their successor facility, the new 5.25 million gallon LNG storage unit, is being brought on line.

Liquefaction

Pentex's LNG production capacity is provided by the Titan 1 LNG facility. Sited in the Matanuska-Susitna Borough near Point Mackenzie, the Titan facility is comprised of a "skid mounted" cryogenic gas processing plant with a rated capacity of 52,000 gallons (4.3Mcf/d), and a cryogenic trailer maintenance facility. The plant is configured as a "stand alone" facility in that it only receives feed gas from the Enstar pipeline system but does not return any gas to the pipeline – gas not being converted in the LNG during the production process being used as fuel-gas supporting the LNG production process itself. The trailer maintenance facility consists of one large heated building with two bays, each of which will accommodate one trailer. With no storage on site, LNG flows directly into cryogenic LNG trailers for delivery. As with the local Pentex storage sites, the entire facility is enclosed within restricted access security fencing.

Though not an N+1 system, it was noted as part of the recommendations regarding the Titan 1 facility that, as measured by its reliability in supplying gas to Fairbanks during its operating history, it has performed acceptably to date. As with the legacy storage facilities, it was recommended that work should be initiated in the near term to improve the safety, reliability and operations of the system while its successor facility, the new 3Bcf/y Titan 2 LNG train, is being brought on line.

Environmental, Health & Safety

A system-wide recommendation regards the EHS review: reconditioning of equipment not designed for permanent Alaska service; creation of a full time EHS position to support Pentex facilities; and establishment of a comprehensive EHS management system.

Legal

Legal due diligence was performed by Brena, Bell & Clarkson (BBC). Relative to Pentex, BBC due diligence entailed review of active and historical documents and information made available by AIDEA and housed in (a) an electronic “Smart Room” site originally populated for AIDEA’s due-diligence efforts in its purchase of Pentex, and thereafter supplemented by AIDEA; and (b) an electronic “Sharepoint” team site maintained by IGU contractor NewGen Strategies. BBC also formulated questions resulting from its document review that were directed to AIDEA’s designated Pentex representative.

Pentex-related information reviewed by BBC included all material contracts relative to gas purchase and sales, transportation agreements, LNG trailer leases/purchases, real property leases and the CEO employment contract. Further information reviewed included materials relative to human resources, environmental, health & safety, PHMSA, corporate finances, limited liability company entity documentation for each of Pentex’s subsidiaries, intra-corporate standing authorizations, extra-corporate powers of attorney and other miscellaneous items. BBC also made inquiry regarding the status of any legal matters, past, ongoing or anticipated. Additionally, BBC reviewed materials on subjects related to the Pentex acquisition like the North Slope Pad.

BBC reviewed the Pentex purchase and IEP financing transaction documents to ascertain how they might be impacted by matters outstanding with Pentex and liabilities related to matters outstanding with Pentex might be mitigated for IGU within the PSA/FA.

Like the asset due diligence reports, the legal due diligence report has been provided to the Board under stamp of confidentiality and reviewed thereby in Executive Session. However, a matter of public record regards past environmental contamination at the Titan 1 facility, and the recommendation of BBC that IGU use the opportunity afforded by overlapping indemnification timelines between the PSA/FA and previous AIDEA/Harrington agreements to protect itself from exposure to greater-than-necessary or sole liability by moving quickly to identify problems and establish right.

Economic and Managerial

The Economic and Managerial due diligence review was conducted by NewGen Strategies & Solutions and describes, in some detail, the organizational, governance, management, operations and financial profile of Pentex Alaska, LLC. Having been certified by all parties as suitable for public disclosure, the Economic and Managerial due diligence review is appended in full to this Memorandum.

Though additional work will need to be done in the interim between Agreement execution and financial close to ensure maintenance of managerial opinion, taken together, IGU due diligence supports the General Manager’s contention that, though Pentex’s customer base, sales and operating structure remain skewed toward commercial sales, and the legacy Pentex assets are best superseded as planned with newly constructed state-of-the-art infrastructure, the corporation itself – its personnel, assets, finances and operating systems – is sound, and adequate to provide

IGU with a firm base of support as it expands and transitions to a more residential-customer orientation.

Risk & Mitigation

Though it has been evidenced that a) the scope of work to be funded and financed will advance the community toward achievement of goals of the IEP and fulfillment of the mission of the IGU, b) the Pentex corporation and assets are suitable to serve as a foundation upon which to build and grow, c) the major commercial terms of the PSA and FA are supportive of these efforts and ends and d) market response, per best available information, will be sufficient to support IGU in operation under the Agreements, risks do remain regarding the transaction and subsequent development. For this reason, management and staff have endeavored to identify those risks and either mitigate them or plan for their mitigation.

Within the Purchase & Sale and Financing Agreements IGU has reduced the risk of immediate cost and ongoing cost-exposure relative the consummation and servicing of the SETS loan by capping the Closing Costs under the Agreements at \$75,000 (FA 4.1.3A) and the limiting of Transaction Costs to the actual and reasonable costs and expenses incurred by the Authority to manage, monitor, and administer the Loan and Bonds (FA 1.54). For its part, IGU has again agreed, in FA Exhibit B, to not expend precious project funds on any of a set of prudently defined “Unallowable Costs”. It has additionally committed to limit grant, SETS loan and state-backed bond expenditures to a clearly defined and mutually agreed scope of work (Appendix B - 1 & 2).

Agreeing to the defined scope of work carries its own risks - that committing to what is the best available opportunity, today, might foreclose the on possibility to pursue and capture a better opportunity if it should present itself, tomorrow. This risk is mitigated, however, by inclusion in the Agreements of a means and mechanism whereby changes to the scope of work may be discussed and effectuated (FA 8.8).

Future operational, financial and financing risks are mitigated by IGU commitment-through-covenant to operate itself and its system as an “investment grade” utility. Specific IGU commitments include: setting rates sufficient to meet operational requirements, satisfy capital and maintenance needs, and maintain adequate balances in necessary reserves (FA 8.1.2); and maintaining debt service coverage ratios sufficient to ensure full and timely repayment of all debt obligations (FA 8.1.1). IGU further commits to show: prudent restraint in the taking on of new debt (FA 8.1.3); prudent forethought in the sale, lease or other disposal of utility assets (FA.8.1.6); and judiciousness in its decision-making toward extension, expansion or improvements of the system (FA 8.1.5). In all regards, IGU commits to operate in a manner consistent with prudent utility practices (FA 8.1.4). In these ways, by making and maintaining itself maximally-beneficial to the customers it serves, attractive to the customers it wishes to serve and investment-worthy in the eyes of the investors whose purchase of the state supported bonds are necessary to finance expansion of the system, IGU covenants mitigate negative conversion risk, non-conversion demand risk and financing risk.

Conversion/demand risk is a major outstanding issue but one for which past and continuing efforts are bearing fruits. According the Borough Air Quality division, the FNSB recently received \$2.3 million dollars in support for their Wood Stove Change Out Program (WSCOP). That funding is eligible to provide assistance for natural gas conversions and, per FNSB Air Quality Division estimate, current funding levels will allow for provisions of between \$10,000 and \$14,000 for a conversion. The FNSB has also submitted an application for the 2017 Targeted Air Shed Grant requesting \$4 million of additional funding specifically for natural gas conversions. Awards for this grant will be announced in early 2018.

Dovetailing with this, IGU is advancing its own conversion assistance efforts. Having created a conversion program tactical plan, increased its knowledge of in-operation home heating systems through performance of its own detailed in-home assessments of North Pole area residences, and expanded its scope through characterization of the needs of lower-income residents, current IGU work efforts have delineated a timeline and steps necessary for creation of a utility-offered On-Bill Repayment program. This and other new customer onboarding offerings can be supported on a longitudinal basis by the \$3 million Customer Conversion Program set-aside built into the PSA/FA scope of work.

IGU is a corporation and instrumentality Fairbanks North Star Borough. In spite or because of this, IGU has sought to mitigate the risk to FNSB funds and finances this or any other transaction might engender. Section 13.1 of the Financing Agreement clearly states:

No obligation of IGU hereunder shall be deemed to constitute a pledge of the full faith and credit or taxing power of the FNSB. Under the applicable implementing and creating ordinance that authorized IGU's formation, IGU may contract only on its own behalf and not on behalf of the FNSB. The FNSB is not liable for the debts or liabilities of the IGU unless such debts and/or liabilities are specifically authorized by the FNSB Assembly or law.

Finally, recognizing that one of the most substantial de-risking elements available to the project is the SETS loan and its negotiated terms (interest rate, deferral period and demand deferral period), IGU has sought to mitigate risks relative to those terms. To give the negotiated SETS loan terms the greatest possible chance of remaining workable and durable over time, great effort has been expended to ensure:

- Penalty-triggering events are reasonable and appropriate
- Penalties are appropriate in severity relative to the breach which triggers them
- Appropriate means, on workable timelines, are available to cure identified deficiencies before or after they trigger penalty
- Workable avenues and timelines for dispute resolution short of court are available

Much work remains identifying, and working toward the mitigation of risks relative to the project and it is likely mitigation of some may be best achieved by scope or component modifications yet the assessed. Still, work and analysis to date indicates the majority of reasonably considered and likely risks identified have either been adequately accounted for and

addressed within the process, are in the planning phase of risk mitigation or will be mitigated by advancing the infrastructure succession efforts planned for execution.

Conclusion & Recommendation

The Interior Energy Project goal and the Interior Gas Utility mission are one and the same: to bring low-cost, clean burning natural gas to as many residents and businesses of Interior Alaska as possible, as quickly as possible. And in doing so, to help diversify and stabilize our local energy economy, improve the competitiveness of our commerce, improve the quality of our air, and improved the quality of life and financial prospects of all those who live here.

Management, with the assistance of IGU's diligent, professional and highly competent staff, has reviewed the herein-described information and materials. After a great deal of consideration, has determined to a sufficient level of confidence that he may Recommend Approval of Resolution No. 2017-06R. The General Manager believes the project, funding, transactions and assets underpinning Resolution No. 2017-06R advance the goals of the Interior Energy Project and feels strongly the Board of Directors of the Interior Gas Utility, dedicated to it mission, is the entity best suited to guide and advance to the project to success.

Prepared & Submitted: Jomo Stewart, General Manager



FINANCING AGREEMENT

between the

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

as Lender

and the

INTERIOR ALASKA NATURAL GAS UTILITY

a/k/a INTERIOR GAS UTILITY

as Borrower

_____, 2017

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Appendix A – Integrated Utility Natural Gas Demand Forecast

Appendix B – Integrated Utility Capital Program

Appendix C – Integrated Utility Sources and Uses of Funds

FINANCING AGREEMENT

THIS FINANCING AGREEMENT, dated as of _____, 2017, is entered into by and between the **ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**, a public corporation of the State of Alaska with a primary place of business in Anchorage, Alaska, and the **INTERIOR ALASKA NATURAL GAS UTILITY**, which is also known as the **INTERIOR GAS UTILITY**, a public corporation of the Fairbanks North Star Borough with a primary place of business in Fairbanks, Alaska.

RECITALS

A. The Alaska State Legislature, in SB 23 authorized the Authority to provide financing for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure in the State of Alaska that will provide natural gas to Interior Alaska as a primary market and natural gas delivery and distribution systems and affiliated infrastructure that will provide natural gas to Interior Alaska.

B. The financing the Legislature authorized in SB 23 is to be provided partially through the Authority's sustainable energy transmission and supply development program and fund, established under AS 44.88.650 – 44.88.690.

C. IGU is a public corporation and an instrumentality of the Fairbanks North Star Borough that holds a certificate of public convenience and necessity from the Regulatory Commission of Alaska to operate as a public utility distributing natural gas in Fairbanks and North Pole, Alaska.

D. Pentex Alaska Natural Gas Company, LLC, is a Delaware limited liability company, which operates through its Subsidiaries including FNG, an Alaska limited liability company that holds a certificate of public convenience and necessity from the Regulatory Commission of Alaska and distributes natural gas in Fairbanks, Alaska.

E. The Authority previously provided financing to FNG pursuant to a Loan Agreement, dated as of May 19, 2014.

F. The Authority previously provided financing to IGU pursuant to an Amended and Restated Loan Agreement, dated as of April 2, 2015.

G. AIDEA and IGU entered into a non-binding Utility Integration Memorandum of Understanding dated January 25, 2017 ("MOU"), wherein among other things the Parties set forth their mutual understandings with respect to the Authority's proposed sale of Pentex to IGU, the transfer of the North Slope Pad from the Authority to IGU, the Authority's financing of IGU, and the establishment of the process and timelines to accomplish the foregoing. This Financing Agreement arises out of the understandings as stated in the MOU.

H. Pursuant to the Purchase Agreement entered into contemporaneously with this Financing Agreement, the Authority is selling to IGU all of the Authority's right, title, and interest in and to the membership interests in Pentex.

I. The Purchase Agreement and this Financing Agreement are entered into with the ultimate intention of financing the purchase of Pentex by IGU, refinancing the FNG Loan and the IGU Loan, and furthering the establishment and financing of an integrated natural gas utility in the Fairbanks North Star Borough.

NOW, THEREFORE, for and in consideration of the promises and the mutual covenants hereinafter contained, the Parties hereto agree as follows:

1. DEFINITIONS. In this Financing Agreement, the following terms shall have the respective meanings set forth below:

1.1 “Appendices” means Appendix A, Appendix B, and Appendix C, attached hereto and incorporated herein by reference.

1.2 “Authority” means the Alaska Industrial Development and Export Authority, a public corporation of the State of Alaska, its agents, employees, successors, and assignees.

1.3 “Bond Credit Facility” means the anticipated Bond financing described in Section 6 of this Financing Agreement.

1.4 “Bond Issuance Deadline” means June 30, 2018, or, if the Alaska State Legislature extends the deadline for the Authority to issue Bonds under SB 23, the deadline as extended.

1.5 “Bonds” means the Authority’s conduit revenue bonds, secured by a capital reserve fund supported by the State of Alaska’s moral obligation, issued to make a loan or loans to IGU as authorized by, and subject to, SB 23.

1.6 “Closing” means the date on which advances on the Term Loan are available in accordance with the terms of this Financing Agreement, subject to the fulfillment of the conditions precedent to Closing contained in this Financing Agreement; the Closing will occur concurrently with the closing under the Purchase Agreement.

1.7 “Closing Costs” means all costs incurred by the Authority in order to close the Loan, including, without limitation, attorneys’ fees, title examination fees, title

insurance premiums, appraisal fees, survey costs, and filing and recording fees incurred by the Authority, subject to the limitation set forth in Section 4.1.3A.

1.8 “Closing Date” means the date on which the Closing occurs.

1.9 “Code” means the Federal Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary, or proposed regulations and revenue rulings issued or amended with respect to the Code by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Bonds.

1.10 “Collateral” is defined in Section 10.

1.11 “Commercial Security Agreement” means a security agreement or agreements granting the Authority a security interest in the Collateral.

1.12 “CPCN” means a Certificate of Public Convenience and Necessity issued by the RCA.

1.13 “Debt Service” means the principal and interest payments required under the terms of the Loan, the Bonds, the Other Bonds, and any other long term financing of IGU.

1.14 “Default Interest Rate” means three percent (3%) per annum.

1.15 “Deferral Period” means the period of time commencing with the Closing Date and ending fifteen (15) years after the Closing Date.

1.16 “Demand Deferral Period” means the five (5) years of deferral described in Section 4.3.

1.17 “Effective Date” means the date upon which both Parties have signed this Financing Agreement and the Purchase Agreement, which signatures by both

Parties must have been obtained on or before the close of business on November 30, 2017.

1.18 “Event of Default” means those events described in Section 11.1.

1.19 “Financing Agreement” means this agreement between the Authority and IGU.

1.20 “FNG” means Fairbanks Natural Gas, LLC, an Alaska limited liability company, which is one of the Pentex Subsidiaries.

1.21 “FNG Loan” means financing previously provided to FNG pursuant to a Loan Agreement, dated as of May 19, 2014.

1.22 “FNSB” means the Fairbanks North Star Borough.

1.23 “GAAP” means United States generally accepted accounting principles as established by the Government Accounting Standards Board (GASB), as in effect from time to time, consistently applied.

1.24 “IGU” means the Interior Alaska Natural Gas Utility, which is also known as the Interior Gas Utility, a public corporation and instrumentality of the Fairbanks North Star Borough. After Closing, “IGU” shall mean the Integrated Utility that encompasses Pentex and the Subsidiaries, as well as the pre-existing IGU. If, after the Closing, IGU obtains permission from the RCA to merge the two utilities of FNG and IGU under a single CPCN, “IGU” for purposes of this Financing Agreement shall include the merged utilities.

1.25 “IGU Loan” means financing previously provided to IGU by the Authority pursuant to an Amended and Restated Loan Agreement, dated as of April 2, 2015.

1.26 “Integrated Utility” means the combination, under IGU's sole ownership, of FNG and IGU as the natural gas utilities serving Fairbanks and North Pole, Alaska, together with the LNG production, transportation, refueling, storage, and re-gasification facilities now serving FNG and IGU or hereafter constructed to serve FNG and IGU; the “Integrated Utility” encompasses Pentex and its Subsidiaries and all of their respective assets, properties, facilities, and businesses.

1.27 “Integrated Utility Capital Program” means the utility system developed for the Integrated Utility pursuant to the Appendices and as described in Sections 5.1 and 5.2.

1.28 “Integrated Utility Financing Plan” means the financing program developed for the Integrated Utility pursuant to the Appendices and as described in Section 5.3.

1.29 “Interest Rate” means the rate of interest per annum charged on the Term Loan Note.

1.30 “Investment Grade” shall mean either a BBB- or higher rating by Standard & Poor's Financial Services LLC, BBB- or higher rating by Fitch Ratings Inc., or a Baa3 or higher rating by Moody's Investor Services.

1.31 “LNG Storage Tax Credits” means the liquefied natural gas storage facility tax credits established pursuant to AS 43.20.047.

1.32 “Loan” means the Term Loan from the Authority to IGU under the SETS Credit Facility as described in this Financing Agreement and as evidenced by the Term Loan Note.

1.33 “Loan Officer” means the person at the Authority designated to monitor the Project and the use of the proceeds of the Loan.

1.34 “Maturity Date” means the period of time commencing on the Closing Date and ending fifty (50) years after the Closing Date which is the date upon which the full amount of principal and interest owed on the Term Loan Note is fully due and payable.

1.35 “Net Operating Income” means net cash flows from operating activities as set out in the Statement of Cash Flows of the audited financial statements of IGU. Operating inflows shall exclude the proceeds of any debt issuance and operating outflows will exclude Debt Service payments. Net Operating Income will be calculated on a cash basis, not an accrual basis, and shall be as reflected on the annual audited financial statements of IGU.

1.36 “North Slope Pad” means: (a) the leasehold estate in ADL 419409, Right-Of-Way Lease for North Slope Natural Gas Pipeline and LNG Facility, by and between the State of Alaska, Department of Natural Resources, and the Authority, dated July 31, 2014; (b) the gravel pad and other improvements constructed on the leasehold estate; (c) the engineering reports, plans, and analyses that the Authority had prepared regarding the potential development of the gravel pad; and (d) the Authority’s interest in the Material Sale Contract, designated ADL 419991, by and between the State of Alaska, Department of Natural Resources, and the Authority, dated May 2, 2014. The leasehold estate concerns real property described on Exhibit B to ADL 419409, which real property is located in Section 3 of Township 10 North, Range 14

West, Umiat Meridian, Barrow Recording District, Second Judicial District, State of Alaska.

1.37 “Other Bonds” means any Investment Grade revenue bonds that may be issued by IGU or FNSB for IGU’s benefit to finance the Integrated Utility Capital Program.

1.38 “Party” and “Parties” mean the signatories to this Financing Agreement.

1.39 “Payment Default” means failure to make any payment to the Authority on the Term Loan Note within thirty (30) days after the date the payment is due as provided in Section 11.1.1.

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

1.41 “Permits” means all federal, state, and local permits required to own, construct, operate, and maintain the Project, but does not include IGU’s or FNG’s CPCN.

1.42 “Project” means all properties, facilities, and equipment of IGU’s planned Integrated Utility for the production, transport, storage, re-gasification, and natural gas distribution in the FNSB, all of which shall constitute utility capital improvements and related development costs.

1.43 “Purchase Agreement” means the LLC Membership Purchase and Sale Agreement, executed contemporaneously with this Financing Agreement, between the Authority and IGU, providing, among other things, for the sale and purchase of the membership interests in Pentex.

1.44 “RCA” means the Regulatory Commission of Alaska.

1.45 “Related Documents” means the Term Loan Note, any Commercial Security Agreement, any assignment of contracts, licenses, and permits, and all other contracts, escrow instructions, certificates, applications, affidavits, and other instruments that the Authority, IGU, Pentex, or the Subsidiaries are executing or have executed in connection with the transactions contemplated by this Financing Agreement, including the Purchase Agreement and all documents executed in connection with the Purchase Agreement.

1.46 “SB 23” means Chapter 26 of the 2013 Session Laws of Alaska (HCS CSSB 23 (FIN)), as it exists on the Effective Date.

1.47 “Scope of Work and Schedule of Advances” is as described on Exhibit C.

1.48 “SETS” means the Authority’s sustainable energy transmission and supply development program and fund, as established under AS 44.88.650 – 44.88.690.

1.49 “SETS Credit Facility” means the Loan that the Authority is extending, or committing to extend, to IGU under SETS. The terms and conditions of the SETS Credit Facility are as set out in this Financing Agreement.

1.50 “Subsidiaries” means the subsidiary entities owned by Pentex, which are: (a) FNG; (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.

1.51 “Term” means the term of this Financing Agreement, which shall be as long as the Term Loan Note or any Bond is outstanding.

1.52 “Term Loan” means the SETS Credit Facility as described in Section 4.

1.53 “Term Loan Note” means the promissory note evidencing the Term Loan in the form attached as Exhibit A.

1.54 “Transaction Costs” means those actual and reasonable costs and expenses incurred by the Authority as a result of the management, monitoring, and administration of the Bonds and the Loan. Transaction Costs during the first three (3) years after Closing (the construction period) are limited to One Hundred Thousand Dollars (\$100,000) per year. During that time period, Transaction Costs will include construction oversight commonly performed by lending institutions, including the use of third-party contractors. Thereafter, Transaction Costs include actual and reasonable costs and expenses incurred by the Authority to manage, monitor, and administer the Loan and Bonds.

1.55 “Unallowable Costs” means those expenses IGU has, may have, or may hereafter incur that are listed on Exhibit B.

2. FINANCING TERMS; SOURCE OF FUNDS; CAPITAL FINANCING. The sources and uses of funds for the financing of IGU’s efforts to create the Integrated Utility shall be as described on the attached Appendix C. Although Appendix C references the issuance of Bonds after the currently existing Bond Issuance Deadline, the dates in Appendix C are based on an expectation that IGU and the Authority will be successful in having the Alaska State Legislature extend the Bond Issuance Deadline. IGU and the Authority shall cooperate with each other and engage in a joint effort to

obtain such extension. However, neither the Authority nor IGU are promising that the Bond Issuance Deadline will be extended, and neither the Authority nor IGU shall have any liability if the Bond Issuance Deadline is not extended.

2.1 Capital Appropriation. The remaining unexpended and unobligated amount of the appropriation the Alaska State Legislature made to the Authority by section 26(b) of the State of Alaska capital budget for FY2014, as set out in HCS CSSB 18 (FIN) (chapter 16, Session Laws of Alaska 2013), shall be made available at Closing for use as a portion of the purchase price for Pentex as described in the Purchase Agreement.

2.2 SETS. The Authority shall lend to IGU amounts available through SETS pursuant to the Loan described in Section 4 of this Financing Agreement.

2.3 Bond Credit Facility. Subject to applicable law and the Authority's Bond issuance requirements, the Authority shall issue Bonds as described in Section 6 of this Financing Agreement.

2.4 LNG Storage Tax Credits. The Integrated Utility will apply for LNG Storage Tax Credits available to it under Alaska State law and utilize the credits or payments received in the business of the Integrated Utility.

3. CLOSING. The Closing shall take place within thirty (30) days after all conditions precedent set forth in Section 7 have been satisfied or waived and in no event after May 31, 2018. The Closing shall be held at such time and place as agreed to in writing by the Authority and IGU. The Parties shall use reasonable efforts to satisfy the conditions precedent to Closing on or before April 30, 2018.

4. SETS CREDIT FACILITY.

4.1 Term Loan. The Authority agrees to lend and IGU agrees to borrow, on the terms and conditions provided in this Financing Agreement and the Related Documents, the sum of One Hundred Twenty-Five Million Dollars (\$125,000,000). Upon the execution of this Financing Agreement, IGU shall execute and deliver to the Authority the Term Loan Note, the form of which is attached to this Financing Agreement as Exhibit A, due in full on the Maturity Date.

4.1.1 Interest Rate. Under the Term Loan Note, interest shall accrue at the rate of zero percent (0%) per annum during the Deferral Period, unless the Default Rate of Interest has been imposed as provided in this Financing Agreement. Commencing upon the expiration of the Deferral Period and continuing until the Maturity Date, the Interest Rate on the principal amount of the Term Loan Note shall be one quarter of one percent (0.25%) per annum, unless the Default Rate of Interest has been imposed as provided in this Financing Agreement.

4.1.2 Payments. Under the Term Loan Note, IGU shall not be required to make any payments during the Deferral Period. In the event that the Demand Deferral Period commences as provided in Section 4.3, IGU shall pay interest only at the Interest Rate commencing on the first day of the first calendar month after commencement of the Demand Deferral Period. Commencing on the first day of the first calendar month after the expiration of the Deferral Period or, if applicable, after the expiration of the Demand Deferral Period, whichever is later, IGU shall pay equal monthly payments on the first day of each month sufficient to fully amortize the Term Loan over a period of thirty (35) years. All payments shall be applied first to interest,

and then to principal. If not sooner paid, the Term Loan shall be paid in full by the Maturity Date.

4.1.3 Initial Advances. Advances shall be made under the Term Loan at Closing equal to the following, all of which shall be considered funds advanced under the Term Loan Note:

A. Closing Costs. The Authority will advance an amount equal to all Closing Costs up to a maximum of Seventy-Five Thousand Dollars (\$75,000).

B. Payment of FNG Loan. The Authority will advance funds necessary to pay all amounts due and payable under the FNG Loan.

C. Payment of IGU Loan. The Authority will advance funds necessary to pay all amounts due and payable under the IGU Loan.

D. Pentex Payment. The Authority will advance funds necessary to pay the purchase price due from IGU to the Authority for Pentex, in accordance with the Purchase Agreement.

4.1.4 Balance of Loan Proceeds. On the Closing Date, the Authority shall set aside monies from the SETS fund in a separate account known as the "IGU Loan Account". The Authority shall deposit into such separate account an amount equal to the difference between the One Hundred Twenty Five Million Dollars (\$125,000,000) Term Loan and the disbursements described in Section 4.1.3. The IGU Loan Account shall be held by the Authority in a segregated account within the SETS fund, shall be committed and obligated to the funding of the balance of the Term Loan, and shall be available to IGU for this purpose only. Monies in the IGU Loan Account will remain committed to and obligated for funding the Term Loan as long as the

Authority is committed to advances under the Term Loan. The Authority shall be entitled to all interest earned on the IGU Loan Account. IGU shall apply to the Authority for disbursements under the IGU Loan Account under the Term Loan, pursuant to a draw request and accounting in a form reasonably acceptable to the Authority, and, following approval by the Authority, the Authority shall disburse the amounts requested pursuant to the following provisions of this Section 4.1.4:

A. IGU must use the Loan funds only to pay costs of the Project and for no other purpose. The Scope of Work and Schedule of Advances shall be used by the Loan Officer to determine the Project schedule, the Project deliverables, and the amount to be advanced for each task defined in that Scope of Work and Schedule of Advances. The Loan Officer shall authorize the payment of Loan advances to IGU for work reasonably determined to be within the Scope of Work and Schedule of Advances. No more frequently than once every three (3) months, IGU shall submit a draw request to the Loan Officer for Project costs based on the projected Scope of Work and Schedule of Advances for the succeeding three (3) month period and for Project costs actually incurred by IGU during the preceding three (3) month period; provided, however, that no funds may be used to reimburse IGU for Unallowable Costs. Each draw request will include copies of all paid invoices, estimates of future work, and other contracts reasonably requested by the Authority.

B. The Loan Officer shall determine, based on the Scope of Work and Schedule of Advances, whether any draw request and/or invoice IGU submits qualifies for an advance or reimbursement under the terms of the Loan. Subject to approval of disbursement requests by the Loan Officer, the Authority will advance to

IGU from the available Loan funds the amount of the approved advance and reimbursement. If any portion of a request for an advance or reimbursement includes expenses that are deemed Unallowable Costs, the Authority will pay the amount of the approved advance and/or reimbursement and withhold only the amount that is an Unallowable Cost. IGU must be in compliance with all financial reporting requirements under this Financing Agreement.

C. Each draw request shall set forth the amount of all prior Loan advances and an accounting of how such Loan advances were applied. If the amounts advanced have not been expended as scheduled, the excess funds shall be deducted from the amount of any future Loan advance. If the Authority reasonably determines that any unexpended portion of prior Loan advances will not be used by IGU under the Scope of Work and Schedule of Advances for a period of 180 days or more, IGU shall return such unexpended portion of the prior Loan advances upon the Authority's written request for the same, the outstanding balance of the Loan will be reduced by the returned amounts, and the Authority will hold the returned amounts in the IGU Loan Account for possible future advancement in accordance with this Section 4.1.4.

D. IGU shall pay upon presentation of an invoice from the Authority all Transaction Costs.

E. The Authority will have no obligation to advance funds on the Loan if the conditions precedent described in Section 7 have not been satisfied or if any Event of Default has occurred and is continuing.

4.1.5 Termination of Commitment to Advances. The Authority will have no obligation to advance funds on the Loan after ten (10) years from the Closing Date, even if the full amount of the monies in the IGU Loan Account have not been advanced.

4.2 Refinance or Prepayment. If required to facilitate issuance of Bonds, but not otherwise, IGU will be prohibited from refinancing the Loan and prepaying the Loan and the Term Loan Note, in whole or in part, and any attempted refinancing or prepayment will not be accepted or given effect.

4.3 Demand Growth Deferral.

4.3.1 In the event that, after the expiration of the Deferral Period and the sale of Bonds, natural gas demand growth does not meet projected levels as set forth in Appendix A, the principal amount of the Term Loan payments due from IGU under the Term Loan Note will be deferred for an additional five years. During such Demand Deferral Period, all accrued interest shall be paid on the scheduled payment dates as provided in the Term Loan Note.

4.3.2 If, after any deferral occurs under this Section 4.3, natural gas demand meets or exceeds projected levels, IGU shall begin payments on the deferred amounts of principal on the next scheduled payment date.

4.3.3 IGU must be in compliance with the covenants set forth in Sections 8.1.1, 8.1.2, 8.1.3, and 8.1.6 before the commencement of and during any deferral of principal under this Section 4.3.

5. INTEGRATED UTILITY.

5.1 Integrated Utility Capital Program. The Integrated Utility Capital Program is designed to support the projected Integrated Utility Natural Gas Demand Forecast set forth in Appendix A. IGU, in consultation with the Authority, will implement the Integrated Utility Capital Program as set forth in Appendix B to establish an Integrated Utility (inclusive of natural gas purchase, LNG production, transport, storage, re-gasification, and natural gas distribution) in the FNSB, including plans for utility capital improvements, organization, and all required regulatory approvals.

5.2 Integrated Utility Capital Program Staging. The Integrated Utility Capital Program will be implemented in stages as described in the table below:

Stage 1	Stage 2	Stage 3
Funded at Closing with Appropriations and SETS Loan	Funded with remaining SETS Loan and First Bond Sale	Funded with Bonds, Other Bonds, or other funding or financing
<ul style="list-style-type: none">• Pentex Acquisition• 5.25mg Fairbanks Storage• Titan 2 FEED (incl. Titan 1 upgrades)• North Pole Storage & Re-gas• Services & meters for existing piped areas	<ul style="list-style-type: none">• Titan 2 Completion (incl. Titan 1 upgrades)	<p>Demand Driven Work Items</p> <ul style="list-style-type: none">• Additional LNG trailers & equipment• Distribution system extension / buildout• Titan 3• Services & meters in buildout areas

5.3 Integrated Utility Financing Plan. The Integrated Utility will be financed using the capital appropriation and proceeds of the Loan and the Bonds as provided in this Financing Agreement, and set forth in the Sources & Uses of Funds described in Appendix C. As set forth in Section 10, the obligation of, and security for, payment of the Bonds and the Other Bonds, will be superior to the Loan and Collateral for the Loan.

6. BOND CREDIT FACILITY. IGU, in consultation with the Authority, through the Purchase Agreement, this Financing Agreement, and the advancement of the Project, will establish IGU as an Investment Grade municipal utility prior to the issuance of the revenue Bonds described in Section 6.1.

6.1 Bond Issuance. After the Closing but not later than the Bond Issuance Deadline, at IGU's request, the Authority shall issue Bonds, in one or more series, in the form of conduit revenue bonds supported by the State of Alaska's moral obligation; proceeds of such Bonds will be loaned to IGU to finance component parts of the Project. The issuance of the Bonds shall be subject to the terms and conditions of a trust indenture and loan agreement and, including the following:

6.1.1 The aggregate amount of Bonds to be issued may not exceed One Hundred Fifty Million Dollars (\$150,000,000) (which sum is inclusive of debt service reserves and capital reserves), plus the costs of capitalized interest and the actual reasonable bond counsel fees, trustee fees, rating fees, financial advisor fees, escrow fees, and other bond issuance costs actually incurred by the Authority.

6.1.2 In connection with the issuance of the Bonds, or each series of Bonds, IGU shall pay the actual reasonable fees and expenses of the Authority's bond counsel and IGU shall pay the Authority the issuance fee as provided in the Authority's regulations (3 AAC 99.140) then in effect. Unless IGU elects to pay the fees and expenses of the Authority's bond counsel and the issuance fee for the Bonds directly to the Authority, the same shall be paid from the proceeds of the Bonds. After issuance of the Bonds (or a series of Bonds), IGU shall be responsible for any direct, out-of-pocket costs the Authority incurs with respect to the Bonds as provided in the Authority's

regulations (3 AAC 99.140) then in effect, subject to SB 23. The Authority shall not otherwise charge IGU any points or percentage fee with respect to the Bonds.

6.1.3 The Bonds may be issued in one or more series as IGU determines based on its consultation with IGU's financial advisors. The Bonds shall be secured by a capital reserve fund supported by the State of Alaska moral obligation in accordance with SB 23. IGU shall inform the Authority as soon as reasonably possible with respect to all withdrawals from, and all other activity taking place with respect to, the capital reserve fund established for the Bonds.

6.1.4 No Bonds may be issued after the Bond Issuance Deadline. IGU understands and agrees that IGU shall solely be responsible for ensuring that any request IGU makes to the Authority for the issuance of Bonds is made sufficiently in advance of the Bond Issuance Deadline so as to allow the Authority a reasonable period of time to authorize and issue such Bonds.

6.1.5 The Bonds shall be authorized and issued pursuant to the terms and conditions of documents distinct and separate from this Financing Agreement, including a trust indenture, loan agreement, and federal tax certificates if such Bonds are issued on a tax-exempt basis under the Code. IGU acknowledges that the Authority makes no representations with respect to the terms of the Bonds, including interest rates and fees, other than the Authority's own fees as provided for in Section 6.1.2. IGU accepts the risk that the underwriters of the Bonds, or the investors in the Bonds, or the trustee or paying agent appointed with respect to the Bonds, may require interest rates, fees, terms, or conditions that are unacceptable to IGU or that make issuance of the Bonds impossible or commercially unreasonable.

6.1.6 The Bonds shall be issued as conduit revenue bonds; principal and interest on the Bonds will be payable solely from assets and revenues of IGU, secured by a capital reserve fund supported by the State of Alaska moral obligation. The Bonds shall not be a general obligation of the Authority or payable from any assets or revenues of the Authority. Except for funds that the Alaska State Legislature may appropriate to the Authority in accordance with AS 44.88.105(d) to restore the required balance of the capital reserve fund established for the Bonds, the Authority shall not be obligated to fund the capital reserve fund for the Bonds from its own assets or revenues.

6.1.7 At IGU's request, the Authority shall execute any documents necessary to: (1) ensure the Bonds and the Other Bonds have priority of payment over the Loan; and (2) subordinate any lien or security interest the Authority holds against IGU, Pentex, or the Subsidiaries, or their assets or revenues, to any lien or security interest that supports the payment of the Bonds and any Other Bonds.

6.1.8 Issuance of any Bonds is subject to the requirements and restrictions of applicable law, including any amendment to SB 23 that may be made after the Effective Date. Before Bonds in excess of Ten Million Dollars (\$10,000,000) may be issued, the Authority must have received a certified copy of a resolution of the local government in which the facilities to be financed are located consenting to the facilities being located in its jurisdiction in accordance with AS 44.88.095(c).

6.2 Cooperation. IGU and the Authority shall reasonably cooperate with one another with respect to the issuance and placement of the Bonds. IGU, however, shall be principally responsible, in consultation with the Authority, for securing an underwriter

(or underwriters) for the Bonds and for carrying out the tasks necessary to place the Bonds with investors, including: (i) participating in the preparation of, and authorizing the publication of, any official statement or other offering document needed in connection with the issuance of such Bonds; (ii) entering into any continuing disclosure obligation that may be required under Securities and Exchange Commission Rule 15c2-12 with respect to such Bonds; (iii) executing any tax, arbitrage, or similar agreement pertaining to the exemption of interest on such Bonds from gross income for federal income tax purposes, as applicable; (iv) taking such actions as may be necessary to establish or maintain the exemption of interest on such Bonds from gross income for federal income tax purposes; (v) having IGU's legal counsel deliver such legal opinions, in a form acceptable to the Authority and the Bond underwriters, as are required to support the issuance of the Bonds, similar to the opinions required under Section 7.4 of this Financing Agreement and that such opinions were accurate when made and remain accurate as of the date such Bonds are issued; and (vi) such other actions as the Authority's bond counsel may reasonably require in connection with the issuance of such Bonds and consistent with the Authority's standard practice, including review and approval of documents by the Authority's bond and disclosure counsel.

7. CONDITIONS PRECEDENT TO CLOSING AND ADVANCES. The Authority and IGU shall be obligated to consummate the Closing in accordance with the terms of this Financing Agreement only if each of the following conditions precedent has been satisfied in full at or before the Closing Date, unless waived in writing by both the Authority and IGU, in their sole discretion, respectively. The Authority shall have no obligation to make any advances under the Term Loan unless each and every material

requirement and condition of this Financing Agreement, including those set forth in this Section 7 and elsewhere in this Financing Agreement, is satisfied or waived.

7.1 Execution of Documents. This Financing Agreement and the Related Documents shall have been duly executed and delivered to the Authority and IGU by the appropriate persons and all such Related Documents shall be in form and substance satisfactory to the Authority and IGU, in their sole discretion, respectively.

7.2 Other Documents. The Authority and IGU shall each receive such other certificates, documents, and instruments regarding IGU, Pentex, and the Subsidiaries as the Authority and IGU may reasonably require.

7.3 Authority Documents.

7.3.1 The Authority shall have received certificates by an authorized officer or representative of IGU upon which the Authority may conclusively rely, certifying that: (i) all requisite action taken in connection with the Loan has been duly authorized; (ii) the names, signatures, and authority of IGU's authorized signers executing the Related Documents; and (iii) such other documents as the Authority may reasonably require to be executed by, or delivered on behalf of, IGU.

7.3.2 IGU shall have received certificates by an authorized officer or representative of the Authority upon which IGU may conclusively rely, certifying that: (i) all requisite action taken in connection with the Loan has been duly authorized; (ii) the names, signatures, and authority of the Authority's authorized signers executing the Related Documents; and (iii) such other documents as the IGU may reasonably require to be executed by, or delivered on behalf of, the Authority.

7.4 Legal Opinions.

7.4.1 The Authority shall have received the written opinion(s) of legal counsel for the IGU, selected by the IGU and satisfactory to the Authority, dated as of the Closing Date or at such other times as may reasonably be requested by the Authority, and covering the due execution and delivery of the Related Documents and such other matters as the Authority may reasonably require; including, without limitation, the following:

A. IGU is a public corporation and an instrumentality of the FNSB which has been duly created and organized, and is validly existing as a public corporation and government instrumentality in good standing under the laws of the State of Alaska and of FNSB.

B. This Financing Agreement, the Term Loan Note, and the other Related Documents have been duly authorized, executed, and delivered by IGU and constitute valid and binding obligations of IGU, enforceable against IGU in accordance with their terms.

C. Neither the execution and delivery of this Financing Agreement and the Related Documents, nor the performance of IGU's obligations under these documents: (i) violates any provision of the governing instruments of IGU or the FNSB; (ii) breaches or constitutes a default under any agreement or commitment to which IGU is a party; or (iii) violates any statute, law, regulation, or rule, or any judgment, decree, or order of any court or governmental authority applicable to IGU;

D. No consent, approval or authorization of, or declaration, filing or registration with, any governmental authority is required in connection with the

execution, delivery, or performance of this Financing Agreement or the Related Documents; and

E. No litigation, claim, investigation, administrative proceeding, or similar proceeding is pending or threatened against IGU or the Project.

7.4.2 IGU shall have received the written opinion(s) of legal counsel for the Authority, selected by the Authority and satisfactory to IGU, dated as of the Closing Date or at such other times as may reasonably be requested by the IGU, and covering the due execution and delivery of the Related Documents and such other matters as IGU may reasonably require; including, without limitation, the following:

A. The Authority is a public corporation of the State of Alaska which has been duly created and organized, and is validly existing as a public corporation and government instrumentality in good standing under the laws of the State of Alaska.

B. This Financing Agreement and the other Related Documents have been duly authorized, executed, and delivered by the Authority and constitute valid and binding obligations of the Authority, enforceable against Authority in accordance with their terms.

C. Neither the execution and delivery of this Financing Agreement and the Related Documents, nor the performance of the Authority's obligations under these documents: (i) violates any provision of the governing instruments of the Authority; (ii) breaches or constitutes a default under any agreement or commitment to which the Authority is a party; or (iii) violates any statute, law,

regulation, or rule, or any judgment, decree, or order of any court or governmental authority applicable to the Authority;

D. No consent, approval or authorization of, or declaration, filing or registration with, any governmental authority is required in connection with the execution, delivery, or performance of this Financing Agreement or the Related Documents; and

E. No litigation, claim, investigation, administrative proceeding, or similar proceeding is pending or threatened against the Authority or the Project.

7.5 Security. The Authority shall have received all security instruments necessary to perfect a security interest in the Collateral duly executed by all parties thereto, which security instruments shall have been properly filed or recorded.

7.6 Representations and Warranties. The obligation of the Authority to make any Loan advance shall be subject to satisfaction of the following conditions that, at the date of making such Loan advance, and after giving effect thereto: (i) no Event of Default shall have occurred and continue to exist; and (ii) each representation and warranty set forth in this Financing Agreement and the Related Documents is materially true and correct as if then made.

7.7 Closing on Purchase Agreement. The closing of the Purchase Agreement must occur concurrently with the Closing under this Financing Agreement.

7.8 Transfer of the North Slope Pad. The Authority must execute and deliver the documents necessary to transfer the North Slope Pad to IGU and the Department of Natural Resources must have approved the transfer to IGU.

7.9 Change in Law. The consummation of the transactions contemplated by this Financing Agreement must not be prohibited by any statute, regulation, order, or directive of any government or governmental agency. The source of funds the Authority expects to use as authorized under SB 23 must remain legally available for use in the SETS financing and for paying the Purchase Price for Pentex.

8. COVENANTS OF IGU. IGU covenants and agrees to the following during the Term:

8.1 Investment Grade Integrated Utility Financing. Each Bond financing will be premised on a third party determination that the capital program and pro forma financial projections meet all standards for feasibility as an Investment Grade municipal utility financing on that Bond Financing.

8.1.1 Debt Service Coverage Ratio. In addition to any debt service coverage requirements on any outstanding Bonds or Other Bonds, IGU shall maintain an overall Debt Service Coverage Ratio of not less than 1.0 to 1.0, calculated at the end of each fiscal year of IGU. "Debt Service Coverage Ratio" shall mean the ratio of Net Operating Income to Debt Service. Within the first three (3) months of the fiscal year following any fiscal year in which IGU is unable to maintain the Debt Service Coverage Ratio, IGU shall reset rates and charges as required under Section 8.1.2 and take such other reasonable action as IGU expects in good faith will result in IGU achieving the Debt Service Coverage Ratio.

8.1.2 Rate Covenant. Rates and charges for natural gas and all other services or facilities furnished or supplied by IGU shall be set to generate annual net revenues sufficient to maintain a Debt Service Coverage Ratio of not less than 1.0

to 1.0 for Investment Grade municipal utility financing on the Bonds and the Other Bonds, plus the amount, if any, required to be deposited in any operating, debt service, capital, or other reserves.

8.1.3 Additional Indebtedness. IGU will not enter into any indebtedness in excess of One Million Dollars (\$1,000,000) for any particular indebtedness or more than Five Million Dollars (\$5,000,000) in the aggregate, except for the Bonds, the Other Bonds, and the Loan, without the prior written consent of the Authority.

8.1.4 Operating Covenant. IGU will operate the Integrated Utility consistent with prudent utility practices and maintain IGU's CPCN will be maintained in good standing, as it exists on the Effective Date or as it may be amended thereafter to incorporate FNG's business or service territory. Among other things required by the preceding sentence, IGU will establish and execute policies to operate the Integrated Utility in an efficient manner and at a reasonable cost, to maintain, preserve, and keep the Project and all component parts of the Project in good repair, working order, and condition; and to, from time to time, make or cause to be made all necessary and proper repairs, renewals, and replacements so that the business carried on in connection with the Project will be conducted in a manner consistent with the operations of Investment Grade utilities.

8.1.5 Economically Sound System. IGU will extend utility service and make extensions and improvements to IGU's systems consistent with prudent utility practices. Among other things required by the preceding sentence, IGU will establish and execute policies to ensure its system remains economically sound, to encourage

economic extensions and improvements, and to discourage extensions and improvements financed through additional debt that will hinder the efficient and economical operation of the Integrated Utility overall, unless such extensions or improvements are required for operational or safety purposes, or by law, or by any regulatory body having jurisdiction over IGU.

8.1.6 Sale, Lease, or other Disposition of IGU Assets. IGU will only sell, lease, or otherwise dispose of IGU assets consistent with prudent utility practices and the Commercial Security Agreement. Among other things required by the preceding sentence, IGU will establish and execute policies to limit the sale, lease, or other disposal of IGU assets material to the production of revenues unless the remaining Integrated Utility assets will generate revenues sufficient to result in compliance with the operating and financial covenants.

8.2 Commencement of Construction Work. The Parties agree that the Integrated Utility Capital Program attached as Appendix B, the Integrated Utility Sources & Uses of Funds attached as Appendix C, and the Scope of Work and Schedule of Advances attached as Exhibit C, collectively, constitute a reasonable and adequate financial plan to commence construction of the Stage 1 elements of the Project as presently planned.

Before commencing the construction of any major component part of Stage 2 or Stage 3 of the Project (as referenced in Section 5.2), IGU must have the financial resources in place, as demonstrated by committed funds available to IGU. For this purpose, “construction” includes the ordering of any equipment or materials for the construction of a component part of the Project, clearing, excavation, or other physical

preparation work, and any building work; however, “construction” does not including engineering work, preparing plans and specifications or bid or contract documents, or applying for or otherwise seeking any necessary Permits.

8.3 Permits; CPCN. IGU, Pentex, and the Subsidiaries, as appropriate, shall apply for and obtain federal, state, and local permits, including any CPCN, required to own, construct, operate, and maintain all of the component parts of the Integrated Utility.

8.4 North Slope Pad. IGU covenants to use the North Slope Pad, any revenues derived from the North Slope Pad that are net of the costs of operating and maintaining the North Slope Pad, and the proceeds received from the sale or other disposition of the North Slope Pad net of the cost of selling or disposing of the North Slope Pad only for the following purposes and no other purposes: to advance an Alaska liquefied natural gas production plant, and distribution systems as necessary to serve Interior Alaska as a primary market.

8.5 Financial Statements and Records.

8.5.1 While the Loan is outstanding, IGU, on its own behalf and on behalf of Pentex and the Subsidiaries, will furnish to the Authority within one hundred twenty (120) days after the close of IGU’s fiscal year annual financial statements, on a consolidated and consolidating basis, reporting IGU’s, Pentex’s, and the Subsidiaries’ assets, liabilities, and cash flows, audited by an independent certified public accountant. The financial statements will be prepared in accordance with GAAP, applied on a consistent basis throughout the periods involved, and will fairly present

the financial position of IGU, Pentex, and the Subsidiaries as of their respective dates and the results of operations and cash flows for the periods reported.

8.5.2 To the extent required to be filed, IGU, Pentex, and the Subsidiaries shall annually provide the Authority with copies of their federal and state tax returns thirty (30) days after the same have been completed.

8.5.3 The Authority shall be entitled to rely on the financial statements, tax returns, and other documentation provided in accordance with this Section 8.5 to determine whether an Event of Default has occurred under Section 11 of this Financing Agreement.

8.6 Books and Records. IGU will keep and maintain proper books and accounts with respect to the Project, its operations, and the operations of Pentex and the Subsidiaries, in accordance with GAAP.

8.7 Inspection. IGU will permit employees and agents of the Authority to inspect the Project and IGU's, Pentex's, and the Subsidiaries' business and operations, and their business records, wherever located, during normal business hours or at any other reasonable time agreed to between the Parties.

8.8 Development Process. The development process for the Project is as set forth in the Scope of Work and Schedule of Advances, and any material changes to the Scope of Work and Schedule of Advances must be agreed to by both Parties. In the event either Party desires changes to the Scope of Work and Schedule of Advances due to practical concerns related to the Project, including unforeseen circumstances or events, the Parties shall promptly meet and confer to consider alternatives and determine, if possible, a change to the Scope of Work and Schedule of Advances. For

purposes of this Section 8.8, “material” shall be defined as the lesser of: (i) a change valued at Two Hundred Fifty Thousand Dollars (\$250,000) or more; or (ii) two and one-half percent (2.5%) of any particular line item in the Scope of Work.

8.9 LNG Storage Tax Credits. IGU, Pentex, and the Subsidiaries, as appropriate, shall apply for LNG Storage Tax Credits available to them as a result of the operation of the Project and the Integrated Utility and request a cash payment from the State of Alaska for such LNG Storage Tax Credits, if available under applicable law. IGU, Pentex, and the Subsidiaries, as appropriate, shall perform all required activities to qualify for available LNG Storage Tax Credits.

8.10 Reporting. Until June 30, 2025, IGU, Pentex, and the Subsidiaries shall furnish to the Authority, at its request, the information and reports the Authority reasonably requires in order to provide the quarterly reports to the Alaska State Legislature mandated under section 13 of chapter 39 of the 2015 Session Laws of Alaska (SCS CSHB 105(FIN) am S).

8.11 Transaction Costs. IGU will reimburse the Authority for all Transaction Costs within thirty (30) days of presentation of an invoice from the Authority.

9. REPRESENTATIONS AND WARRANTIES OF IGU. IGU represents and warrants to the Authority that the statements contained in this Article 9 are correct and complete as of the date of this Financing Agreement, will be correct and complete as of the Closing Date (as though made then), and will be correct and complete as of the date of any advance (as though made then):

9.1 Existence. IGU is a public corporation and instrumentality of the FNSB, established by law. IGU 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, (b) to enter into this Financing Agreement and to perform its obligations under this Financing Agreement, and (c) to incur debt and borrow money.

9.2 Authorization. The execution and delivery by IGU of this Financing Agreement, and the performance by IGU of its obligations under this Financing Agreement, have been duly and validly authorized by all necessary organizational action of IGU and the FNSB. This Financing Agreement has been duly executed and validly delivered by IGU and is legally binding on IGU, enforceable against IGU 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.

9.3 No Conflict. The execution and delivery of this Financing Agreement by IGU, and the performance by IGU of its obligations under this Financing Agreement, do not and will not (a) conflict with IGU's governing ordinances or 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 IGU is a party or by which IGU is bound, which breach or default would reasonably be expected to materially adversely affect the transactions contemplated by this Financing Agreement.

9.4 Gas Supply Contract. IGU has been provided with an executed copy of the gas supply contract between Titan Alaska LNG, LLC, a Delaware limited liability company, and Hilcorp Alaska LLC. IGU hereby acknowledges and affirms that this

natural gas supply contract is an acceptable gas supply contract for purposes of due diligence and Closing.

10. PRIORITY OF PAYMENT AND COLLATERAL. The Bonds, the Other Bonds, and the Loan will be secured by all of the following Collateral and with the following payment priority:

10.1 Payment and Collateral Security Priority. The Bonds and the Other Bonds will have priority over the Loan both for payment of debt service and in the Collateral. As necessary, the Authority and IGU each agree to execute any necessary agreements to establish the senior lien position of the holders of the Bonds and the Other Bonds with respect to both revenues and Collateral pledged by IGU for the Loan.

10.2 IGU Assets. The Bonds and the Loan will be secured by all of IGU's revenues and assets, including all bank and investment accounts, the LLC membership interests in Pentex, the assets of Pentex and the Subsidiaries, and the North Slope Pad; excluding, however, any CPCN which cannot be assigned to the Authority. IGU shall cause Pentex and the Subsidiaries to execute and deliver all agreements, documents, and instruments necessary to create and perfect a security interest and lien against their respective assets in favor of the Authority. The Commercial Security Agreement and other documents executed in connection with the IGU Loan, the FNG Loan, and the UCC-1 financing statements filed in connection with the IGU Loan and the FNG Loan shall continue in effect and the collateral pledged under the IGU Loan and the FNG Loan shall continue to be collateral for the Loan.

10.3 LNG Storage Tax Credits. The Authority shall have a security interest in the LNG Storage Tax Credits and the payments received for such LNG Storage Tax

Credits, pursuant to a security agreement in the form required by the State of Alaska and approved by the Authority.

10.4 Permits, Licenses, and Contracts. At Closing, IGU shall assign to the Authority for security purposes all of IGU's rights, title, and interest in and to any Permits, licenses, or contracts concerning or affecting the construction or operation or use of the Project, the assets of Pentex and its Subsidiaries, and the revenue from the operations of IGU, Pentex, the Subsidiaries, and the Integrated Utility.

11. EVENTS OF DEFAULT AND REMEDIES.

11.1 Events of Default. Subject to any obligation of the Authority to defer IGU payment obligations under this Financing Agreement, IGU will be in default under the terms of the Loan if any of the following events occur and continue after any applicable cure period as provided in Section 11.2 of this Financing Agreement, each of which will be an Event of Default:

11.1.1 IGU fails to make any payment to the Authority on the Term Loan Note within thirty (30) days after the date the payment is due (a Payment Default);

11.1.2 IGU fails to pay the Authority any other sum owed under this Agreement within thirty (30) days of the date the Authority has notified IGU that the payment is due;

11.1.3 IGU, Pentex, or any of the Subsidiaries breaches any promise made to the Authority in this Financing Agreement or any Related Documents, or IGU, Pentex, or any of the Subsidiaries fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Financing Agreement, including the Appendices and Exhibits attached hereto and incorporated herein, or any

Related Documents, or in any other agreement IGU, Pentex, or any of the Subsidiaries has with the Authority;

11.1.4 IGU, Pentex, or any of the Subsidiaries defaults under any loan, extension of credit, security agreement, or any other agreement, made in favor of any other creditor or person which materially affects such entity's business or any of its properties or assets or the repayment of the Loan or such entity's ability to perform such entity's obligations under this Financing Agreement or any of the Related Documents;

11.1.5 Any representation or statement made or furnished to the Authority by IGU or on IGU's behalf in this Financing Agreement or any of the Related Documents is false or misleading in any material respect either now or at the time made or furnished;

11.1.6 A receiver is appointed for any part of the property or business of IGU, Pentex, or any of the Subsidiaries, or, IGU, Pentex, or any of the Subsidiaries makes an assignment for the benefit of creditors, or any proceeding is commenced either by or against IGU, Pentex, or any of the Subsidiaries under any bankruptcy or insolvency laws;

11.1.7 Any other creditor successfully executes on any property or assets of IGU, Pentex, or any of the Subsidiaries, in which the Authority has a lien or security interest;

11.1.8 IGU, Pentex, or any of the Subsidiaries ceases to operate its business in the normal course or liquidates, dissolves, merges, transfers its assets other than in the ordinary course of business, or consolidates with another entity, with

the exception of a consolidation or merger between IGU, Pentex, and/or any of the Subsidiaries; or

11.1.9 FNSB rescinds or withdraws the authority of the IGU board to set rates and charges for natural gas and all other services or facilities furnished or supplied by IGU, or to independently manage or operate IGU as a public corporation with an existence separate from FNSB, or the FNSB Assembly acts or purports to act to set or approve rates and charges for IGU; provided, however, if FNSB or IGU elects to make IGU's rates and charges subject to RCA regulation, that shall not constitute a default under this Section 11.1.9.

11.2 Cure. A Payment Default may be cured by payment in full of the amount due within thirty (30) days after the date the payment is due. If any Event of Default, other than a Payment Default, is curable, including without limitation failure to meet the covenants contained in Section 8.1, that Event of Default may be cured (so long as no other Event of Default has occurred) if IGU, after receiving written notice from the Authority demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates reasonable steps under the circumstances sufficient to cure the default and IGU thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical; or (3) if IGU disputes the Authority's belief that an Event of Default has occurred, IGU timely initiates the dispute resolution procedures provided under Section 11.4.

11.3 Notice by IGU. As soon as possible after IGU knows of or has reason to know that any Event of Default specified in Section 11.1 (other than a Payment Default),

or any event which with notice or lapse of time or both would become an Event of Default, has occurred, IGU shall furnish to the Authority written notice of such occurrence, together with a statement describing the action, if any, IGU proposes to take with respect to such Event of Default.

11.4 Dispute Resolution with Respect to Events of Default.

11.4.1 Payment Default. In the event of a Payment Default under Section 11.1.1, the Authority shall not be required to participate in dispute resolution under Sections 11.4 or 13.9. In such event, the Authority, at its option and in its sole discretion, shall have all rights and remedies available to it under this Financing Agreement, any Related Document, or applicable law, including, but not limited to, the right to foreclose upon the Collateral or to exercise any other self-help remedies.

11.4.2 In the event of a dispute relating to the Events of Default contained in this Financing Agreement (other than a Payment Default), the Parties shall engage in good faith discussions in an effort to resolve the dispute. If such discussions are not successful in resolving the dispute to the satisfaction of the Parties, the Parties shall attempt to settle the dispute by mediation, administered by the American Arbitration Association ("AAA") under its Mediation Rules, or by such other method as may be agreed to in writing between the Parties. If settlement is not reached within one hundred twenty (120) days after service of a written demand for mediation, either Party may commence a lawsuit to resolve such dispute. In the event that: (i) the Parties are unable to reach a mutually agreeable resolution of the dispute under the provisions of this Section 11.4; or (ii) one hundred twenty (120) days after service of a written demand for mediation without a settlement of the dispute having been reached,

whichever shall first occur; the Authority shall have all rights granted to it to foreclose upon the Collateral or exercise any other self-help remedies provided to the Authority in this Financing Agreement, any agreements related to the Collateral, any Related Documents, or under applicable law.

11.4.3 Notwithstanding any other provision of this Section 11.4, if any Event of Default occurs that causes or threatens to cause the Authority irreparable harm, or that causes or threatens to cause the loss of or any material impairment or reduction in the value of any Collateral, the Authority, at its option and in its sole discretion, may seek and obtain injunctive relief, a decree of specific performance, the appointment of a receiver, or any other equitable remedy, without the necessity of first engaging in good faith discussions with IGU or participating in any mediation.

11.5 Action on Default. Subject to the terms and conditions of a trust indenture for the Bonds, the Other Bonds, and the terms of this Financing Agreement, including the dispute resolution provisions of Section 11.4, if any Event of Default shall occur, and any applicable cure period has expired, then, and in each and every case during the continuance of the Event of Default, the Authority may take any or all of the actions permitted by law, including the following:

11.5.1 As the holder of the Term Loan Note, the Authority may accelerate IGU's indebtedness and declare the entire principal sum of the Loan (even if then deferred) and all accrued interest then unpaid immediately due and payable;

11.5.2 By suit, action, or proceeding at law or in equity, enforce all rights of the Authority and require IGU, Pentex, or the Subsidiaries, as appropriate, to carry out any agreement with or for the benefit of the Authority and to perform its duties

under this Financing Agreement, provided that any such remedy may be taken only to the extent permitted under this Financing Agreement;

11.5.3 Bring suit upon the Term Loan Note or any of the Related Documents;

11.5.4 By action or suit in equity, to enjoin any acts or things that may be unlawful or in violation of the rights of the Authority and the Authority shall not be required to post any bond or other security for the injunction;

11.5.5 Enforce the Authority's security interest in the Collateral in any manner permitted under any security agreement or applicable law, and, in that event, IGU shall support any RCA application made by the Authority or a purchaser at any foreclosure sale for the transfer of IGU's CPCN to the successor operator of the Integrated Utility;

11.5.6 The Authority shall be entitled, as a matter of right, to the extent permitted by applicable law, to seek to have a receiver appointed for IGU, Pentex, or any of the Subsidiaries, or for all or any part of the Project, or for all or any part of their assets, facilities, or businesses, to seek to take control of the leases, rents, revenues, and contracts, and the proceeds, issues and profits thereof, with the rights and powers referenced below and such other rights and powers as the court making such appointment shall confer. Such appointed receiver shall have all powers and duties prescribed by applicable law, all other powers that are necessary or usual in such cases for the protection, possession, control, management, and operation of the assets, facilities, or businesses or the Project, and such rights and powers as the Authority would have, upon entering and taking possession of the Collateral. IGU will

not oppose any RCA application made by the Authority or a purchaser at any foreclosure sale for the transfer of IGU's CPCN to the successor operator of the Integrated Utility.

11.5.7 The Authority, by its agent or any court-appointed receiver, may enter, take possession of, manage, and operate all or any part of the Project or the Collateral, and may also do any and all other things in connection with those actions that the Authority may, in its sole discretion, consider necessary and appropriate to protect the Collateral. Such other things may include: taking and possessing all of IGU's or the then owner's books and records; entering into, enforcing, modifying, or canceling contracts or leases on such terms and conditions as the Authority may consider proper; collecting and receiving any payment of money owing to IGU, Pentex or the Subsidiaries; completing any unfinished construction; and/or contracting for and making repairs and alterations. IGU agrees that it will not oppose any RCA application made by the Authority or a purchaser at any foreclosure sale for the transfer of IGU's CPCN to the successor operator of the Integrated Utility; or

11.5.8 Pursue any other right or remedy available to the Authority in law or equity.

11.6 Default Interest; Remedies on Default.

11.6.1 In the case of a Payment Default or failure to comply with the provisions of Sections 8.1.1, 8.1.2, 8.1.3, or 8.1.6, but only after the applicable cure period under Section 11.2 has ended, the amounts due under the Term Loan Note shall incur interest at the Default Interest Rate from the date of default for as long as such an

Event of Default exists. After such Events of Default are cured, the original terms and conditions of the Term Loan Note shall apply.

11.6.2 In the case of an Event of Default due to non-payment of any other amounts due under this Financing Agreement, other than as a result of a Payment Default, only the amount due shall bear interest at the Default Interest Rate from the date of default, which interest shall be due in full with the payment of any such amount due.

11.6.3 If suit is commenced on the Term Loan Note, IGU shall pay to the holder of said Term Loan Note actual reasonable attorneys' fees and court costs and the costs of any receivership.

11.7 Cumulative Rights; No Marshaling Required.

11.7.1 No remedy of the Authority under this Financing Agreement is exclusive of any other remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Financing Agreement, the Term Loan Note, the Commercial Security Agreement, or any of the Related Documents, or now or hereafter existing at law or in equity.

11.7.2 Under no circumstances shall the Authority be required to marshal assets, collateral, or security for the benefit of IGU, Pentex, the Subsidiaries, or any third persons.

12. DAMAGE OR DESTRUCTION.

12.1 IGU Assumes Risk of Damage or Destruction. Damage to the Project, any portion of the Project, or the Collateral shall not terminate this Financing Agreement or cause any abatement of or reduction in the payments IGU must make to the

Authority, or otherwise affect the obligations of the IGU, Pentex, or the Subsidiaries to the Authority.

12.2 Required Insurance. IGU will maintain fire and extended coverage casualty insurance on the Project up to its full replacement value, which insurance must list the Authority as “Mortgagee Loss Payee” for real property assets and “Lender Loss Payee” for personal property assets. IGU shall maintain public liability insurance on its operations and business, with all such insurance being in the form, amounts, and coverages, and with insurance companies, that are reasonably acceptable to the Authority. The Authority will be named as an additional insured on the public liability insurance. IGU will provide to the Authority copies of all of the required insurance policies. All insurance policies shall require notice to the Authority at least 20 days in advance of any cancellation or reduction in coverage.

12.3 Insurance Proceeds. IGU shall promptly notify the Authority of any loss or damage to the Collateral, whether or not such casualty or loss is covered by any insurance. The Authority may make proof of loss if IGU fails to do so within 15 days of the casualty. IGU shall use all amounts collected by IGU under any fire or other insurance to restore the damaged or destroyed property. All amounts collected by IGU under any fire or other insurance policy that are not used by IGU to restore the damaged or destroyed property shall be payable to or otherwise provided to the Authority and may be applied by the Authority towards the outstanding indebtedness owed on the Loan, and in such order as the Authority may determine. If the Authority reasonably estimates that the amount collected from insurance will not be sufficient to complete the restoration work, the Authority may require that IGU provide adequate

proof that it has the additional funds necessary to fully and completely finish the work necessary to restore the damaged or destroyed property. All work to restore the damaged or destroyed property shall be conducted pursuant to written contracts approved by the Authority in writing. This Section 12.3 will be subject to the terms and conditions of any trust indenture for the Bonds.

13. MISCELLANEOUS.

13.1 No Pledge of the State or FNSB. No obligation of the Authority hereunder shall be deemed to constitute a pledge of the full faith and credit or taxing power of the State of Alaska or of any political subdivision thereof, except that the Bonds shall be secured by a capital reserve fund supported by the State of Alaska's moral obligation. No obligation of IGU hereunder shall be deemed to constitute a pledge of the full faith and credit or taxing power of the FNSB. Under the applicable implementing and creating ordinance that authorized IGU's formation, IGU may contract only on its own behalf and not on behalf of the FNSB. The FNSB is not liable for the debts or liabilities of the IGU unless such debts and/or liabilities are specifically authorized by the FNSB Assembly or law.

13.2 Non-Waiver. No waiver by either Party of any breach of any obligations, agreements, or covenants under this Financing Agreement, or under the Term Loan Note, or under any of the Related Documents, shall be a waiver of any subsequent breach. No delay or omission to exercise any right or power on either Party's part shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

13.3 Severability. Any provision of this Financing Agreement determined to be invalid by a court of competent jurisdiction shall not invalidate the remaining provisions of the Financing Agreement. If any provision of this Financing Agreement is held to be illegal, invalid, or unenforceable under any present or future law, then that provision will be fully severable. This Financing Agreement will be construed and enforced as if the illegal, invalid, or unenforceable provision had never comprised a part of this Financing Agreement, and the remaining provisions of this Financing Agreement will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Financing Agreement. Furthermore, in lieu of each illegal, invalid, or unenforceable provision, there will be added automatically, as a part of this Financing Agreement, a provision as similar in terms to the illegal, invalid, or unenforceable provision as may be possible and be legal, valid and enforceable.

13.4 Integration. This Financing Agreement, all exhibits, appendices, addendums, schedules, and amendments to this Financing Agreement, and all of the Related Documents constitute the complete and final agreement of the Parties relating to the subject matter addressed in this Financing Agreement or the Related Documents, and supersede all prior communications, understandings, and agreements between the Parties, whether oral or written. The Parties hereby acknowledge and represent, by executing this Financing Agreement, that said Parties have not relied on any representation, assertion, guarantee, warranty, collateral contract, or other assurance, except those set out in this Financing Agreement or the Related Documents, made by or on behalf of any other Party or any other person or entity whatsoever, prior to the execution of this Financing Agreement.

13.5 Amendment; Assignment. The provisions of this Financing Agreement may only be reformed, altered, or modified by a writing that indicates it is intended to amend the terms of this Financing Agreement and is signed by duly authorized representatives of each Party. This Financing Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, but IGU shall not assign its rights or delegate its duties under this Agreement without the prior written consent of the Authority, which consent shall not be unreasonably withheld. Any attempted assignment or delegation of IGU's rights or obligations under this Financing Agreement by IGU, or its successors or permitted assigns, without the prior written consent of the Authority shall be absolutely void, not merely voidable, and shall constitute an Event of Default under this Agreement.

13.6 Construction and Interpretation. This Financing Agreement will in all events be construed as a whole, according to its fair meaning, and not strictly for or against a Party because that Party (or the Party's legal representative) drafted the Financing Agreement. The headings, titles, and captions contained in this Financing Agreement are merely for reference and do not define, limit, extend, or describe the scope of this Financing Agreement or any provision of it. Unless the context requires otherwise, the gender (or lack of gender) of all words used in this Financing Agreement includes the masculine, feminine, and neuter, and the word "including" means "including, without limitation."

13.7 Advice of Counsel. The Parties represent and warrant that they have read and fully understand all of the terms and provisions of this Financing Agreement and the Related Documents. The Parties affirm that they have had an opportunity to

review this Financing Agreement and all the transaction documents related to this Financing Agreement with legal counsel of their own choosing, and that they have executed this Financing Agreement based upon their own judgment and advice of independent legal counsel (if sought).

13.8 Notices. Notice shall be given in writing, either by certified mail, to be deemed effective on receipt or by facsimile, addressed as follows:

If to IGU:

Interior Gas Utility
P.O. Box 70200
Fairbanks, AK 99707
Attn: General Manager
Fax: (907) 374-4473
Email: jstewart@interiorgas.com

With a copy to:

Zane D. Wilson, Esq.
Rene A. Broker, Esq.
714 4th Ave., Suite 200
Fairbanks, AK 99707
Fax: (907)452-8154
Email: zane@alasklaw.com
reneb@alaskalaw.com

If to the Authority:

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

With a copy to:

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

Each Party shall notify the other in writing of any change of address.

13.9 Dispute Resolution; Venue; Jurisdiction; Attorneys' Fees.

13.9.1 In the event of a dispute arising out of or relating to this Financing Agreement, other than disputes related to Events of Default as set forth in Section 11.4, the Parties shall engage in good faith discussions in an effort to resolve the dispute. If such discussions are not successful in resolving the dispute to the satisfaction of the Parties, the Parties shall attempt to settle the dispute by mediation, administered by the American Arbitration Association ("AAA") under its Mediation Rules, or by such other method as may be agreed to in writing between the Parties. If settlement is not reached within one hundred twenty (120) days after service of a written demand for mediation, either Party may commence a lawsuit to resolve such dispute.

13.9.2 Venue for any suit, legal action, or other legal proceeding arising out of or relating to this Financing Agreement, including disputes relating to Events of Default, shall be brought exclusively in the Superior Court for the State of Alaska, Third Judicial District, at Anchorage, Alaska, and not in any other court. Each Party irrevocably consents to the jurisdiction of such court in any such suit, action, or proceeding and waives any objection or defense which such Party may have to the laying of venue of any such suit, action, or proceeding in such court, including the defense of an inconvenient forum to the maintenance in such court of such suit, action,

or proceeding. The Parties agree that a final and non-appealable judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or by any other manner provided by law. The prevailing Party in any court proceeding shall be entitled to recover its actual reasonable attorneys' fees in addition to any other relief the court awards.

13.9.3 In the event of unsuccessful mediation under the provisions of Section 11.4 or this Section 13.9, the Authority shall have all rights granted to it to foreclose upon the Collateral or exercise any other self-help remedies provided to the Authority in this Financing Agreement, any agreements related to the Collateral, any Related Documents, or under applicable law.

13.10 Authority Liability. In all circumstances, the Authority's liability to IGU, or its successors or assigns, for the Authority's failure to perform or fulfill any obligation created under or arising out of this Financing Agreement shall be limited to the SETS fund established under AS 44.88.660, or the assets the Authority holds in the SETS program or fund, or any specific appropriation the Alaska State Legislature made to the Authority for the purpose of satisfying the Authority's liability to IGU. IGU shall have no recourse against the Authority's revolving fund established under AS 44.88.060 to enforce or compensate for any liability of the Authority to IGU. The restrictions of this Section 13.10 apply to a monetary award of damages, an equitable recovery of restitution, any other type of compensation, a decree of specific performance, and any other relief or remedy that may be available to IGU under applicable law. IGU shall have a right of offset against any amount owed under the Loan for any liability the Authority has to IGU for breach or non-performance of this Agreement. Prior to

exercising the right of offset, IGU must give the Authority written notice of the claimed breach or non-performance and IGU must afford the Authority an opportunity to cure the breach or non-performance consistent with Section 11.2. If the Authority disputes the breach or non-performance, the Parties must comply with the dispute resolution process provided for in Sections 11.4 or 13.9 before IGU may exercise the right of offset.

13.11 Time of the Essence. Time is of the essence in the performance of this Financing Agreement, the Term Loan Note, and all the Related Documents.

13.12 Counterparts. This Financing Agreement may be signed in counterparts all of which when taken together shall constitute one and the same documents. Signature pages for this Financing Agreement may be delivered and exchanged by electronic means, which shall be effective for purposes of binding the Parties to this Financing Agreement.

IN WITNESS WHEREOF, the Parties have caused this Financing Agreement to be executed by the duly authorized representatives as of the day and year first hereinabove set forth.

[Signature Pages Follow]

THE AUTHORITY:

**THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**, a public
corporation of the State of Alaska

Date

By:_____

Its:

IGU

**THE INTERIOR ALASKA NATURAL GAS
UTILITY d/b/a INTERIOR GAS UTILITY**, a
public corporation and an instrumentality of the
Fairbanks North Star Borough

Date

By:_____

Its:

EXHIBIT A

FORM OF TERM PROMISSORY NOTE

\$125,000,000

[_____]
Fairbanks, Alaska

Promise to Pay. The **INTERIOR ALASKA NATURAL GAS UTILITY d/b/a INTERIOR GAS UTILITY**, a public corporation and instrumentality of the Fairbanks North Star Borough ("IGU"), promises to pay to the Alaska Industrial Development and Export Authority (the "Authority"), or order, the principal sum of One Hundred Twenty-Five Million Dollars (\$125,000,000) or so much of that amount as may be advanced under the Financing Agreement, together with interest (if any) on the unpaid principal balance. This note (the "Term Loan Note") is executed and delivered pursuant to the provisions of the Financing Agreement between the IGU and the Authority of even date herewith. Capitalized terms in this Term Loan Note shall have the meaning ascribed to them in the Financing Agreement. In the event of differences between the terms of this Term Loan Note and the Financing Agreement, the Financing Agreement shall control.

Interest Rate; Payments. Under this Term Loan Note, interest (the "Interest Rate") shall accrue as described in Section 4.1.1 of the Financing Agreement. Payments under this Term Loan Note shall be made according to the provisions of Section 4.1.2 of the Financing Agreement. Commencing on the first day of the first calendar month after the expiration of the Deferral Period or the Demand Deferral Period, whichever is later, IGU shall pay equal monthly payments on the first day of each month sufficient to fully amortize the Term Loan by the Maturity Date. All payments shall be applied first to interest, and then to principal. If not sooner paid, the Term Loan shall be paid in full by the Maturity Date.

Default. IGU will be in default if any of the Events of Default under the Financing Agreement have occurred and continue after any applicable cure period has expired. Upon the occurrence of an Event of Default and after any applicable cure period has expired, the Authority, at its sole option, may declare the entire unpaid principal balance on this Term Loan Note and all accrued unpaid interest immediately due, without notice, and exercise such remedies and take such actions as are provided for in the Financing Agreement.

Holder's Rights. IGU is personally obligated and fully liable for the amount due under this Term Loan Note. The holder of this Term Loan Note has the right to sue on this Term Loan Note and obtain a personal judgment against IGU for satisfaction of the amount due under this Term Loan Note either before or after a judicial foreclosure of the Deed of Trust, Security Agreement, and Fixture Filing under AS 09.45.170 – 09.45.220. Also, the holder of this Term Loan Note, at its sole option, has the right to sue on this Term Loan Note either before or after the exercise by the holder of any other right or remedy it may have to proceed against any of the collateral securing this Term Loan

Note. The holder of this Term Loan Note may hire or pay someone else to help collect this Term Loan Note if IGU does not pay. The holder of this Term Loan Note shall be entitled to collect all reasonable resulting costs and expenses, including but not limited to reasonable attorney's fees, whether or not there is a lawsuit.

Governing Law; Forum Selection. This Term Loan Note has been delivered to the Authority and accepted by the Authority in the State of Alaska. If there is a lawsuit, IGU shall submit to the jurisdiction of the Alaska state courts in the Third Judicial District, at Anchorage, in accordance with the provisions of the Financing Agreement. This Term Loan Note shall be governed by and construed in accordance with the laws of the State of Alaska.

Collateral. This Term Loan Note is secured by the Collateral described in the Financing Agreement.

General Provisions. The holder of this Term Loan Note may delay or forgo enforcing any of its rights or remedies under this Term Loan Note without losing them. IGU and any other person who signs, guaranties, or endorses this Term Loan Note, to the extent allowed by law, waive presentment, demand for payment, protest, and notice of dishonor. Upon any change in the terms of this Term Loan Note, and unless otherwise expressly stated in writing, no party who signs this Term Loan Note, whether as maker, guarantor, accommodation maker, or endorser, shall be released from liability. All such parties agree that the holder of this Term Loan Note may renew or extend (repeatedly and for any length of time) the Loan represented by this Term Loan Note, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect the holder's security interest in the collateral; and take any other action deemed necessary by the holder without the consent of or notice to anyone. All such parties also agree that the holder may modify the loan represented by this Term Loan Note without the consent of or notice to anyone other than IGU and the party with whom the modification is made.

PRIOR TO SIGNING THIS TERM LOAN NOTE, IGU HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS TERM LOAN NOTE. IGU AGREES TO THE TERMS OF THIS TERM LOAN NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS TERM LOAN NOTE.

IGU

**THE INTERIOR ALASKA NATURAL GAS
UTILITY d/b/a INTERIOR GAS UTILITY**, a
public corporation and an instrumentality of the
Fairbanks North Star Borough

Date

By: _____

Its:

EXHIBIT B – UNALLOWABLE COSTS

1. Bad debts of IGU, including IGU's expenses of collection.
2. Bonuses, commissions, and similar compensation under any other name, which provide compensation to an employee or agent of IGU in excess of reasonable compensation for the services rendered, or are in connection with obtaining or negotiation for a State of Alaska loan or grant, or a modification thereto.
3. Contingency reserves and provisions.
4. Entertainment expenses. All entertainment expenses are disallowed without regard to the purpose. State employees are not to be entertained by IGU for any business or social purpose.
5. Fines and penalties, including assessed interest, resulting from violation or failure of IGU to comply with federal, state, or local laws or regulations.
6. Insurance premiums (including any provision of a self-insurance reserve) on the life of any person.
7. Legal, accounting, and consulting services and related costs incurred in connection with prosecution of claims of IGU against the Authority or the State of Alaska or contesting actions or proposed actions of the Authority or State of Alaska against IGU.
8. Lobbying expenses of IGU and agents of IGU.
9. Maintenance, depreciation, and other costs incidental to IGU's idle or excess facilities (including machinery and equipment) other than reasonable standby facilities.
10. Membership in trade, business, and professional organizations.
11. Patronage capital credits or other capital distributions of IGU.

12. Payment to any board member or employee of IGU, except for documented reimbursement of actual out-of-pocket expense relating solely to the Project and approved by the Authority.

13. Expenses incurred prior to April 3, 2014.

EXHIBIT C – SCOPE OF WORK AND SCHEDULE OF ADVANCES

Scope of Work

The scope of work (SOW) is detailed in the following documents:

- A. Utility Integration Memorandum of Understanding (MOU) as approved by AIDEA and IGU dated January 25, 2017 including MOU Appendix A and B
- B. Financing Agreement Appendix B, Integrated Gas Utility Capital Program
 - a. Work items include Titan 2 LNG Plant, Titan 3 LNG Plant, High-Capacity LNG Trailers & Equipment, Fairbanks Storage Facility, North Pole Storage Facility, IGU Phase 1, 2 & 3 Distribution, FNG Distribution Infill, FNG Peak Shaving Plant, Services and Meters, Program Management, and Customer Conversion Program
- C. Scope of work and costs for Titan 2 construction activities (to be provided after contracts are executed)
- D. Scope of work and costs for FNG storage facility construction activities in Fairbanks (to be provided after contracts are executed)
- E. Scope of work and costs for IGU storage facility construction activities in North Pole (to be provided after contracts are executed)
- F. Scope of work for other work items included in B. a. above shall be provided after contracts are executed

Costs directly billed to the specific tasks identified in the scope of work documents (and verified by IGU as appropriate and reasonable to the SOW) are considered eligible expenses of the Project. Costs directly billed to conduct due diligence in conjunction with the Purchase Agreement and this Financing Agreement are considered eligible expenses of the Project only if Closing occurs and may be advanced under the Loan after Closing pursuant to the provisions of this Financing Agreement.

IGU will not assign any additional tasks or modify the statement of work without written authorization of the Authority. Authorization for task additions and modifications shall not be unreasonably withheld as long as the changes do not exceed the \$125,000,000 SETS financing and \$150,000,000 Bond financing as authorized in SB 23.

Schedule of Advances

The term “advances” only applies to Term Loan (SETS financing)

Lender will advance amounts under the Term Loan according to the schedule below, which amounts are an estimate, based on a May 31, 2018 Closing, to be adjusted as of the Closing Date:

	Elements	Timing / Period	SETS Loan	Capital Appropriation	Total
Advance 1	IGU LOC		\$27,412,000		\$27,412,000
	FNG LOC		\$14,806,000		\$14,806,000
	Pentex Purchase		\$20,694,010	\$40,597,381	\$61,291,391
	Total - Advance 1	At Closing (5/31/18)	\$62,912,010	\$40,597,381	\$103,509,391

Advance	Elements	Timing / Period	SETS Loan	% of SETS Balance
2	Costs - Quarter 1 Post-Closing	6/1/18 thru 8/31/18	\$9,313,199	15%
3	Costs - Quarter 2 Post-Closing	9/1/18 thru 11/30/18	\$9,313,199	15%
4	Costs - Quarter 3 Post-Closing	12/1/18 thru 2/28/19	\$15,521,998	25%
5	Costs - Quarter 4 Post-Closing	3/1/19 thru 5/31/19	\$15,521,998	25%
6	Costs - Quarter 5 Post Closing	6/1/1 thru 8/31/19	\$12,417,598	20%
	Total of SETS Loan Advances		\$125,000,000	

\$62,087,990 SETS Balance After Advance 1

* Assumes May 31, 2018, Closing Date

** Based on Capital Program, Appendix B

APPENDIX A

INTEGRATED UTILITY NATURAL GAS DEMAND FORECAST

Natural Gas Demand Estimated Forecast (BCF/YR)

Item	2017	2018	2019	2020	2021	2022	2023	2024
IGU Phase 1-3	-	-	-	0.07	0.22	0.40	0.58	0.76
FNG	0.75	0.75	0.75	1.12	1.61	2.15	2.67	3.14
Total Demand	0.75	0.75	0.75	1.19	1.83	2.55	3.25	3.90
Item	2025	2026	2027	2028	2029	2030	2031	2032
IGU Phase 1-3	0.89	0.98	1.04	1.09	1.12	1.14	1.14	1.14
FNG	3.53	3.77	3.90	4.02	4.08	4.12	4.14	4.15
Total Demand	4.41	4.75	4.95	5.11	5.20	5.26	5.29	5.29

APPENDIX B – Integrated Utility Capital Program

APPENDIX B-1				
INTEGRATED GAS UTILITY CAPITAL PROGRAM				
Item	Stage 1	Stage 2	Stage 3	Total
LNG Supply				
Titan 2 LNG Plant (inc. Titan 1 upgrades)	\$ 24,350,000	\$ 21,850,000	\$ -	46,200,000
Titan 3 LNG Plant	-	-	25,000,000	25,000,000
ST - LNG Supply	\$ 24,350,000	\$ 21,850,000	\$ 25,000,000	71,200,000
Transportation				
LNG High-capacity Trailers & Equip	\$ 1,095,000	\$ 730,000	\$ 2,920,000	4,745,000
Storage and Vaporization				
FBKS 5.2mgal Storage	\$ 42,000,000	\$ -	\$ -	42,000,000
NP 150kgal Storage	10,000,000	-	-	10,000,000
ST - Storage	\$ 52,000,000	\$ -	\$ -	52,000,000
Pentex Acquisition				
IGU Acquisition of Pentex from AIDEA	\$ 59,575,000	\$ -	\$ -	59,575,000
Distribution				
Phase 1 IGU Buildout	\$ 23,400,000	\$ -	\$ -	23,400,000
Phase 2 IGU Buildout	-	-	25,670,000	25,670,000
Phase 3 IGU Buildout	-	-	38,290,000	38,290,000
FNG Expansion - Gas Mains	15,000,000	-	8,000,000	23,000,000
FNG - Future Peak Shaving Plant	-	-	2,000,000	2,000,000
IGU & FNG - New Services and Meters	-	1,141,400	18,007,600	19,149,000
ST - Distribution	\$ 38,400,000	\$ 1,141,400	\$ 91,967,600	\$ 131,509,000
Program Management				
Program Management	7,200,000	500,000	1,500,000	9,200,000
Customer Conversion Program	125,000	250,000	2,625,000	3,000,000
ST - Program Management	\$ 7,325,000	\$ 750,000	\$ 4,125,000	\$ 12,200,000
Total Capital Program	\$ 182,745,000	\$ 24,471,400	\$ 124,012,600	\$ 331,229,000
Sources of Funds	Stage 1	Stage 2	Stage 3	Total
Appropriations	\$ 42,440,000	\$ -	\$ -	\$ 42,440,000
SETS	125,000,000	-	-	125,000,000
AIDEA Bonds	-	19,451,400	121,092,600	140,544,000
Commercial Financing (bridge & LNG trailers)	15,305,000	(13,480,000)	2,920,000	4,745,000
Storage Credits	-	18,500,000	-	18,500,000
Total Sources of Funds	\$ 182,745,000	\$ 24,471,400	\$ 124,012,600	\$ 331,229,000

APPENDIX B-2														
INTEGRATED GAS UTILITY CAPITAL PROGRAM														
Item	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
LNG Supply														
Titan 2 LNG Plant (inc. Titan 1 upgrades)	\$ -	\$ -	\$ 2,500,000	\$ 21,850,000	\$ 21,850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,200,000
Titan 3 LNG Plant	-	-	-	-	-	-	12,500,000	12,500,000	-	-	-	-	-	25,000,000
ST - LNG Supply	\$ -	\$ -	\$ 2,500,000	\$ 21,850,000	\$ 21,850,000	\$ -	\$ 12,500,000	\$ 12,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,200,000
Transportation														
LNG High-capacity Trailers & Equip	\$ -	\$ -	\$ 1,095,000	\$ -	\$ 730,000	\$ 730,000	\$ 730,000	\$ 730,000	\$ 730,000	\$ -	\$ -	\$ -	\$ -	\$ 4,745,000
Storage and Vaporization														
FBKS 5.2mgal Storage	\$ -	\$ -	\$ 21,000,000	\$ 21,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,000,000
NP 150kgal Storage	-	-	5,000,000	5,000,000	-	-	-	-	-	-	-	-	-	10,000,000
ST - Storage	\$ -	\$ -	\$ 26,000,000	\$ 26,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,000,000
Pentex Acquisition														
IGU Acquisition of Pentex from AIDEA	\$ -	\$ 59,575,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,575,000
Distribution														
Phase 1 IGU Buildout	\$ 23,400,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,400,000
Phase 2 IGU Buildout	-	-	-	-	-	500,000	5,917,500	12,835,000	6,417,500	-	-	-	-	25,670,000
Phase 3 IGU Buildout	-	-	-	-	-	-	500,000	11,072,500	17,145,000	9,572,500	-	-	-	38,290,000
FNG Expansion - Gas Mains	15,000,000	-	-	-	-	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	23,000,000
FNG - Future Peak Shaving Plant	-	-	-	-	-	-	2,000,000	-	-	-	-	-	-	2,000,000
IGU & FNG - New Services and Meters	-	-	-	-	1,141,400	2,574,000	3,096,600	3,109,600	3,036,800	2,459,600	1,742,000	1,170,000	819,000	19,149,000
ST - Distribution	\$ 38,400,000	\$ -	\$ -	\$ -	\$ 1,141,400	\$ 5,074,000	\$ 13,514,100	\$ 29,017,100	\$ 28,599,300	\$ 12,032,100	\$ 1,742,000	\$ 1,170,000	\$ 819,000	\$ 131,509,000
Program Management														
Program Management	4,000,000	1,200,000	1,000,000	1,000,000	500,000	500,000	500,000	500,000	-	-	-	-	-	9,200,000
Customer Conversion Program	-	-	-	125,000	250,000	500,000	500,000	500,000	500,000	250,000	125,000	125,000	125,000	3,000,000
ST - Program Management	\$ 4,000,000	\$ 1,200,000	\$ 1,000,000	\$ 1,125,000	\$ 750,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 500,000	\$ 250,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 12,200,000
Total Capital Program	\$ 42,400,000	\$ 60,775,000	\$ 30,595,000	\$ 48,975,000	\$ 24,471,400	\$ 6,804,000	\$ 27,744,100	\$ 43,247,100	\$ 29,829,300	\$ 12,282,100	\$ 1,867,000	\$ 1,295,000	\$ 944,000	\$ 331,229,000
Sources of Funds														
Appropriations	\$ -	\$ 42,440,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,440,000
SETS	42,400,000	18,335,000	29,500,000	34,765,000	-	-	-	-	-	-	-	-	-	125,000,000
AIDEA Bonds	-	-	-	-	19,451,400	6,074,000	27,014,100	42,517,100	29,099,300	12,282,100	1,867,000	1,295,000	944,000	140,544,000
Commercial Financing (bridge & LNG trailers)	-	-	1,095,000	14,210,000	(13,480,000)	730,000	730,000	730,000	730,000	-	-	-	-	4,745,000
Storage Credits	-	-	-	-	18,500,000	-	-	-	-	-	-	-	-	18,500,000
Total Sources of Funds	\$ 42,400,000	\$ 60,775,000	\$ 30,595,000	\$ 48,975,000	\$ 24,471,400	\$ 6,804,000	\$ 27,744,100	\$ 43,247,100	\$ 29,829,300	\$ 12,282,100	\$ 1,867,000	\$ 1,295,000	\$ 944,000	\$ 331,229,000

APPENDIX C

INTEGRATED UTILITY SOURCES & USES OF FUNDS

Item	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Totals
SOURCES OF FUNDS														
Capital Appropriation	\$ -	\$ 42,440,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,440,000
SETS Loans	42,400,000	18,335,000	29,500,000	34,765,000	-	-	-	-	-	-	-	-	-	125,000,000
Bond Financing - Capital [1]	-	-	-	-	19,451,400	6,074,000	27,014,100	42,517,100	29,099,300	12,282,100	1,867,000	1,295,000	944,000	140,544,000
Storage Credits	-	-	-	-	18,500,000	-	-	-	-	-	-	-	-	18,500,000
Commercial Financing	-	-	1,095,000	14,210,000	(13,480,000)	730,000	730,000	730,000	730,000	-	-	-	-	4,745,000
Utility Revenues [2]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total - Sources of Funds	\$ 42,400,000	\$ 60,775,000	\$ 30,595,000	\$ 48,975,000	\$ 24,471,400	\$ 6,804,000	\$ 27,744,100	\$ 43,247,100	\$ 29,829,300	\$ 12,282,100	\$ 1,867,000	\$ 1,295,000	\$ 944,000	\$ 331,229,000
USES OF FUNDS														
Pentex Acquisition	\$ -	\$ 59,575,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,575,000
Liquefaction Development	-	-	2,500,000	21,850,000	21,850,000	-	12,500,000	12,500,000	-	-	-	-	-	71,200,000
Transportation	-	-	1,095,000	-	730,000	730,000	730,000	730,000	730,000	-	-	-	-	4,745,000
Storage and Regasification	-	-	26,000,000	26,000,000	-	-	-	-	-	-	-	-	-	52,000,000
Distribution	42,400,000	1,200,000	1,000,000	1,125,000	1,891,400	6,074,000	14,514,100	30,017,100	29,099,300	12,282,100	1,867,000	1,295,000	944,000	143,709,000
Bond Reserves [3]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Financing [4]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total - Uses of Funds	\$ 42,400,000	\$ 60,775,000	\$ 30,595,000	\$ 48,975,000	\$ 24,471,400	\$ 6,804,000	\$ 27,744,100	\$ 43,247,100	\$ 29,829,300	\$ 12,282,100	\$ 1,867,000	\$ 1,295,000	\$ 944,000	\$ 331,229,000

Notes:

[1] Actual bond financing amounts and timing to be determined; up to \$150 million plus capitalized interest, bond counsel fees, trustee fees, rating fees, financial advisor fees, escrow costs, and other bond issuance costs

[2] Utility revenues to be used as needed, if available

[3] Bond reserve requirement to be determined at time of bond issue

[4] Cost of financing to be determined at time of financing

IGU
Board Packet
Part B

- I. BM 2017—02** **Pg. 2 – 12**
- Recommendation to Approve Resolution No. 2017-06R Authorizing the General Manager to enter into Agreements to finance the acquisition of Pentex Alaska Natural Gas Company, LLC., from the Alaska Industrial Development & Export Authority and construction of necessary Interior Energy Project natural gas liquefaction, transportation, storage, regasification and distribution infrastructure.
- II. Finance Agreement** **Pg. 13 – 79**
- Finance Agreement between the Alaska Industrial Development and Export Authority as lender and the Interior Alaska Natural Gas Utility a/k/a Interior Gas Utility as Borrower
- III. Purchas Sales Agreement** **Pg. 80 – 125**
- Purchase and Sales Agreement between the Alaska Industrial Development and Export Authority as Seller and the Interior Alaska Natural Gas Utility a/k/a Interior Gas Utility as Buyer
- IV. Economic and Managerial Review Due Diligence Report - NewGen** **Pg. 126 – 165**
- V. Resolution #2017-06R** **Pg. 166 - 167**
- A Resolution Authorizing the General Manager of the Interior Gas Utility to Execute a Purchase & Sales and Finance Agreement with the Alaska Industrial Development and Export Authority for the Acquisition of Pentex and Financing of the Development of the Interior Energy Authority

**LLC MEMBERSHIP
PURCHASE AND SALE AGREEMENT**

between the

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

as Seller

and the

**INTERIOR ALASKA NATURAL GAS UTILITY
a/k/a INTERIOR GAS UTILITY**

as Buyer

_____, 2017

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PURCHASE AND SALE AGREEMENT

This **LLC MEMBERSHIP PURCHASE AND SALE AGREEMENT** ("Agreement") is entered into effective as of _____, 2017 (the "Effective Date"), by and between:

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

(2) The **INTERIOR ALASKA NATURAL GAS UTILITY**, which is also known as the **INTERIOR GAS UTILITY** ("IGU"), a public corporation of the Fairbanks North Star Borough with a primary place of business in Fairbanks, Alaska.

AIDEA and IGU are sometimes hereinafter referred to collectively as the "Parties" and each individually as a "Party."

RECITALS

AIDEA and IGU entered into a non-binding Utility Integration Memorandum of Understanding, dated January 25, 2017 (the "MOU"), wherein among other things the Parties set forth their mutual understandings with respect to AIDEA's proposed sale of Pentex to IGU, the transfer of the North Slope Pad from AIDEA to IGU, the AIDEA financing of IGU, and the establishment of the process and timelines to accomplish the foregoing. This Agreement arises out of the understandings as stated in the MOU.

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.

1.1 "Acquired Companies" means Pentex Alaska Natural Gas Company, LLC, a Delaware limited liability company, and all of the Subsidiaries.

1.2 "AIDEA" means the Alaska Industrial Development and Export Authority, a public corporation of the State of Alaska.

1.3 "AIDEA Ownership Period" means the time period from September 30, 2015 to the Closing Date.

1.4 “AIDEA’s Fundamental Representations” means the representations and warranties AIDEA is making in Sections 3.1, 3.2, 3.3, 3.4, 3.5, and 3.18.

1.5 “Bond Credit Facility” means the conduit revenue bond or bonds that AIDEA is authorized by the Alaska State Legislature to make available to IGU as described in the Financing Agreement.

1.6 “Calculated Return” means AIDEA’s return on its investment of \$54,000,000 in Pentex, which return shall be calculated as simple interest on \$54,000,000 at the rate of 5.06 % per annum from September 30, 2015, to the Closing Date.

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

1.8 “Closing Date” means the date on which the Closing occurs.

1.9 “Contemplated Transactions” means all of the transactions contemplated by this Agreement, including: (a) AIDEA’s sale of the LLC Membership Interests to IGU; (b) IGU’s and AIDEA’s performance of their respective obligations under this Agreement; (c) IGU’s acquisition and ownership of the LLC Membership Interests so as to be able to exercise control over the Acquired Companies; and (d) performance of the obligations and occurrence of conditions with regard to the North Slope Pad as set forth in Sections 5.9 and 6.11.

1.10 “Damages” means any and all compensatory awards, losses, liabilities, expenses or costs of every kind and description that are recoverable under governing law, including, without limitation, Litigation Expenses, but excluding any recovery for those matters waived in Section 9.6.

1.11 “Disclosure Schedules” means the schedules to be delivered by AIDEA pursuant to Article 3 of this Agreement.

1.12 “Due Diligence” means the efforts that IGU elects to make between the Effective Date and the Closing Date to inform itself regarding the Acquired Companies, their assets, businesses and Operations in connection with determining the suitability of the Acquired Companies for IGU’s purposes. The Due Diligence includes, but is not limited to, the Environmental Assessments.

1.13 “Effective Date” means the date upon which both Parties have signed this Agreement.

1.14 “Employee Benefit Plans” means those plans described in Section 3.17.

1.15 “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.

1.16 “Environmental Assessments” means any Phase I and Phase II environmental assessments that IGU, at its expense, elects to have conducted prior to the Closing with respect to the real properties on which the Acquired Companies conduct any of the Operations.

1.17 “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.

1.18 “Financials” means the financial statements of the Acquired Companies as described in Section 3.6.

1.19 “Financing Agreement” means the agreement between IGU, as borrower, and AIDEA, as lender, that establishes the SETS Credit Facility and that is expected to be executed contemporaneously with the execution of this Agreement. The Financing Agreement also describes the Bond Credit Facility that AIDEA is to make available to IGU.

1.20 “GAAP” means United States generally accepted accounting principles as established by the Government Accounting Standards Board (GASB), as in effect from time to time, consistently applied.

1.21 “IGU” means the Interior Alaska Natural Gas Utility, which is also known as the Interior Gas Utility, a public corporation and an instrumentality of the Fairbanks North Star Borough.

1.22 “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).

1.23 “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.

1.24 “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.

1.25 “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.

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

1.27 “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.

1.28 “Material Adverse Effect” means any of the following: (a) any matter that has, or any matters that collectively have, a negative 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 negative effect where the dollar value of the negative effect exceeds \$100,000; or (b) any matter or matters collectively, 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, a negative effect where the dollar value of the negative effect exceeds \$100,000; or (c) any substantial increase in cost or obligation of, or substantial 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, a negative effect where the dollar value of the adverse effect exceeds \$100,000; but excluding matters disclosed by AIDEA in the Disclosure Schedules.

1.29 “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.

1.30 “MOU” means the non-binding Utility Integration Memorandum of Understanding, dated January 25, 2017, between AIDEA and IGU.

1.31 “North Slope Pad” means: (a) the leasehold estate in ADL 419409, Right-Of-Way Lease for North Slope Natural Gas Pipeline and LNG Facility, by and between the State of Alaska, Department of Natural Resources, and AIDEA, dated July 31, 2014; (b) the gravel pad and other improvements constructed on the leasehold estate; (c) the engineering reports, plans, and analyses that AIDEA had prepared regarding the potential development of the gravel pad; and (d) AIDEA’s interest in the

Material Sale Contract designated ADL 419991, by and between State of Alaska, Department of Natural Resources, and AIDEA, dated May 2, 2014. The leasehold estate concerns real property described on Exhibit B to ADL 419409, which real property is located in Section 3 of Township 10 North, Range 14 West, Umiat Meridian, Barrow Recording District, Second Judicial District, State of Alaska.

1.32 “Operations” means the businesses the Acquired Companies are conducting on the Effective Date, 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.

1.33 “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.

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

1.35 “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.

1.36 “Permitted Encumbrances” 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.

1.37 “Purchase Price” means the amount stated or described in Section 2.2.

1.38 “Quarterly Reports” means the financial reports of the Acquired Companies for the third calendar quarter of 2017, the fourth calendar quarter of 2017, and all quarterly financial reports for the calendar quarters in 2018 up to the Closing Date, as described in Section 3.6.

1.39 “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.

1.40 “SETS Credit Facility” means the loans that AIDEA is extending to IGU, or the loans that AIDEA is committing to extend to IGU, under AIDEA's sustainable energy transmission and supply development program and fund (“SETS”). The terms and conditions of the SETS Credit Facility are as set out in the Financing Agreement.

1.41 “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.

1.42 “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.

1.43 “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.

1.44 “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 IGU.

Article 2 **PURCHASE AND SALE**

2.1 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, at the Closing, AIDEA shall sell and transfer to IGU all of AIDEA’s right, title and interest in and to the LLC Membership Interests, and IGU shall purchase and acquire from AIDEA the LLC Membership Interests.

2.2 Consideration. In consideration for the sale and purchase of the LLC Membership Interests, IGU shall pay to AIDEA the sum of \$54,000,000, plus the amount of the Calculated Return as of the Closing Date. The consideration described in this Section 2.2 is the “Purchase Price.”

2.3 Payment.

(a) The Purchase Price shall be paid in cash at the Closing from the following sources: (1) the remaining unexpended and unobligated amount of the appropriation the Alaska State Legislature made to AIDEA in section 26(b) of the State of Alaska capital budget for FY2014, as set out in HCS CSSB 18 (FIN) (chapter 16, Session Laws of Alaska 2013), shall be applied by AIDEA for IGU’s benefit towards the Purchase Price; and (2) the balance of the Purchase Price shall be paid through the SETS Credit Facility by IGU executing a promissory note for the balance, or a promissory note that includes the balance along with other indebtedness, as described in the Financing Agreement.

(b) The Parties acknowledge that disbursement of the appropriation the Alaska State Legislature made to AIDEA in section 26(b) of the State of Alaska capital budget for FY2014 to pay for a portion of the Purchase Price will serve to advance an Alaska liquefied natural gas production plant and distributions systems to serve Interior Alaska as a primary market.

(c) IGU agrees that AIDEA’s disbursement of the funds necessary to pay for the balance of the Purchase Price from the SETS Credit Facility will be a draw on the SETS Credit Facility and will result in a debt by IGU to AIDEA under the terms of the SETS Credit Facility as provided for in the Financing Agreement.

Article 3
AIDEA'S REPRESENTATIONS AND WARRANTIES

AIDEA represents and warrants to IGU that the statements contained in this Article 3 are correct and complete as of the Effective Date and will be correct and complete as of the Closing Date (as though made then):

3.1 LLC Membership Interests.

(a) AIDEA has good title to the LLC Membership Interests, free and clear of all Encumbrances. AIDEA owns 100% of the LLC Membership Interests.

(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 owned 100% by AIDEA. 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 unperformed contract exists relating to transferring or issuing any additional membership interests in Pentex.

3.2 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. AIDEA is the managing member and sole 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) AIDEA has delivered to IGU copies of the Organizational Documents of each of the Acquired Companies, as currently in effect and as formerly in effect.

3.3 Authorization. AIDEA's execution and delivery of this Agreement, and AIDEA's performance of the Contemplated Transactions, have been duly and validly authorized by all necessary corporate or organizational action required on AIDEA's part. 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. Each of the agreements or other instruments to be executed by AIDEA at the Closing, when executed, will be duly executed and delivered by AIDEA and will be 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. No actions or proceedings to dissolve, declare bankrupt, or create a receivership for any of the Acquired Companies or AIDEA are pending or, to the Knowledge of AIDEA and the Acquired Companies, threatened.

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

(a) 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 AIDEA or the Acquired Companies, or any of them, are or is a party, or by which AIDEA or the Acquired Companies, or any of them, are or is bound, which breach or default would (1) materially adversely affect the ability of AIDEA to execute, deliver, or perform its obligations under this Agreement, or (2) give rise to or result in a Material Adverse Effect; or

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

(c) 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.

3.5 No Consents. Except as disclosed in Disclosure Schedule 3.5, neither AIDEA nor 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.

3.6 Financial Statements. As of the execution of this Agreement, Disclosure Schedule 3.6 consists of true and complete copies of the Acquired Companies' audited consolidating financial statements for the period ending June 30, 2017 (the "Financials"), and true and complete copies of the Acquired Companies' internally generated quarterly financial reports for the third calendar quarter of 2017 (a Quarterly Report). At or prior to the Closing, AIDEA will supplement Disclosure Schedule 3.6 to also include the quarterly financial reports for the fourth calendar quarter of 2017 and all completed quarterly financial reports for the calendar quarters in 2018 up to the Closing Date (which are part of the Quarterly Reports). If the Closing does not occur before the Acquired Companies' audited consolidating financial statements for the fiscal year ending June 30, 2018 are completed, AIDEA shall supplement Disclosure Schedule 3.6 with those financial statements, which shall also constitute part of the "Financials." The Financials have been prepared from the Acquired Companies' books and records in accordance with GAAP, 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 Report for the third calendar quarter of 2017, and the Quarterly Reports to be prepared for all subsequent calendar quarters, 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 June 30, 2017, 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 GAAP to be included in the Financials or the Quarterly Reports.

3.7 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 IGU, 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.

3.8 Acquired Companies' Assets.

(a) Disclosure Schedule 3.8(a) lists all real property, leaseholds, and other interests in real estate that the Acquired Companies have. To the Knowledge of

AIDEA and the Acquired Companies, AIDEA has provided to IGU correct and complete copies of all deeds, conveyance documents, purchase contracts, written leases, subleases, title reports, title records or other documents pertaining to the real property interests listed on Disclosure Schedule 3.8(a), as well all documents amending or modifying the terms thereof.

(b) Disclosure Schedule 3.8(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. To the Knowledge of AIDEA and the Acquired Companies, AIDEA has provided, or made available, to IGU correct and complete copies of any bills of sale, leases, purchase agreements or other documents under which the personal property listed on Disclosure Schedule 3.8(b) were acquired. Prior to the Effective Date, the Acquired Companies took no action with respect to any item of personal property included on Disclosure Schedule 3.8(b) that would void any manufacturer's or dealer's warranty with respect to that item.

(c) Except as disclosed in Disclosure Schedule 3.8(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 3.8(a) or 3.8(b), or that are reflected in the Financials.

3.9 Condition of Acquired Companies' Assets. Except as disclosed in Disclosure Schedule 3.9:

(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 Knowledge of AIDEA 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 Knowledge of AIDEA 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. AIDEA has already delivered to IGU 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 Knowledge of AIDEA 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. AIDEA 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, AIDEA 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 Knowledge of AIDEA 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 Knowledge of AIDEA 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(b) 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 or against AIDEA with respect to 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. AIDEA has already delivered to IGU copies of all Permits and Licenses of any of the Acquired Companies. AIDEA 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 Knowledge of AIDEA and the Acquired Companies, threatened, claims, actions, suits, proceedings, or investigations involving AIDEA (as relates to the Acquired Companies or to AIDEA's ability to perform its 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 and AIDEA with respect to the Acquired Companies, have no Liability arising out of events or circumstances occurring prior to the Closing (and, to the Knowledge of AIDEA 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 or AIDEA with respect to the Acquired Companies, that would or might give rise to any Liability arising out of events or circumstances prior to Closing); except for (a) Liabilities set forth in the Financials or the Quarterly Reports, and (b) Liabilities which have arisen in the ordinary course of business after the date of the most recent of the Financials or Quarterly Reports (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 Knowledge of AIDEA 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 Knowledge of AIDEA 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), neither the Acquired Companies nor AIDEA with respect to the Acquired Companies, to the Knowledge of AIDEA and the Acquired Companies, has any Liability arising out of events or circumstances occurring 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 Knowledge of AIDEA 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 owns is, to the Knowledge of AIDEA 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. AIDEA has provided IGU with true and complete copies of all environmental assessments, studies, and reports (1) of which AIDEA and the Acquired Companies have Knowledge and (2) that reference the real property any of the Acquired Companies owns, leases, or uses. Although neither AIDEA nor the Acquired Companies has conducted any environmental assessments regarding the leased real property used by the Acquired Companies, neither AIDEA nor the Acquired Companies has Knowledge 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), neither the Acquired Companies nor AIDEA has Knowledge of any 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 has 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 the Knowledge of AIDEA and the Acquired Companies, there is no underground storage tank present on any real property any of the Acquired Companies owns, leases, or uses or has owned, leased or used, in conducting the Operations.

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”) contributed to, maintained, or administered by any of the Acquired Companies or under which any of the Acquired Companies, or AIDEA with respect to the Acquired Companies, could have a Liability. 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) 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 or AIDEA with respect to 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 any court, 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, or AIDEA with respect to the Acquired Companies. 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 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.

(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 the Acquired Companies or AIDEA that arose in connection with any failure (or alleged failure) to pay any Tax. 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, neither AIDEA, nor any AIDEA Related Person, 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. Neither AIDEA nor 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 does AIDEA, or any of the Acquired Companies, have Knowledge 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 Effective Date or had during the prior three years, with the effective coverage periods correctly noted. AIDEA has already delivered to IGU 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 Financials (June 30, 2017), 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; (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. AIDEA's representations and warranties in Article 3 of this Agreement, AIDEA's disclosures in the Disclosure Schedules to this Agreement or in any supplement to the Disclosure Schedules, and any certificate or document delivered to IGU at the Closing by or on behalf of AIDEA, 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. AIDEA does 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 not be set forth in a supplement to the Disclosure Schedules.

Article 4

IGU'S REPRESENTATIONS AND WARRANTIES

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

4.1 Existence. IGU is a public corporation of the Fairbanks North Star Borough established by ordinance. IGU 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.

4.2 Authorization. The execution and delivery by IGU of this Agreement, and the performance by IGU of its obligations under this Agreement, have been duly and validly authorized by all necessary organizational action of IGU and are within the authority of FNSB Ordinance Number 2012-52, under which IGU was established. This Agreement has been duly executed and validly delivered by IGU and is legally binding on IGU, enforceable against IGU 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.

4.3 No Conflict. The execution and delivery of this Agreement by IGU, and the performance by IGU of its obligations under this Agreement, do not and will not (a) conflict with IGU's governing ordinances or 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 IGU is a party or by which IGU is bound, which breach or default would reasonably be expected to materially adversely affect the Contemplated Transactions.

Article 5 **COVENANTS OF THE PARTIES**

5.1 Due Diligence Access and Investigation.

(a) Between the Effective Date and the Closing Date, AIDEA will cause the Acquired Companies to cooperate with IGU with respect to the Due Diligence and AIDEA shall direct the Acquired Companies to: (1) afford IGU and its representatives reasonable access to the Acquired Companies' personnel, properties, facilities, contracts, books and records, and other documents and data; (2) furnish IGU and its representatives with copies of all contracts, books and records, and other existing documents required by this Agreement or that IGU may reasonably request; and (3) furnish IGU and its representatives any additional financial, operating, and other data and information as IGU may reasonably request. In conducting its Due Diligence, IGU will coordinate with AIDEA's designated agent prior to making direct contact with any of the personnel, vendors, or customers of the Acquired Companies regarding the Contemplated Transactions.

(b) In entering onto any properties where the Operations are conducted, IGU, and any contractors or agents assisting or advising IGU, shall be doing so at their own risk. Neither AIDEA nor the Acquired Companies shall be responsible to IGU or any of its employees, contractors, or agents for any personal injury, death, property damage, or pecuniary loss suffered as a result of entering onto the properties where the Operations are conducted. IGU shall indemnify and defend AIDEA and the Acquired Companies, and their respective officers, employees, and agents, from and against any claim, loss, or Liability related to or arising out any personal injury, death, property damage, or pecuniary loss suffered as a result of IGU, or its employees, contractors, or agents, entering onto the properties where the Operations are conducted.

(c) If IGU elects to conduct any testing or invasive inspections of any of the Acquired Companies' property or equipment, IGU shall restore the property or equipment to its pre-existing condition immediately upon completion of the testing or invasive inspections. IGU shall pay when due all contractors or agents that perform any work on the properties of the Acquired Companies as a part of the Due Diligence. IGU

shall not allow any mechanics' or other lien to be asserted against any property of the Acquired Companies for any work performed as a part of the Due Diligence.

5.2 Notices and Approvals. AIDEA and IGU 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.

5.3 Conduct of Business Prior to Closing. Except as IGU may otherwise consent, from the Effective Date until the Closing:

(a) Except as otherwise provided in Sections 5.3(b), (c), and (d), AIDEA shall cause the Acquired Companies to: (1) conduct the Operations in the ordinary course of business and consistent with prior practice, and subject to their existing contractual obligations, so long as such action does not result in a Material Adverse Effect; (2) not alter Inventory levels in any material way from their usual and customary amounts; (3) 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 (4) not amend or voluntarily terminate any Material Contract.

(b) AIDEA shall not allow any Encumbrance to be placed against any of the assets of any of the Acquired Companies after the Effective Date.

(c) AIDEA shall not allow the Acquired Companies to 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.

(d) AIDEA shall cause the Acquired Companies to use reasonable efforts to preserve their business organizations and relations with their customers, suppliers, and employees.

(e) AIDEA shall not allow the Acquired Companies to increase salaries, wages, or benefits for any of the Acquired Companies' employees or to pay or promise any bonuses to employees, except in the ordinary course of business and consistent with past practices and so long as the cumulative effect of such increases or bonuses is not greater than \$50,000 per year.

(f) AIDEA shall cause the Acquired Companies to use reasonable efforts to cause there to be no less than Four Million Dollars (\$4,000,000) in cash among the consolidated assets of Pentex and the Subsidiaries at the time of Closing.

(g) AIDEA shall cause the Acquired Companies to notify IGU in writing within five days after AIDEA or any of the Acquired Companies has Knowledge of any

matter or event which will have a Material Adverse Effect and to report quarterly to IGU, not later than the 15th day after the end of any quarter, concerning the status of the businesses and finances of the Acquired Companies.

5.4 Negative Covenant. Between the Effective Date and the Closing Date, AIDEA 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.

5.5 Notification; Updates to Disclosure Schedules.

(a) Between the Effective Date and the Closing Date, AIDEA will notify IGU in writing within five days after AIDEA or any of the Acquired Companies has Knowledge of: (1) a fact or condition that causes or constitutes a breach of any of AIDEA's representations and warranties in Article 3, or would have constituted a breach of such representations and warranties if the fact or condition had existed at the time this Agreement was made; or (2) the occurrence of any event that may make the satisfaction of the conditions to Closing impossible or unlikely.

(b) Prior to the Closing Date, AIDEA 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 Effective Date, would have been required to be set forth or described in such Disclosure Schedule.

(c) As soon as reasonably possible after the close of each calendar quarter of 2017 and 2018 until the Closing Date, AIDEA shall cause the Acquired Companies to prepare Quarterly Reports for each calendar quarter 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. AIDEA shall provide the same to IGU as soon as they are available. The Quarterly Reports for each calendar quarter of 2017 and 2018 shall constitute a supplement to Disclosure Schedule 3.6.

5.6 Environmental Assessment. If IGU elects to do so, IGU may engage one or more environmental consulting or engineering firms to conduct Environmental Assessments of the real properties on which the Operations are conducted. The Environmental Assessments shall be at IGU's sole cost. AIDEA and the Acquired Companies will cooperate with IGU 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, IGU shall provide to AIDEA complete copies of the reports on the Environmental Assessments once they have been completed.

5.7 Tax Matters.

(a) AIDEA shall be responsible for filing all Tax Returns of or with respect to the Acquired Companies for all taxable periods during the AIDEA Ownership Period. IGU will have no Liability for Taxes relating to the income derived from the Operations and business of the Acquired Companies during the AIDEA Ownership Period. IGU 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 "IGU Tax Period"), if any such Tax Returns are legally required. If any Taxes are due for an IGU Tax Period, IGU shall cause the Acquired Companies to pay the same when due. AIDEA or IGU, 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 AIDEA or IGU, as the case may be, owned the Acquired Companies.

(b) Any Tax Return prepared pursuant to the provisions of Section 5.7 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 IGU shall provide each 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.

5.8 Regulatory Matters. Subject to the terms and conditions of this Agreement, each Party will use 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 Effective Date, 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 unconditional approval by the Regulatory Commission of Alaska to the change in ownership of Fairbanks Natural Gas, LLC. IGU and AIDEA shall submit a joint application for the unconditional approval by the Regulatory Commission of Alaska to the change in ownership of Fairbanks Natural Gas, LLC within fifteen working days after the Effective Date. AIDEA and IGU shall cooperate with one another in making the

necessary filings with the Regulatory Commission of Alaska and in seeking the unconditional approval of the joint application by the Regulatory Commission of Alaska.

5.9 North Slope Pad. Within fifteen working days after the Effective Date, AIDEA shall apply to the Alaska Department of Natural Resources for approval of: (1) the transfer of the North Slope Pad Right-of-Way Lease from AIDEA to IGU; (2) the transfer of AIDEA's interest in the Material Sales Contract referenced in Section 1.31, from AIDEA to IGU; (3) amendments to the North Slope Pad Right-of-Way Lease expanding the purposes for which the subject property may be used to include general industrial, commercial, business, and oil & gas related uses consistent with those permitted under Alaska Department of Natural Resources leases in the Deadhorse area; and (4) any subleases of the North Slope Pad Right-of-Way Lease, or any portion thereof, the negotiation of which was commenced prior to the Closing. IGU shall cooperate with AIDEA in its efforts to seek such approvals from the Alaska Department of Natural Resources.

Article 6

IGU'S CONDITIONS PRECEDENT

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

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

6.2 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.

6.3 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 and control of Fairbanks Natural Gas, LLC, must have been obtained and the authorization must be unconditional or must not impose any conditions on IGU that IGU, in its sole discretion, finds unacceptable.

(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.

(c) The board of directors of IGU must have approved of the Agreement and the Contemplated Transactions.

6.4 Due Diligence. IGU must have completed its Due Diligence, including any Environmental Assessments that IGU has elected to have performed, and IGU must be reasonably satisfied with the results.

6.5 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 AIDEA or IGU that challenges, or reasonably may be expected to lead to subsequent challenging of, the validity or legality of this Agreement or the Contemplated Transactions.

6.6 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 IGU and enacted, issued, or made after the Effective Date. The source of funds expected to be used for payment of the Purchase Price, as described in Section 2.3, must remain legally available for use in paying the Purchase Price.

6.7 No Material Adverse Effect. No Material Adverse Effect must have occurred that, after notice of such Material Adverse Effect by IGU to AIDEA, has not been remedied to IGU's satisfaction prior to the Closing.

6.8 Approval of Revised Disclosure Schedules. IGU must have approved all supplements or amendments AIDEA has made to the Disclosure Schedules after the Effective Date; provided, however, that such approval shall be withheld only with respect to supplements or amendments to the Disclosure Schedules having a Material Adverse Effect.

6.9 AIDEA's Deliveries at the Closing. AIDEA must have delivered to IGU at the Closing, duly executed and in the proper form, all instruments, assignments, agreements, certificates and other documents required under Section 8.2.

6.10 Financing Agreement. The Financing Agreement must be executed and delivered on or before the Closing Date. The terms and conditions under which funds may be drawn under the Financing Agreement to pay the Purchase Price must be satisfied.

6.11 Transfer of North Slope Pad. The approval of the Alaska Department of Natural Resources to the applications of AIDEA as described in Section 5.9 shall have been obtained on or before the Closing Date.

6.12 Plan of Development. AIDEA and IGU must have agreed upon and adopted a plan of development for the existing Titan Alaska LNG, LLC, LNG Plant designed to expand and improve that facility.

6.13 Capital Program. AIDEA and IGU must have agreed upon and adopted the integrated utility capital program attached as Appendix B to the Financing Agreement.

6.14 Natural Gas Demand Forecast. AIDEA and IGU must have agreed upon and adopted an integrated utility natural gas demand forecast attached as Appendix A to the Financing Agreement.

6.15 Integrated Natural Gas Utility Plan. IGU, with support and input from AIDEA, must have adopted a comprehensive plan for the establishment of an integrated natural gas utility in FNSB, consistent with Appendix B to the Financing Agreement.

Article 7

AIDEA'S CONDITIONS PRECEDENT

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

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

7.2 Performance of Covenants and Agreements. IGU 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 IGU at or prior to the Closing in accordance with this Agreement.

7.3 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 and control of Fairbanks Natural Gas, LLC must have been obtained and the authorization

must be unconditional or must not impose any conditions on IGU that IGU, in its sole discretion, finds unacceptable.

(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.

(c) The board of AIDEA must have approved of this Agreement and the Contemplated Transactions.

7.4 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 Effective Date. The source of funds expected to be used for payment of the Purchase Price, as described in Section 2.3, must remain legally available for use in paying the Purchase Price.

7.5 IGU's Actions at the Closing. IGU must have paid, or caused to be paid, to AIDEA at the Closing all amounts required under Section 8.3, and IGU 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 8.3.

7.6 Financing Agreement. The Financing Agreement must be executed and delivered on or before the Closing Date. The terms and conditions under which funds may be drawn under the Financing Agreement to pay the Purchase Price must be satisfied.

7.7 Transfer of North Slope Pad. The approval of the Alaska Department of Natural Resources to the applications of AIDEA as described in Section 5.9 shall have been obtained on or before the Closing Date.

7.8 Approval of Revised Disclosure Schedules. IGU must have approved all supplements or amendments AIDEA has made to the Disclosure Schedules after the Effective Date; provided, however, that such approval shall be withheld only with respect to supplements or amendments to the Disclosure Schedules having a Material Adverse Effect.

7.9 Plan of Development. AIDEA and IGU must have agreed upon and adopted a plan of development for the existing Titan Alaska LNG, LLC, LNG Plant designed to expand and improve that facility.

7.10 Capital Program. AIDEA and IGU must have agreed upon and adopted the integrated utility capital program attached as Appendix B to the Financing Agreement.

7.11 Natural Gas Demand Forecast. AIDEA and IGU must have agreed upon and adopted an integrated utility natural gas demand forecast attached as Appendix A to the Financing Agreement.

7.12 Integrated Natural Gas Utility Plan. IGU, with support and input from AIDEA, must have adopted a comprehensive plan for the establishment of an integrated natural gas utility in the FNSB, consistent with Appendix B to the Financing Agreement.

Article 8 **THE CLOSING**

8.1 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 May 31, 2018, 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. The Parties shall use reasonable efforts to satisfy the conditions precedent to Closing on or before April 30, 2018.

8.2 AIDEA's Actions at the Closing. At the Closing:

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

(b) AIDEA shall deliver to IGU copies of the resolutions of the AIDEA board approving of this Agreement and the performance of this Agreement. The AIDEA board resolutions shall be accompanied by a certificate of the AIDEA Executive Director verifying the authenticity of the resolutions and confirming that the resolutions remain in full force and effect.

(c) AIDEA shall deliver to IGU at the Closing certificates, signed by the duly authorized representative of AIDEA, 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 and accurate 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.

(d) AIDEA shall deliver to IGU at the Closing the legal opinion of its counsel substantially in the form of Exhibit 8.2(d).

8.3 IGU's Actions at the Closing. At the Closing:

(a) IGU shall take all actions necessary to cause the Purchase Price to be released and delivered to AIDEA.

(b) IGU shall deliver to AIDEA copies of the resolutions of the IGU board approving of this Agreement and the performance of this Agreement. The IGU board resolutions shall be accompanied by a certificate of the IGU's general manager verifying the authenticity of the resolutions and confirming that the resolutions remain in full force and effect.

(c) IGU shall deliver to AIDEA a certificate signed by IGU's general manager certifying that (1) each and every representation and warranty of IGU 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) IGU has performed in all material respects at or prior to the Closing all of the covenants and agreements required to be performed by IGU at or prior to the Closing in accordance with this Agreement.

(d) IGU shall deliver to AIDEA at the Closing the legal opinion of its counsel substantially in the form of Exhibit 8.3(c).

8.4 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

INDEMNIFICATION

9.1 Indemnification by AIDEA. Subject to the limitations of Section 9.2, after the Closing AIDEA shall indemnify, defend and hold harmless IGU and its directors, officers, and employees, and the Acquired Companies, from and against any Damages, sustained by any of them during the three-year period after the Closing Date and that are caused by or arise out of: (1) the failure of AIDEA to perform and fulfill any agreement or covenant to be performed and fulfilled by AIDEA under this Agreement; or (2) the breach of any AIDEA representation or warranty set forth in Article 3.

9.2 Limitations on AIDEA's Obligations.

(a) 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 9.1 shall not exceed \$5,800,000, except in the event of fraud or willful misconduct or the breach of one of AIDEA's Fundamental Representations.

(b) Notwithstanding any other provision of this Agreement, AIDEA's obligation to indemnify or defend under Section 9.1 shall be subject to appropriation by the Alaska State Legislature to the extent that AIDEA does not have sufficient funds

legally available to pay of these obligations, or to the extent that AIDEA does not have the legal authority to pay without legislative authorization. IGU acknowledges that enactment of an appropriation in the future to fund a payment under Section 9.1 remains in the sole discretion of the Alaska State Legislature and its failure to make such an appropriation creates no further Liability of AIDEA. Nevertheless, if IGU and AIDEA agree on the amount of any payment obligation AIDEA owes under Section 9.1, or if IGU obtains a final and non-appealable judgment against AIDEA that establishes AIDEA's Liability under Section 9.1, then AIDEA's Executive Director shall request the State of Alaska's Office of Management and Budget to seek, and AIDEA shall use reasonable efforts to obtain, a legislative appropriation to pay the same.

9.3 Indemnification by IGU. Subject to the dollar limitation of Section 9.4, from and after the Closing, IGU will indemnify and defend AIDEA and its members, officers, directors, and employees 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 IGU's breach of any representation, warranty, or covenant in this Agreement or that arise from IGU's ownership of the Acquired Companies, but not including any matter against which AIDEA is obligated to indemnify and defend IGU.

9.4 Limitation on IGU's Obligations.

(a) Notwithstanding any other provision of this Agreement, the aggregate maximum amount IGU shall be obligated to pay or expend in meeting its obligations under Section 9.3 shall not exceed \$5,800,000, except in the event of fraud or willful misconduct. For the avoidance of doubt, the dollar limitation of this Section 9.4 does not apply with respect to IGU's obligations under the Financing Agreement or any contract, instrument or undertaking other than this Agreement.

(b) Notwithstanding any other provision of this Agreement, IGU's obligation to indemnify or defend under Section 9.3 shall be subject to appropriation by the FNSB Assembly to the extent that IGU does not have sufficient funds legally available to pay of these obligations, or to the extent that IGU does not have the legal authority to pay without Assembly authorization. AIDEA acknowledges that enactment of an appropriation in the future to fund a payment under Section 9.3 remains in the sole discretion of the FNSB Assembly and its failure to make such an appropriation creates no further Liability of IGU. Nevertheless, if IGU and AIDEA agree on the amount of any payment obligation IGU owes under Section 9.3, or if AIDEA obtains a final and non-appealable judgment against IGU that establishes IGU's Liability under Section 9.3, then IGU shall request the FNSB Mayor to seek, and IGU shall use reasonable efforts to obtain, an appropriation from the FNSB Assembly to pay the same.

9.5 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 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.

9.6 Consequential and Punitive Damages Waived. NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, AIDEA SHALL NOT BE LIABLE TO IGU, AND IGU SHALL NOT BE LIABLE TO AIDEA, FOR ANY CONSEQUENTIAL, SPECIAL, INDIRECT, EXEMPLARY OR PUNITIVE DAMAGES ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT. THE EXCLUSION OF DAMAGES AS SET FORTH IN THE PRECEDING SENTENCE SHALL NOT APPLY TO ANY SUCH DAMAGES SOUGHT BY A THIRD PARTY AGAINST AN INDEMNIFIED PARTY IN CONNECTION WITH LOSSES FOR WHICH INDEMNIFICATION IS OWED TO SUCH PARTY UNDER THIS AGREEMENT.

9.7 Indemnity Procedure.

(a) As soon as reasonably possible after a Party entitled to indemnity or a defense ("Indemnified Party") is notified of any Damages within the scope of the indemnity, defense and hold harmless 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 Damages will not relieve the Payer Party from its indemnity, defense and hold harmless obligations, except to the extent the Payer Party can demonstrate that the defense of the Damages obligation 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 Damages within the scope of the indemnity, defense and hold harmless obligations. The Payer Party may exclusively control the defense and settlement of the Damages, 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 Damages and assist the defense counsel the Payer Party engages.

(c) In addition to any other limitations contained in this Article 9, the obligations of the Parties 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

10.1 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 IGU:

Interior Gas Utility
P.O. Box 70200
Fairbanks, AK 99707
Attn: General Manager
Fax: (907) 374-4473
Email: jstewart@interiorgas.com

With a copy to:

Zane D. Wilson, Esq.
Rene A. Broker, Esq.
714 4th Ave., Suite 200
Fairbanks, AK 99707
Fax: (907)452-8154
Email: zane@alasklaw.com
reneb@alaskalaw.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: jspringsteen@aidea.org

With a copy to:

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

10.2 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 10.1.

Article 11 **TERMINATION**

11.1 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 IGU, 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 AIDEA in accordance with Article 10;
- (c) by AIDEA, 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 IGU in accordance with Article 10;
- (d) by either IGU or AIDEA, if the Closing shall not have been consummated on or before May 31, 2018, 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 IGU, if prior to the Closing there is a Material Adverse Effect that, after notice of such Material Adverse Effect by IGU to AIDEA, has not been remedied to IGU's satisfaction prior to the Closing, and the termination shall be effective upon notice served on AIDEA in accordance with Article 10;

(f) by IGU, if prior to the Closing AIDEA supplements or amends any of the Disclosure Schedules in accordance with Section 5.5(b), (c), or (d) and IGU does not accept the supplement or amendment (which acceptance by IGU will not be unreasonably withheld), and the termination shall be effective upon notice served on AIDEA in accordance with Article 10; and

(g) by IGU, if IGU is not reasonably satisfied with the Due Diligence or Environmental Assessments it elects to have performed, and the termination shall be effective upon notice served on AIDEA in accordance with Article 10.

11.2 Effect of Termination. Notwithstanding anything to the contrary, any termination under Sections 11.1(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.

Article 12 **MISCELLANEOUS**

12.1 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.

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

12.3 Dispute Resolution; Governing Law; Forum Selection. In the event of a dispute arising out of or relating to this Agreement, the parties shall engage in good faith discussions in an effort to resolve the dispute. If such discussions are not successful in resolving the dispute to the satisfaction of the parties, the parties shall attempt to settle the dispute by mediation, administered by the American Arbitration Association ("AAA") under its Mediation Rules, or by such other method as may be agreed to in writing between the parties. If settlement is not reached within one hundred twenty (120) days after service of a written demand for mediation, either Party

may commence a lawsuit to resolve such dispute. 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.

12.4 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.

12.5 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 actual reasonable Litigation Expenses incurred in connection with the litigation in addition to any other relief the court grants.

12.6 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.

12.7 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.

12.8 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.

12.9 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.

[Signature Page Follows]

IGU:

**INTERIOR ALASKA NATURAL GAS UTILITY
a/k/a INTERIOR GAS UTILITY**

By: _____

Name: _____

Title: _____

AIDEA:

**ALASKA INDUSTRIAL DEVELOPMENT AND
EXPORT AUTHORITY**

By: _____

John Springsteen
Executive Director

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

Disclosure Schedules

Disclosure Schedule 3.5.....	Consents Required
Disclosure Schedule 3.6.....	Financials and Quarterly Reports
Disclosure Schedule 3.8(a)	Real Estate Interests
Disclosure Schedule 3.8(b)	Personal Property
Disclosure Schedule 3.8(c)	Clear Title Exceptions
Disclosure Schedule 3.9.....	Good Condition Exceptions
Disclosure Schedule 3.11.....	Contested Accounts Receivables
Disclosure Schedule 3.12.....	Material Contracts
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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 8.2(d)	AIDEA's Legal Opinion
Exhibit 8.3(c)	IGU's Legal Opinion

Final Report | June 12, 2017

Due Diligence Report
Economic and Managerial Review

Prepared for the Interior Gas Utility
for the Purchase of Pentex Alaska, LLC
Fairbanks, Alaska

Prepared by:



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PURPOSE OF THE REPORT

The purpose of the Report is to document due diligence efforts in support of the Interior Gas Utility's (IGU's) proposed purchase of Pentex, LLC, its subsidiary organizations, and associated assets. This report primarily focuses on a managerial and economic review of organizational documentation, financial results, operational and capital spending levels, natural gas sales, and rates.

Report Organization

We have organized our Report as follows:

- Purpose of Report, as presented within this Section.
- Section 1 – Governance, Organization, and Management, describes the Pentex organizational structure, which oversees the operation of Titan Alaska, LLC (Titan), Artic Energy Transportation, LLC (AET), and Fairbanks Natural Gas, LLC (FNG).
- Section 2 – Natural Gas System provides a review of FNG gas system operations, financial performance, and rates.
- Section 3 – Accounting and Financial Statements includes a review of financial reports for Titan, AET, FNG, and a review of the consolidated financial report for Pentex.
- Section 4 – Findings and Recommendations

Section 1

GOVERNANCE, ORGANIZATION, AND MANAGEMENT

Governance

Alaska Industrial Development and Export Authority (AIDEA) purchased Pentex, LLC and its subsidiaries in a stock purchase arrangement in September 2015 under the terms of an LLC Membership Purchase and Sale Agreement (PSA) dated June 15, 2015. Closing was held on September 30, 2015. The negotiated purchase price of approximately \$54 million was financed through the use of AIDEA’s Economic Development Account within the Revolving Fund. AIDEA’s investment strategy was to purchase Pentex and eventually transfer it to a “local control entity” for integrated operation of a natural gas utility serving Fairbanks, North Pole, and the Fairbanks North Star Borough (FNSB). Currently, AIDEA and IGU are in negotiations for AIDEA to sell and IGU to purchase Pentex, LLC.

While under AIDEA ownership, the AIDEA Board governs Pentex has budget approval and rate-setting responsibility.

Organization

The organizational structure for Pentex, LLC and its subsidiaries is shown in Figure 1-1 below.

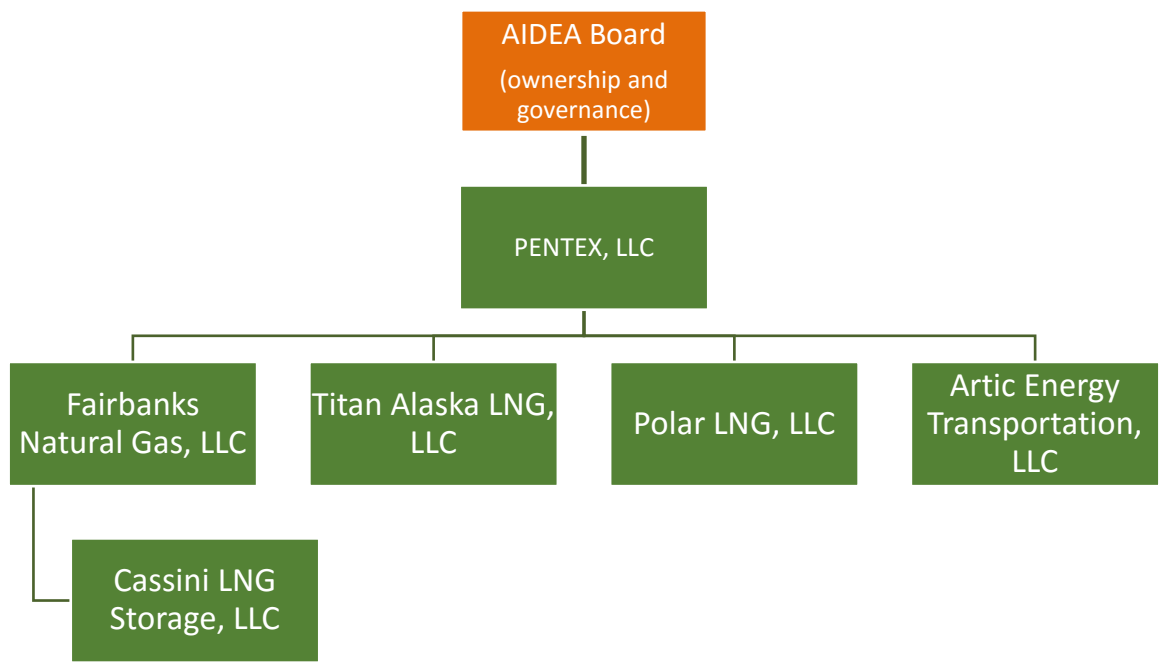


Figure 1-1: Pentex, LLC Organizational Chart

Pentex, LLC functions as a holding company for FNG, Titan, Polar LNG, LLC (Polar), and AET. FNG is the natural gas distribution utility serving portions of Fairbanks, Alaska and includes Cassini LNG Storage, LLC

(not active). Titan includes natural gas liquefaction facilities in Point MacKenzie, Alaska and Liquefied Natural Gas (LNG) transportation from the Titan LNG facilities in Point MacKenzie to FNG storage facilities in Fairbanks, Alaska. Polar was created to capture efforts to develop a LNG production facility on the North Slope but is no longer active. At the time of this review, the value of the Polar project had been written off. AET includes LNG fueling stations and other transportation services.

Operating and Capital Budgeting

The AIDEA Board reviews and approves the Pentex operating and capital budget annually. The budgeting process begins with Pentex preparing and submitting a proposed operating and capital budget to AIDEA. The budget also includes a projection of revenues and recommendations for rate adjustment.

The operating portion of the budget contains projections of sales, revenues and expenses. Separate budgets are prepared for FNG, Titan, and AET. Pentex management compiles the budget projections and submits the document to the AIDEA Board.

Insurance

FNG maintains a number of insurance policies to protect FNG assets against accidents or loss. The approach is to preserve FNG resources by minimizing risks and stabilizing insurance costs in an economical manner. The following policies were provided by FNG for review:

Provider	Description
Alaska National Insurance Company	Business auto (trucks, trailers, and equipment)
Alaska National Insurance Company	Commercial general liability
Liberty Mutual Insurance Company	Real and personal property
RSU Indemnity Company	Commercial Excess liability policy
Alaska National Insurance Company	Workers compensation

An initial review of the policies listed above indicated coverage through March 1, 2016. Based on discussions and information provided by FNG's insurance carrier, Hale & Associates, Inc., we understand that these policies have been renewed through March 1, 2018.

Contracts

Pentex and its subsidiaries maintain a number of contracts and agreements important to day-to-day operations. Among the day-to-day purchasing and operations contracts are agreements relating to the purchase of natural gas, pipeline transportation, liquefaction, trucking, and maintenance of key equipment. Table 1-1 below includes a list of documents that were made available by Pentex and were reviewed by NewGen.

Table 1-1
Contracts and Agreements

Contracts & Agreements	Date Signed or Renewed	Termination Date	Provisions
Hilcorp - Titan Line of Credit & Prepayment Requirement	7/17/2013	N/A	\$650,000 Line of Credit Facility
Hilcorp - Titan Long Term Gas Sales Agreement	7/1/2013	3/31/2018	
FNG – AK Directional Gas Distribution Line Area A	6/15/2015	N/A	To be completed by 9/15/2015
AK Railroad – FNG – Hitachi Memorandum of Understanding	8/22/2016	12/31/2016	Railroad LNG container demonstration
Big State - Titan LNG Transportation Agreement (trucking)	3/10/2015	9/30/2015	Automatic one year renewals
Big State – Husky Transportation Contract Assignment (trucking)	3/25/2015	N/A	
FNG - BSE Gas Distribution Line Area E	6/15/2015	N/A	Construction to be completed by 9/15/2015
CanAD - FNG Containment Repair	7/7/2015	8/31/2015	
Carlile – FNG LNG Trans Agreement (trucking)	9/1/2009	8/31/2011	Automatic one year renewals
Carlile - Titan LNG Trans Agree Amendment	11/1/2013	N/A	Assignment to Titan
City of Fairbanks – FNG Utility Agreement	6/3/2015	N/A	Construction to be completed by 6/1/2016
Conoco - FNG Interruptible LNG Sales Agreement	11/1/2013	3/31/2014	Seasonal, interruptible purchases
Conoco -FNG Interruptible LNG Contract First Amendment	3/31/2014	3/31/2016	Seasonal, interruptible purchases
Enstar – Titan Firm Transportation Agreement (gas pipeline transportation)	9/1/2013	7/31/2018	Automatic one year renewals
Cryo – Titan Equipment Lease Termination and Purchase Agreement	9/1/2013	1/31/2017	
FMH – Fairbanks Fuel Interruptible Agreement Extension	July 2014	N/A	Extension option 1 of 2 – 1 year
FMH - FNG - Fairbanks Fuel Interruptible Agreement	July 2010	N/A	Extension option 1 of 2 – 1 year
FNG – Conoco Interruptible LNG Sale and Purchase Agreement	11/1/2016	10/31/2018	Seasonal, interruptible purchases
Gilson - FNG Boiler Building Contract	6/5/2015	N/A	Construction to be completed by 7/10/2015
Harvest - FNG LNG Sales Agreement	11/5/2014	11/5/2024	
Big State - Titan LNG Transport Agreement (trucking)	11/1/2015	6/30/2016	Automatic one year renewals
Big State - Titan LNG Truck Lease Agreement (trucking)	11/1/2015	6/30/2016	Coterminous with Transport Agreement
Shannon & Wilson - FNG Limited Removal Agreement	7/9/2015	N/A	Tracts C & D – Tanana Levee
Weaver - Titan Trailer Interchange Agreement	3/11/2015	N/A	
Sourdough – Titan LNG Transportation Agreement (trucking)	3/10/2015	9/30/2015	Automatic one year renewals

Table 1-1
Contracts and Agreements

Contracts & Agreements	Date Signed or Renewed	Termination Date	Provisions
FNG – CIRI Talkeetna LNG Sale and Purchase Agreement	5/1/2011	5/31/2012	Automatic renewals through 5/31/2016
Pentex – Casaday Termination of Management Agreement	6/16/2008	N/A	
Titan – Carlile Short Term Transportation Agreement (trucking)	3/11/2015	4/10/2015	
Titan - Western Cascade Trailer Change Order Form	6/27/2016	N/A	Original Order 5/31/2016
Titan - CIRI Talkeetna LNG Sale and Purchase Agreement	6/1/2016	5/31/2017	Three automatic renewal terms
Titan-Crowley LNG Sale Agreement	8/31/2016	N/A	Crowley will notify when complete
Titan-FNG Interruptible LNG Transportation Agreement (trucking)	1/1/2014	3/31/2018	
Titan - FNG Firm LNG Sale and Purchase Agreement	1/1/2014	3/31/2018	Two additional automatic renewals
Titan - Western Cascade 3 Trailer Order	5/24/2016	N/A	1/31/2017 pickup
FNG – CIRI Talkeetna LNG Agreement Assignment	N/A	N/A	Notification only; unsigned
FNG – University AKF Amended Gas Interruptible Service Agreement	6/30/2007	6/30/2012	Automatic one year renewals
FNG - UTI Gas Distribution Line Area B	6/30/2015	N/A	To be completed by 9/15/2015

Management and Organization

A preliminary discussion of Pentex/FNG/Titan management and organization is below. This section may be updated as needed to reflect additional information.

Management

Pentex (including Titan, AET, and FNG) is managed and operated in accordance with conditions included in board resolutions and employment agreements. Of critical importance is the flow of funds that govern how operating margins resulting from subsidiary operations are to be treated. Operating margins are first used to meet debt service obligations, then used to fund authorized capital improvements and replacements. Remaining funds remain in retained earnings for future use. As owner, it is the AIDEA Board's responsibility to determine rates and approve budgets.

Organizational Structure

The Pentex President is responsible for the management and operations of Pentex and its subsidiaries including the following duties:

- Titan

- Purchase and liquefaction of natural gas;
- Operation and maintenance of LNG production facilities;
- LNG transportation;
- FNG
 - LNG storage and regasification;
 - Natural gas distribution;
 - Utility engineering services;
 - Supervision of contract construction work for the utility system;
 - Meter reading and customer billing; and
 - Other such activities as may be necessary or incidental to the operation of the utility system

A more detailed organization chart for Pentex operations is included as Appendix A.

Utilities System Staffing and Compensation

As part of our review, we examined employee census and wage documents for Titan and FNG as of January 2017. The Titan employee census indicated 10 employees; the FNG employee census indicated 9 employees. Dan Britton serves as President/CEO for both Titan and FNG. Combined, there are 20 employees, including management. For the Titan liquefaction facility and the FNG utility system, overall staffing levels appear to be at budgeted levels. Other than two personnel changes that occurred in the first quarter of 2017, no significant change in staffing is expected near term; however, additional staff will be required as IGU and Pentex completes system integration and begins to grow the gas system.

NewGen's review did not include an examination of employee compensation and other benefits such as retirement plans, healthcare benefits, and paid vacation. We suggest a high-level compensation comparison to determine peer market competitiveness. It is important to note that observed employee turnover appears to be low within Pentex. The low turnover rate may illustrate qualitative and non-salary benefits associated with Titan and FNG positions that may hold a material value to many employees and/or applicants.

Section 2

NATURAL GAS SYSTEM

Description

FNG is a wholly owned subsidiary of Pentex that owns, operates and maintains a natural gas distribution utility providing service to approximately 1,145 customers including residential, commercial, and industrial use. FNG's responsibilities include LNG supply purchases, LNG storage and regasification, natural gas distribution, metering, and sales. FNG purchases all of its LNG needs from Titan. LNG is transported from Titan liquefaction facilities to FNG storage facilities via truck in specialty LNG trailers. The FNG natural gas system includes two storage facilities, regasification equipment, 144 miles of distribution gas mains, and associated services and meters.

Natural gas sales in 2016 were 2 percent lower than 2015, a continuing trend driven by low oil prices, some customers' ability to switch fuels, and milder winter temperatures. Historical and Projected Gas Sales are shown below in Table 2-1.

Table 2-1
Natural Gas System
Historical and Projected Gas Sales

Year	Gas Sales (MCF)	Year-to-Year Change (%)
2013	936,127	-
2014	875,550	-6%
2015	729,842	-17%
2016	711,976	-2%
2017 (projected)	750,425	5%

Source: Recommended Pentex Fiscal Year 2017 Budget (dated 12/1/2016)

(1) Amounts may not agree precisely to totals in other documents due to rounding

Service Territory

FNG operates under a Certificate of Public Convenience and Necessity (No. 514) awarded by the Regulatory Commission of Alaska (RCA). FNG serves natural gas customers within the Fairbanks city limits. However, due to current LNG production and storage capacity, service is limited to a portion of potential customers. Currently, FNG serves approximately 1,145 natural gas accounts in its service area.

See Appendix B for a map of FNG's service territory

Natural Gas Supply Agreements

Gas supply arrangements are complex and involve natural gas suppliers, pipeline transportation providers, liquefaction agreements, and LNG transportation agreements. The following is a listing of current gas supply arrangements for Titan and FNG operations that have been reviewed by NewGen:

- *Gas Sale and Purchase Agreement* between Hilcorp Alaska, LLC (Hilcorp) and Titan effective July 1, 2015, expires March 31, 2018. Hilcorp sources its natural gas from land located in and around the Cook Inlet. ■ shown below as Agreement #1
- *Firm Transportation Service Agreement* (natural gas pipeline transportation) between Enstar Natural Gas Company and Titan effective September 1, 2013, expires July 31, 2018. ■ shown below as Agreement #2
- *LNG Transportation Agreement* (trucking) between Sourdough Express, Inc. and Titan effective March 11, 2015 and renewing annually for one year periods beginning September 30, 2015. ■ shown below as Agreement #3
- *LNG Transportation Agreement* (trucking) between Big State Logistics, Inc. Titan effective November 1, 2015 and renewing annually for one year periods beginning June 30, 2016. ■ shown below as Agreement #4
- *Trailer Interchange Agreement* between Weaver Brothers, Inc. and Titan effective March 11, 2015 and continuing until terminated by either party. ■ shown below as Agreement #5
- *Firm LNG Sale and Purchase Agreement* between Titan and FNG effective January 1, 2014, expires March 31, 2018. ■ shown below as Agreement #6
- *Interruptible LNG Transportation Agreement* (trucking) between Titan and FNG effective January 1, 2014, expires March 31, 2018. ■ shown below as Agreement #7

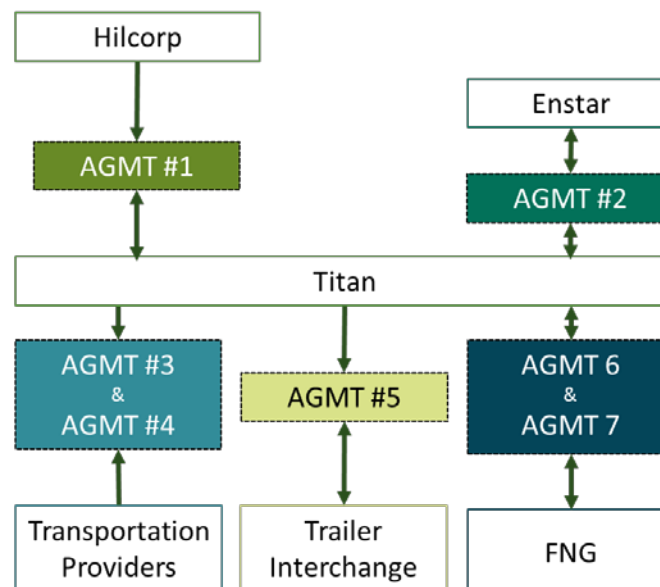


Figure 2-1: Summary of Agreement Counterparties

Natural Gas Purchases

Due to the structure of FNG's LNG purchases, the discussion that follows includes Titan's existing natural gas purchase arrangements, Titan liquefaction costs and transportation (trucking) costs.

Sales Price

Under the existing Hilcorp Gas Sale and Purchase Agreement, the sales price for Titan's gas purchases is shown in Table 2-2. Note that this agreement is for gas commodity only and does not include pipeline transportation.

Table 2-2
Sales Price

Contract Year	Pricing Periods	Base Load Gas Price (\$/Mcf)	Swing Load Gas Price (\$/Mcf)	Emergency Load Gas Price (\$/Mcf)
1	07/01/2013 through 12/31/2013	6.60	8.25	9.90
	01/01/2014 through 03/31/2014	6.86	8.58	10.29
2	04/01/2014 through 12/31/2014	6.86	8.58	10.29
	01/01/2015 through 03/31/2015	7.13	8.91	10.70
3	04/01/2015 through 12/31/2015	7.13	8.91	10.70
	01/01/2016 through 03/31/2016	7.42	9.28	11.13
4	04/01/2016 through 12/31/2016	7.42	9.28	11.13
	01/01/2017 through 03/31/2017	7.72	9.65	11.58
5	04/01/2017 through 12/31/2017	7.72	9.65	11.58
	01/01/2018 through 03/31/2018	8.03	10.04	12.05

Monthly Calculation

The amount due from Titan to Hilcorp for gas sales is calculated on a monthly basis as follows:

- **Base Load Gas Charge:** The Base Load Gas Charge shall be the Base Load Gas Price times the Monthly Contract Quantity or the Average Monthly Contract Quantity, whichever is less.
- **Swing Load Gas Charge:** The Swing Load Gas Charge shall be the applicable Swing Load Gas Price times the positive difference between the Monthly Contract Quantity and the Average Monthly Contract Quantity.
- **Emergency Load Gas Charge:** The Emergency Load Gas Charge shall be the Emergency Load Gas volume Seller sold and Delivered and Buyer purchased and received during the Month times the applicable Emergency Load Gas Price.

Cost Allocated to Titan

In addition to the monthly calculation above, the gas supply agreement states that Titan is responsible for the following costs relating to gas sold:

- Pipeline transportation costs to/from contractual delivery point, including reimbursement of pipeline transportation costs paid initially by Hilcorp;
- Storage, facilities, equipment, operations, and maintenance costs after delivery to delivery point; and
- Taxes, Excess Royalties, Excess Taxes

Purchased Gas Cost and Volumes

Titan purchases its feed gas for liquefaction from Hilcorp under arrangements described above. Purchased gas is delivered to Titan's LNG facilities in Point MacKenzie utilizing Enstar gas pipeline firm transportation service. The average cost of purchased gas, delivered to Titan LNG facilities, for the last five years is shown in Figure 2-2 below.

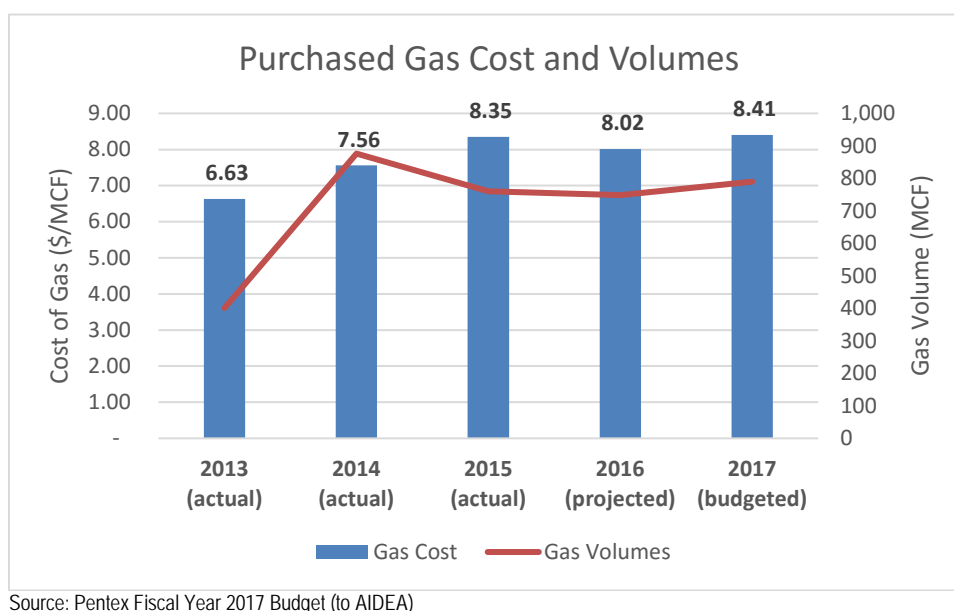
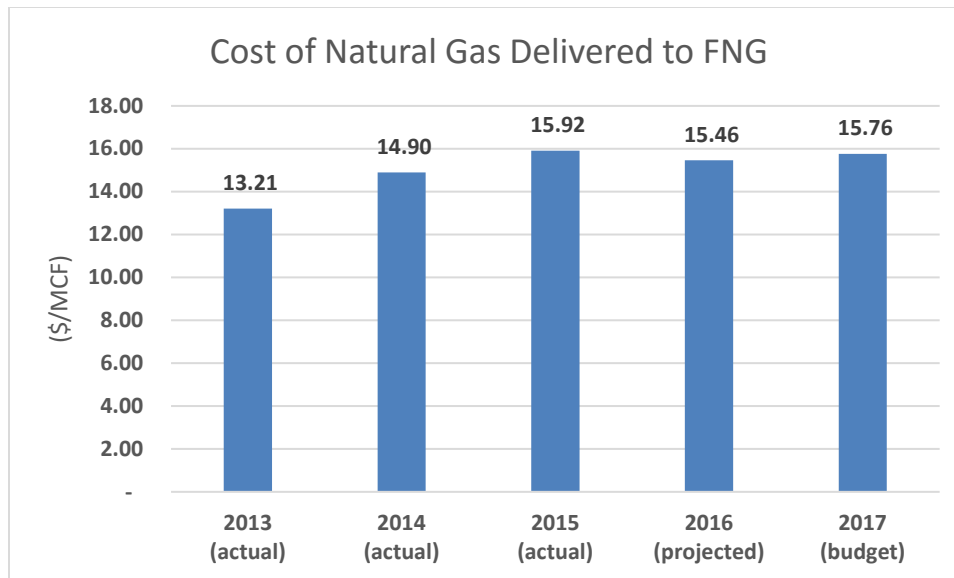


Figure 2-2: Purchased Gas Cost and Volumes

Delivered LNG Cost

FNG purchases all of its LNG needs from Titan. The total cost of LNG delivered from Titan to FNG includes Titan's cost of purchasing gas, cost of liquefaction, and trucking and trailer expenses. The total cost of gas, sold to FNG by Titan, for the last five years is shown in Figure 2-3 below (does not include FNG's cost for storage and regasification).



Source: Pentex Fiscal Year 2017 Budget (to AIDEA)

(1) Amounts may not add up precisely to totals in other documents due to rounding

Figure 2-3: Total Cost of Natural Gas Delivered to FNG

Natural Gas Distribution and Storage

FNG's natural gas distribution system consists of approximately 144 miles of gas main, two LNG storage and regasification facilities, pressure regulating stations, valves, service lines, and meters. Currently, service is limited to approximately 1,145 customers due to Titan's LNG production capacity and FNG's storage capacity. As with other operating components of the gas system, consideration of providing additional capacity components is weighed against such factors as budget constraints, capital outlay funding mechanisms, cost of alternative heating fuel, and growth trends.

The following table summarizes gas main and service line infrastructure as reported by FNG to the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA) for calendar years 2013 through 2016.

Table 2-3
Natural Gas System
Distribution System Assets

	2013	2014	2015	2016
Miles of Gas Mains ⁽¹⁾	83	113	144	144
Number of Services ⁽²⁾	1,124	1,124	1,129	1,134

Source: PHMSA Reporting

(1) Includes Distribution Pipe 12" and smaller

(2) The Number of Services shown above may not agree with customer counts from FNG billing

Operations, Performance, Environmental and Safety

Additional discussion related to FNG (and Titan) facility condition, operations, performance, regulatory and environmental compliance, and safety is addressed in the following documents:

- 'LNG Environmental, Health, and Safety Program Review' prepared by Stantec, Inc. (report dated December 12, 2016; includes comments related to PHMSA and OSHA)
- 'Structural Evaluation of Existing LNG Facility Assets' prepared by PDC Engineers, Inc. (report dated December 2016)
- 'LNG Asset Inspection Report' prepared by CHI Engineering Services, Inc. (report dated December 12, 2016)

Historical Financial Performance

FNG historical Operating Revenue, Operating Expense, and Operating Income is summarized below in Table 2-4. Note, FNG does not have a significant level of debt service. As of the date of this report, debt service was limited to a vehicle loan. Debt service on the AIDEA line of credit is deferred with capitalized interest accrued during the deferral period. The AIDEA line of credit was used to finance new gas main expansion in FNG's service territory.

Table 2-4
Fairbanks Natural Gas
Historical Financial Performance

Year	Operating Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Operating Income	Funds Available for Debt Service & Capital Improvements ⁽³⁾	Annual Debt Service
2013	\$ 20,717,170	\$ 16,565,668	\$ 4,151,502	\$ 5,287,108	\$ 5,532
2014	\$ 19,536,977	\$ 17,606,467	\$ 1,930,510	\$ 2,707,212	\$ 11,064
2015	\$ 16,671,369	\$ 16,114,347	\$ 557,022	\$ 1,378,206	\$ 11,064
2016	\$ 14,361,755	\$ 14,319,020	\$ 42,735	\$ 883,707	\$ 11,064
2017	\$ 15,262,155	\$ 15,210,110	\$ 52,045	\$ 889,562	\$ 11,064

Source: FNG Financial and Operating Statements, audited and unaudited

(1) Includes interest income and other miscellaneous income.

(2) O&M and other expenses include depreciation, customer service, and A & G expenses.

(3) Operating Income plus depreciation

(4) Debt schedule from FY 2013 FNG Audit - \$922 per Month over 60 month term - Assumed 6 months of payments in 2013

(5) Figures may not add up precisely to totals in other documents due to rounding

Historical Capital Improvement Program

Historical capital improvements program expenditures for FNG, Titan, and AET are shown in Table 2-5 below and reflect infrastructure investment. Capital improvements are funded by retained earnings (or current revenues) except for FNG's specific investment in new gas mains which were funded through an AIDEA Line of Credit. FNG's investment in new gas mains represents \$14.7 million of the \$19.1 million in total FNG New Plant.

Table 2-5
Historical Capital Improvements

Item	2013 (actual)	2014 (actual)	2015 (actual)	2016 (projected)	2017 (budget)	Totals
FNG – New Plant	\$2,677,463	\$8,029,586	\$8,026,744	\$250,865	\$78,358	\$19,063,016
Titan – New Plant	\$80,183	\$478,008	\$159,230	\$478,544	\$448,657	\$1,644,622
AET – New Plant	-	\$54,015	\$53,998	-	-	\$108,013
Total Capital Investment	\$2,757,646	\$8,561,609	\$8,239,972	\$729,409	\$527,015	\$20,815,651

Source: Pentex Consolidated Financial Statements, Audited and Unaudited

Additional detail relating to capital improvements is included in Appendix C. Note – reported capital improvements in Appendix C do not necessarily match amounts shown in Table 2-5 above. Variances are not significant and are attributable to differences in project accounting and reporting date.

Benchmarking Financial and Operating Statistics

Often, a comparison of rates and selected operating and financial ratios is prepared to gauge a utility's competitiveness or efficient operating practices. However, in consideration of the proposed purchase, unique LNG-to-gas operation, lack of comparable utilities and plans for system integration and expansion, our review did not include a benchmarking analysis of Pentex or its subsidiaries.

Below is a discussion of FNG's rate structure and revenue, customer, and sales statistics.

Rate Structure

FNG's rate structure includes a monthly Customer Charge and a Gas Charge for all gas sold on a \$/MCF basis. Rate classes include Residential, Small Commercial, Large Commercial, Interruptible – Small, Interruptible – Large, Interruptible – Hospital, and the University of Alaska, Fairbanks (UAF). Rates and charges effective FY 2015 through FY 2017 are summarized in Table 2-6 below.

Table 2-6
FNG Natural Gas System
Rate Schedules

Rate Class	Rate Component	Effective FY 2015	Effective FY 2016	Effective FY 2017
Residential	Customer Charge (\$/mo)	\$9.20	\$9.20	\$9.20
	Gas Charge (\$/MCF)	\$23.35	\$20.20	\$20.20
Small Commercial	Customer Charge (\$/mo)	\$17.25	\$17.25	\$17.25
	Gas Charge (\$/MCF)	\$22.91	\$20.16	\$20.16
Large Commercial	Customer Charge (\$/mo)	\$57.50	\$57.50	\$57.50
	Gas Charge (\$/MCF)	\$22.66	\$20.10	\$20.10
Interruptible – Small	Customer Charge (\$/mo)	\$57.50	\$57.50	\$57.50
	Gas Charge (\$/MCF)	\$20.39	\$20.03	\$20.03

Table 2-6
FNG Natural Gas System
Rate Schedules

Rate Class	Rate Component	Effective FY 2015	Effective FY 2016	Effective FY 2017
Interruptible – Large	Customer Charge (\$/mo)	n/a	\$57.50	\$57.50
	Gas Charge (\$/MCF)	n/a	\$16.50	\$16.50
Interruptible – Hospital	Customer Charge (\$/mo)	\$500.00	\$500.00	\$500.00
	Gas Charge (\$/MCF)	\$19.50	\$16.50	\$16.50
UAF	Customer Charge (\$/mo)	\$500.00	\$500.00	\$500.00
	Gas Charge (\$/MCF)	\$19.50	\$16.50	\$16.50
Total Rate Revenue (\$ millions)		\$16.671	\$14.362	\$15.262

Source: FNG Rate Schedules; FY 2015 actual revenues; FY 2016 and FY 2017 projected revenues

Revenue, Customer, and Sales Statistics

Table 2-7 shows FNG natural gas revenues, customers, sales and selected revenue statistics for FY 2013 through FY 2017. Note that this information was pulled from budget and rate reports and may differ from audited amounts. FY 2013 statistics are incomplete and are shown for reference; FY 2014 and FY 2015 are actuals, FY 2016 is projected, and FY 2017 is budgeted.

For the four-year period beginning FY 2014, FNG rate revenues have decreased at an average of 8 percent annually. This trend is attributable to decreased sales due to low oil prices, milder winter weather, and a rate decrease in 2016.

The number of customers have remained fairly stable over the same four-year period with an average annual growth rate of 0.7 percent. The revenue per customer since 2014 has decreased at approximately 0.4 percent per year driven by lower gas sales and lower rates.

Total gas sales decreased from 875,550 MCF in 2014 to a budgeted 750,425 MCF in 2017, an average annual decrease of 5 percent per year. The average Sales per Customer decreased by 5.6 percent per year over the same time period. Significant decreases are observed in sales to Small Interruptible (-12%), Hospital (-38%), and UAF (-59%).

The Revenue per MCF reflects a rate decrease in 2016 and has remained relatively flat since then.

Table 2-7
Natural Gas System
Rate Revenue Statistics

Item	2013 (Actual)	2014 (Actual)	2015 (Actual)	2016 (Projected)	2017 (Budgeted)	2017 % of Total
Rate Revenue						
Residential	\$ 1,290,589	\$ 1,249,476	\$ 1,273,902	\$ 1,053,033	\$ 1,149,308	7.7%
Small Commercial	8,781,952	8,616,696	8,460,203	7,149,493	8,021,098	53.5%
Large Commercial	4,535,798	4,558,555	4,753,712	3,707,305	4,079,907	27.2%
Interruptible - Small	1,638,432	1,451,683	1,407,830	1,078,300	1,218,225	8.1%
Interruptible - Large	-	-	-	22,464	8,748	0.1%
Hospital	2,505,438	2,225,028	508,736	748,573	450,912	3.0%
UAF	1,537,926	1,160,231	-	334,076	66,000	0.4%
TKA Commercial Gas Revenues	139,890	-	-	-	-	0.0%
Total Rate Revenue (\$)	\$ 20,430,025	\$ 19,261,669	\$ 16,404,383	\$ 14,093,244	\$ 14,994,198	100.0%
Number of Customers						
Residential		464	464	464	467	40.8%
Small Commercial		615	615	615	615	53.7%
Large Commercial		31	31	31	31	2.7%
Interruptible - Small		22	28	27	28	2.4%
Interruptible - Large		-	-	1	1	0.1%
Hospital		2	2	2	2	0.2%
UAF		1	-	1	1	0.1%
TKA Commercial Gas Revenues						0.0%
Total Customers		1,135	1,140	1,141	1,145	100.0%
Revenue Per Customer						
Residential		\$ 2,693	\$ 2,745	\$ 2,269	\$ 2,461	-
Small Commercial		14,011	13,756	11,625	13,042	-
Large Commercial		147,050	153,346	119,590	131,610	-
Interruptible - Small		65,986	50,280	39,937	43,508	-
Interruptible - Large		-	-	22,464	8,748	-
Hospital		1,112,514	254,368	374,287	225,456	-
UAF		1,160,231	-	334,076	66,000	-
TKA Commercial Gas Revenues						-
Average Revenue per Customer		\$ 16,971	\$ 14,390	\$ 12,352	\$ 13,095	-

Section 2

Table 2-7
Natural Gas System
Rate Revenue Statistics

Item	2013 (Actual)	2014 (Actual)	2015 (Actual)	2016 (Projected)	2017 (Budgeted)	2017 % of Total
Gas Sales (MCF)						
Residential	55,271	53,456	55,524	52,132	56,898	7.6%
Small Commercial	383,430	376,124	369,399	354,633	397,868	53.0%
Large Commercial	200,168	201,172	209,784	184,445	202,982	27.0%
Interruptible - Small	80,355	71,195	69,045	53,836	60,819	8.1%
Interruptible - Large	-	-	-	1,362	530	0.1%
Hospital	128,484	114,104	26,089	45,322	27,328	3.6%
UAF	78,868	59,499	-	20,247	4,000	0.5%
TKA Commercial Gas Revenues	9,551					0.0%
Total Gas Sales (MCF)	936,127	875,550	729,841	711,977	750,425	100.0%
Sales (MCF) per Customer						
Residential		115	120	112	122	-
Small Commercial		612	601	577	647	-
Large Commercial		6,489	6,767	5,950	6,548	-
Interruptible - Small		3,236	2,466	1,924	2,172	-
Interruptible - Large		-	-	1,362	530	-
Hospital		57,052	13,045	22,661	13,664	-
UAF		59,499	-	20,247	4,000	-
TKA Commercial Gas Revenues						-
Average Sales per Customer		771	640	624	655	-
Revenue per MCF (\$/MCF)						
Residential	23.35	23.37	22.94	20.20	20.20	-
Small Commercial	22.90	22.91	22.90	20.16	20.16	-
Large Commercial	22.66	22.66	22.66	20.10	20.10	-
Interruptible - Small	20.39	20.39	20.39	20.03	20.03	-
Interruptible - Large	-	-	-	16.49	16.51	-
Hospital	19.50	19.50	19.50	16.52	16.50	-
UAF	19.50	19.50	-	16.50	16.50	-
TKA Commercial Gas Revenues	14.65					-
Average Sales per Customer	21.82	22.00	22.48	19.79	19.98	-

Source: Pentex 2016 Budget and Rate Report v4 (12/1/2015) and Pentex 2017 Budget and Rate Report (12/1/2016)

Section 3

ACCOUNTING AND FINANCIAL STATEMENTS

Accounting responsibilities for Pentex and its subsidiaries are managed and performed through internal staff, including the selection of accounting software and related financial reporting. An independent accounting firm is retained to prepare an annual audit. The following documents were provided by Pentex for review:

Table 3-1
List of Documents Provided

Item	Period	Reporting
Pentex Alaska Natural Gas Company, LLC Consolidating Statement of Net Position (including Titan, FNG, and AET)	For Nine Months Ending March 31, 2017	Unaudited
Pentex Alaska Natural Gas Company, LLC Consolidating Statement of Net Position (including Titan, FNG, and AET)	For Six Months Ending December 31, 2016	Unaudited
Pentex Alaska Natural Gas Company, LLC Consolidating Statement of Net Position (including Titan, FNG, and AET)	For Three Months Ending September 30, 2016	Unaudited
Recommended Pentex Fiscal Year 2017 Budget (dated 12/1/2016)	FY 2017	Unaudited
Pentex Alaska Natural Gas Company, LLC Consolidating Financial Statements (including Titan, FNG, and AET)	For Nine Months Ending June 30, 2016	Audited
Recommended Pentex 2016 Budget & Rates (dated 12/1/2015)	CY 2016	
Pentex Alaska Natural Gas Company, LLC Membership Interest Purchase and Sale Agreement Closing Documents – Schedule of Working Capital	As of September 30, 2015	Unaudited
Pentex Alaska Natural Gas Company, LLC Consolidating Statement of Revenues, Expenses and Changes in Net Position (including Titan, FNG, and AET)	For Six Months Ending June 30, 2015	Unaudited
Pentex Alaska Natural Gas Company, LLC Consolidating Statement of Revenues, Expenses and Changes in Net Position (including Titan, FNG, and AET)	For Three Months Ending March 31, 2015	Unaudited
Pentex Alaska Natural Gas Company, LLC Consolidating Financial Statements (including Titan, FNG, and AET)	For Twelve Months Ending December 31, 2014	Audited
Pentex Alaska Natural Gas Company, LLC Consolidating Financial Statements (including Titan, FNG, and AET)	For Twelve Months Ending December 31, 2013	Audited
Pentex Alaska Natural Gas Company, LLC Consolidating Financial Statements (including Titan, FNG, and AET)	For Twelve Months Ending December 31, 2012	Audited
Pentex Alaska Natural Gas Company, LLC Consolidating Financial Statements (including Titan, FNG, and AET)	For Twelve Months Ending December 31, 2011	Audited

In addition, comparable audited financial statements reports for Titan, FNG and AET were provided for some time periods. Note – at the end of calendar year 2016, Pentex financial reporting transitioned from a calendar year to a fiscal year ending June 30.

Fairbanks Natural Gas, LLC

Balance Sheet – FNG

An abbreviated historical balance sheet summary for FNG is shown below in Table 3-2. FNG's Utility Plant assets have increased approximately \$3.5 million (or 76%) over the last five years. Total Assets have increased approximately \$8.0 million (or 28%) over the same time period.

The principal component of long-term debt, shown as Note Payable (AIDEA line of credit), represents financing for \$14.7 million investment in new gas mains and is part of the Interior Energy Project. This plant is currently being held for future use upon successful expansion of Titan LNG production capacity and construction of additional LNG storage in Fairbanks. Remaining debt is associated with utility vehicle financing.

Table 3-2
Fairbanks Natural Gas
Comparative Balance Sheet

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
Total Assets					
Utility Plant	17,782,763	25,008,646	32,306,699	31,738,756	31,326,169
Current Assets	5,364,536	4,296,838	3,916,385	4,634,933	3,952,105
Inventories	518,000	713,432	822,298	893,561	854,603
Investment in associated company	4,729,902	3,899,475	-	-	-
Marketable securities available for sale	-	117,158	167,325	223,899	273,899
Total Assets	28,395,201	34,035,549	37,212,707	37,491,149	36,406,776
Liabilities and Stockholders' Equity					
Current Liabilities	3,637,623	2,178,529	1,961,356	1,852,575	488,943
Accumulated Deferred Compensation	-	117,158	167,325	223,899	273,899
Note Payable (AIDEA LOC)	-	6,803,810	14,174,200	14,670,291	14,670,291
Equipment loans payable	43,077	34,256	24,915	15,023	9,658
Member Equity	24,714,501	24,901,796	20,884,910	20,729,361	20,963,984
Total Liabilities	28,395,201	34,035,549	37,212,706	37,491,149	36,406,775

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Statement of Operations – FNG

Table 3-3 shows the comparative statement of operations for FNG. Since 2013, Net Revenue has decreased approximately 26 percent due to a combination of reduced gas sales and a rate decrease effective January 2016. The FNG rate decrease was accomplished through a reduction in FNG's operating costs after AIDEA's purchase of Pentex at the end of Q3 2015. Under AIDEA ownership, Pentex and its subsidiaries were recognized as a tax-exempt entity. Accordingly, operating costs were reduced by removing income taxes, return on equity, investor management overhead, and regulatory affairs expenses.

Total Cost of Goods Sold remained fairly flat with a 2 percent decrease over the five-year period. General & Administrative Expenses, including payments to members, decreased approximately 45 percent in 2016 and are budgeted to remain at a reduced level in 2017. Both Operating Income and Net Income have fallen from a high of approximately 63 percent of Gross Margin in 2013 to less than 5 percent of Gross Margin in 2016 and 2017.

Table 3-3
Fairbanks Natural Gas
Comparative Statement of Operations

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
Net Revenue	\$ 20,717,170	\$ 19,536,977	\$ 16,671,369	\$ 14,361,756	\$ 15,262,155
Cost of Goods Sold					
LNG Cost	12,367,336	13,045,289	11,618,482	11,005,780	11,827,419
Distribution Operating	412,179	553,531	601,244	647,029	647,876
Storage & vaporization	183,069	440,710	477,367	374,976	460,304
Depreciation	1,135,606	776,702	821,184	840,972	837,517
Total Cost of Goods Sold	\$ 14,098,190	\$ 14,816,232	\$ 13,518,277	\$ 12,868,757	\$ 13,773,115
Gross Margin	\$ 6,618,980	\$ 4,720,745	\$ 3,153,092	\$ 1,492,998	\$ 1,489,041
General & Administrative Expenses	\$ 2,467,478	\$ 2,790,235	\$ 2,596,070	\$ 1,450,263	\$ 1,436,995
Operating Income	\$ 4,151,502	\$ 1,930,510	\$ 557,022	\$ 42,735	\$ 52,046
Other Income (expense)	13,058	(1,119)	13,170	28,638	15,053
Net Income	4,164,560	1,929,391	570,192	71,373	67,099

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Cash Flow – FNG

Cash flow is an important indicator of utility financial health as public, tax-exempt, utilities typically operate on a Cash Basis, which excludes non-cash expenses, such as depreciation, but includes other cash expenses, such as principal payments associated with debt service and capital improvements. Since public utilities are primarily concerned with accumulating sufficient cash balances to meet operating expenses, debt service, capital improvements, and other obligations, the financial results are presented on a Cash Basis.

Table 3-4 shows the change in cash due to FNG operations over the period 2013–2015 (actual), 2016 (projected), and 2017 (budgeted). These numbers indicate that current FNG rates are adequate in meeting operating expenses, current debt service, normal capital and special equipment. The remaining five-year cumulative cash margin of approximately \$3.2 million is available for capital additions or cash reserves.

Table 3-4
Fairbanks Natural Gas
Comparative Cash Flow

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
OPERATING ACTIVITIES					
Net income/(loss) for the period	4,164,560	1,929,391	570,193	71,373	67,099
Plus: Depreciation	1,135,606	776,702	821,184	840,972	837,517
Changes in operating assets and liabilities	1,092,243	320,976	(8,027)	51,824	(357,938)
Cash provided/(used) by operations	6,392,409	3,027,069	1,383,350	964,169	546,678
INVESTING ACTIVITIES					
New Plant (Capital Budget)	(2,677,463)	(8,029,586)	(8,026,744)	(250,865)	(78,358)
Other Capital Expenditures	(869,682)	(267,809)	(59,243)	(22,164)	-
Cash used in investing activities	(3,547,145)	(8,297,395)	(8,085,987)	(273,029)	(78,358)
FINANCING ACTIVITIES					
(Payment) proceeds of financing	484,088	6,794,989	7,361,050	486,198	(10,382)
AIDEA Return on Investment	-	-	-	(226,923)	-
Paid in Capital	(2,000,000)	(1,750,000)	(710,000)	-	-
Cash provided (used) by financing activities	(1,515,912)	5,044,989	6,651,050	259,276	(10,382)
Net Increase (Decrease) in Cash	1,329,352	(225,337)	(51,588)	950,416	457,938
CASH - beginning of period	358,425	1,687,777	1,462,440	1,410,852	2,728,322
CASH - end of period	1,687,777	1,462,440	1,410,852	2,361,269	3,186,260

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Titan Alaska LNG, LLC

Balance Sheet – Titan

An abbreviated historical balance sheet summary for Titan is shown below in Table 3-5. Titan's Utility Plant assets have decreased approximately \$590 thousand (or 17%) over the last five years. Total Assets have decreased approximately \$2 million (or 31%) over the same time period, primarily through a reduction in Accounts Receivable (a portion of Current Assets). The Balance Sheet indicates vehicle or equipment loans with a balance of approximately \$364 thousand in 2017 (budgeted).

Table 3-5
Titan Alaska
Comparative Balance Sheet

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
Total Assets					
Utility Plant	3,398,104	3,346,569	2,885,467	2,790,637	2,807,936
Current Assets	2,979,623	3,103,220	2,416,869	2,481,255	1,561,688
Inventories	47,866	55,629	84,568	58,552	58,552
Investment in associated company	-	-	-	-	-
Marketable securities available for sale	-	-	-	-	-
Total Assets	6,425,593	6,505,418	5,386,902	5,330,443	4,428,176
Liabilities and Stockholders' Equity					
Current Liabilities	2,003,075	1,896,996	1,299,440	1,497,661	56,643
Accumulated Deferred Compensation	56,598	47,417	57,330	35,695	43,555
Note Payable (AIDEA LOC)	-	-	-	-	-
Equipment loans payable	417,514	321,338	221,316	439,191	363,856
Member Equity	3,948,406	4,239,667	3,808,816	3,357,898	3,964,120
Total Liabilities	6,425,593	6,505,418	5,386,902	5,330,445	4,428,174

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Statement of Operations – Titan

Table 3-6 shows the comparative statement of operations for Titan. Note that Pentex implemented an organizational and accounting change in 2014 whereby certain LNG assets and associated operations were transferred from FNG to Titan. Since 2014, Net Revenue has decreased approximately 5 percent primarily due to reduced LNG sales and a reduction in price (for sales to FNG). Titan's Total Cost of Goods Sold have remained stable with a 2 percent overall increase during the past five years. Net Income over the five-year period has decreased from a high of approximately \$1 million in 2014 to a low of approximately \$38 thousand in 2017 (budgeted). This result is expected due to a combination of lower revenues and increasing costs.

Table 3-6
Titan Alaska
Comparative Statement of Operations

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
Net Revenue	\$ 5,757,790	\$ 13,136,178	\$ 12,258,253	\$ 11,593,893	\$ 12,457,103
Cost of Goods Sold					
Cost of Gas	4,746,275	11,054,250	10,474,555	10,316,588	11,251,771
Operating	585	20,331	4,367	7,505	4,614
Depreciation	242,769	571,532	620,333	573,373	581,496
Total Cost of Goods Sold	\$ 4,989,629	\$ 11,646,113	\$ 11,099,255	\$ 10,897,466	\$ 11,837,881
Gross Margin	\$ 768,161	\$ 1,490,065	\$ 1,158,998	\$ 696,427	\$ 619,222
General & Administrative Expenses	\$ 189,642	\$ 434,202	\$ 611,091	\$ 583,587	\$ 564,668
Operating Income	\$ 578,519	\$ 1,055,863	\$ 547,905	\$ 112,839	\$ 54,554
Other Income (expense)	(4,365)	(14,602)	21,243	(12,106)	(16,570)
Net Income	\$ 574,154	\$ 1,041,261	\$ 569,148	\$ 100,733	\$ 37,984

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Cash Flow – Titan

Cash flow includes cash from operations, principal payments associated with debt service, and capital improvements, but excludes non-cash expenses such as depreciation.

Table 3-7 shows the change in cash due to Titan operations for 2013–2015 (actual), 2016 (projected), and 2017 (budgeted). These numbers indicate that current Titan revenues are adequate in meeting operating expenses, current debt service, normal capital and special equipment. The remaining five-year cumulative cash margin of approximately \$862 thousand is available for capital additions or cash reserves.

Table 3-7
Titan Alaska
Comparative Cash Flow

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
OPERATING ACTIVITIES					
Net income/(loss) for the period	574,154	1,041,261	569,148	100,733	37,984
Plus: Depreciation	242,769	571,532	620,333	573,373	581,496
Changes in operating assets and liabilities	(706,950)	863,570	(430,618)	(41,108)	(466,182)
Cash provided/(used) by operations	109,973	2,476,363	758,863	632,998	153,298
INVESTING ACTIVITIES					
New Plant (Capital Budget)	(80,183)	(478,008)	(159,230)	(478,544)	(448,657)
Other Capital Expenditures	-	-	-	-	-
Cash used in investing activities	(80,183)	(478,008)	(159,230)	(478,544)	(448,657)
FINANCING ACTIVITIES					
(Payment) proceeds of financing	(23,497)	(96,176)	(100,022)	217,874	(149,190)
AIDEA Return on Investment	-	-	-	-	-
Paid in Capital	-	(750,000)	(1,000,000)	(551,651)	-
Cash provided (used) by financing activities	(23,497)	(846,176)	(1,100,022)	(333,777)	(149,190)
Net Increase (Decrease) in Cash	6,293	1,152,179	(500,389)	(179,323)	(444,549)
CASH - beginning of period	-	6,293	1,158,472	658,083	1,306,801
CASH - end of period	6,293	1,158,472	658,083	478,760	862,253

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Arctic Energy Transport, LLC

Balance Sheet – AET

An abbreviated historical balance sheet summary for AET is shown below in Table 3-8. AET's Utility Plant assets have decreased approximately \$325 thousand (or 13%) over the last four years. Total Assets (and Total Liabilities) have decreased approximately \$333 thousand (or 13%) over the same time period. The Balance Sheet indicates no long-term or short-term debt.

Table 3-8
Arctic Energy Transport
Comparative Balance Sheet

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
Total Assets					
Utility Plant	-	2,487,478	2,362,248	2,229,248	2,162,756
Current Assets	-	64,101	24,243	44,850	56,479
Inventories	-	19,765	7,614	20,884	18,586
Investment in associated company	-	-	-	-	-
Marketable securities available for sale	-	-	-	-	-
Total Assets	-	2,571,344	2,394,105	2,294,982	2,237,821
Liabilities and Stockholders' Equity					
Current Liabilities	-	161,632	4,028	36,396	13,247
Accumulated Deferred Compensation	-	-	-	-	-
Note Payable (AIDEA LOC)	-	-	-	-	-
Equipment loans payable	-	-	-	-	-
Member Equity	-	2,409,712	2,390,077	2,258,587	2,224,575
Total Liabilities	-	2,571,344	2,394,105	2,294,983	2,237,822

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Statement of Operations – AET

Table 3-9 shows the comparative statement of operations for AET for 2013 through 2017 (budgeted). Reported Net Revenue and operating costs for AET has been highly variable over the five-year reporting period. For 2016 and 2017, revenues and operating costs produce a negative net income of approximately \$100 thousand. However, adding back depreciation (a non-cash transaction) produces a positive cash flow (discussed further in the next section).

Table 3-9
Arctic Energy Transport
Comparative Statement of Operations

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
Net Revenue	\$ -	\$ 156,240	\$ -	\$ 200,464	\$ 228,461
Cost of Goods Sold					
Cost of Gas	-	110,234	-	105,730	127,726
Operating	-	16,205	4,695	55,054	31,166
Depreciation	-	129,735	33,246	133,000	132,999
Total Cost of Goods Sold	\$ -	\$ 256,174	\$ 37,941	\$ 293,784	\$ 291,891
Gross Margin	\$ -	\$ (99,934)	\$ (37,941)	\$ (93,320)	\$ (63,430)
General & Administrative Expenses	\$ -	\$ 84,975	\$ 12,462	\$ 38,171	\$ 39,317
Operating Income	\$ -	\$ (184,909)	\$ (50,403)	\$ (131,491)	\$ (102,747)
Other Income (expense)	-	(184,909)	(50,403)	(131,491)	(102,747)
Net Income	\$ -	\$ (184,909)	\$ (50,403)	\$ (131,491)	\$ (102,747)

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Cash Flow – AET

Cash flow includes cash from operations, principal payments associated with debt service, and capital improvements, but excludes non-cash expenses such as depreciation.

Table 3-10 shows the change in cash due to AET operations for 2013–2015 (actual), 2016 (projected), and 2017 (budgeted). These amounts indicate that AET revenues provide just enough cash to meet operating expenses and normal capital expenses. The cash balance at the end of FY 2017 (budgeted) is approximately \$21 thousand.

Table 3-10
Arctic Energy Transport
Comparative Cash Flow

	2013 12 Months (actual)	2014 12 Months (actual)	2015 12 Months (actual)	2016 12 Months (projected)	2017 12 Months (budgeted)
OPERATING ACTIVITIES					
Net income/(loss) for the period	-	(184,910)	(50,403)	(131,490)	(102,746)
Plus: Depreciation	-	129,735	33,246	133,000	132,999
Changes in operating assets and liabilities	-	133,066	(121,967)	(5,029)	(12,737)
Cash provided/(used) by operations	-	77,891	(139,124)	(3,519)	17,516
INVESTING ACTIVITIES					
New Plant (Capital Budget)	-	(54,015)	(53,998)	-	-
Other Capital Expenditures	-	-	-	-	-
Cash used in investing activities	-	(54,015)	(53,998)	-	-
FINANCING ACTIVITIES					
(Payment) proceeds of financing	-	-	-	-	-
AIDEA Return on Investment	-	-	-	-	-
Paid in Capital	-	-	176,750	-	-
Cash provided (used) by financing activities	-	-	176,750	-	-
Net Increase (Decrease) in Cash	-	23,876	(16,373)	(3,519)	17,516
CASH - beginning of period	-	2,508	26,384	10,012	3,650
CASH - end of period	-	26,384	10,012	6,492	21,166

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Pentex Alaska Natural Gas Company, LLC

Balance Sheet – Pentex

An abbreviated Balance Sheet, FY 2017 (budgeted), for Pentex is shown below in Table 3-11. This information is shown for reference and includes consolidated financial data for FNG, Titan, and AET from above sections.

Table 3-11
Pentex Alaska Natural Gas
Balance Sheet – FY 2017 (budgeted)

	FNG	Titan	AET	Polar	Inter- company Elimin.	Valuation Adj. (10/1/2015)	Acc. Dep. & Amort.- Valuation Adj.	Pentex
Total Assets								
Property Plant & Equip.	31,326,169	2,807,936	2,162,756	-	-	25,725,689	(1,564,679)	60,457,871
Current Assets	3,952,105	1,561,688	56,479	7,462	(377,220)	-	-	5,200,514
Inventories	854,603	58,552	18,586	-	(244,068)	-	-	687,673
Invest.in associated co.	-	-	-	-	-	2,488,047	(212,486)	2,275,561
Marketable securities	273,899	-	-	-	-	-	-	273,899
Total Assets	36,406,776	4,428,176	2,237,821	7,462	(621,288)	28,213,736	(1,777,165)	68,895,518
Liabilities and Stockholders' Equity								
Current Liabilities	448,289	56,643	13,247	-	(377,220)	-	-	140,959
Acc. Deferred Comp.	314,553	43,555	-	-	-	-	-	358,108
Note Payable (AIDEA)	14,670,291	-	-	-	-	-	-	14,670,291
Equipment loans payable	9,658	363,856	-	-	-	-	-	373,514
Member Equity	20,963,985	3,964,122	2,224,574	7,462	(244,068)	28,213,736	(1,777,165)	53,352,646
Total Liabilities	36,406,776	4,428,176	2,237,821	7,462	(621,288)	28,213,736	(1,777,165)	68,895,518

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Statement of Operations – Pentex

An abbreviated Statement of Operations, FY 2017 (budgeted), for Pentex is shown in Table 3-12 below. This information is shown for reference and includes consolidated financial data for FNG, Titan, and AET from above sections.

Table 3-12
Pentex Alaska Natural Gas
Statement of Operations for FY 2017 (budgeted)

	FNG	Titan	AET	Polar	Inter- company Eliminations	Acc. Dep. & Amort.- Valuation Adj.	Pentex
Net Revenue	\$ 15,262,155	\$ 12,457,103	\$ 228,461	\$ -	\$ (12,493,941)	\$ -	\$15,453,778
Cost of Goods Sold	13,773,116	11,837,881	291,891	-	(12,465,335)	1,015,523	14,453,076
Gross Margin	\$ 1,489,039	\$ 619,222	\$ (63,430)	\$ -	\$ (28,606)	\$ (1,015,523)	\$ 1,000,702
Operating Expenses	1,436,995	564,668	39,317	192	-	-	2,041,172
Operating Income	\$ 52,044	\$ 54,554	\$ (102,747)	\$ (192)	\$ (28,606)	\$ (1,015,523)	\$(1,040,470)
Other Income (expense)	15,054	(16,570)	-	-	-	-	(1,516)
NET INCOME	67,098	37,984	(102,747)	(192)	(28,606)	(1,015,523)	(1,041,986)
EBITDA	889,563	636,051	30,253	(192)	(28,607)	-	1,527,067

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Cash Flow – Pentex

An abbreviated Cash Flow Statement for FY 2017 (budgeted) for Pentex is shown in Table 3-13 below. This information is shown for reference and includes consolidated financial data for FNG, Titan, and AET from above sections.

Table 3-13
Pentex Alaska Natural Gas
Cash Flow for FY 2017 (budgeted)

	FNG	Titan	AET	Polar	Inter- company Elimin.	Acc. Dep. & Amort.- Valuation Adj.	Pentex
OPERATING ACTIVITIES							
Net income/(loss)	67,099	37,984	(102,746)	(192)	(28,607)	(1,015,523)	(1,041,985)
Plus: Dep., capital exp. & amort.	837,517	581,496	132,999	-	-	1,015,523	2,567,535
Less: Change in oper. assets & liab.	(357,939)	(466,182)	(12,737)	-	28,607	-	(808,251)
Cash provided/(used) by operations	546,677	153,298	17,516	(192)	-	-	717,299
INVESTING ACTIVITIES							
New Plant (Capital Budget)	(78,358)	(448,657)	-	-	-	-	(527,015)
Other Capital Expenditures	-	-	-	-	-	-	-
Cash used in investing activities	(78,358)	(448,657)	-	-	-	-	(527,015)
FINANCING ACTIVITIES							
(Payment) proceeds of financing	(10,382)	(149,190)	-	-	-	-	(159,572)
AIDEA ROI	-	-	-	-	-	-	-
Paid in Capital	-	-	-	-	-	-	-
Cash provided (used) by financing	(10,382)	(149,190)	-	-	-	-	(159,572)
Net Increase (decrease) in cash	457,938	(444,549)	17,516	(192)	-	-	30,714
CASH - beginning of period	2,728,322	1,306,801	3,650	7,654	-	-	4,046,426
CASH - end of period	3,186,260	862,253	21,166	7,462	-	-	4,077,140

Source: Pentex Financial Statements for FY 2013 and FY 2014; Pentex 2017 Budget & Rate Report – 12/1/2016

(1) Amounts may not add up precisely to totals in other documents due to rounding

Section 4

FINDINGS AND RECOMMENDATIONS

In the preparation of this Due Diligence Report (Report) and the findings and recommendations that follow, we have reviewed and relied upon agreements, contracts, policies, financial statements and other information provided to us by AIDEA and by Pentex. While we believe the use of such information is reasonable for the purposes of this Report, we have not independently verified the information and offer no assurances with respect thereto.

The principal findings and recommendations made by us and the principal information provided to us by others include the following:

Governance, Organization and Management

- Pentex is owned and governed by AIDEA which has responsibility for operations and capital budget approval and rate-setting authority.
- Pentex functions as a holding company for Titan, FNG, Polar, and AET subsidiaries.
- The Titan business unit includes natural gas purchases, liquefaction facilities in Point MacKenzie, AK and LNG transportation.
- FNG purchases LNG from Titan, operates storage and vaporization facilities, and distributes natural gas to approximately 1,145 customers in Fairbanks, AK.
- Polar was created to capture business activities related to the development of a LNG production facility on the North Slope. Polar is no longer an active entity.
- AET includes LNG fueling stations and other transportation services.
- FNG maintains a number of insurance policies to protect FNG assets. Based on our review, the policies appear to be in order and are effective through March 1, 2018.
- Pentex and its subsidiaries maintain a number of material contracts and agreements as part of its business operations. See Table 1-1 in this Report for a list of documents that were made available by Pentex and reviewed by NewGen.
- Based on an examination of employee census and wage documents for Titan and FNG, staffing appears to be at budgeted levels with no significant changes expected in the near term.
- NewGen's review did not include an examination of employee compensation and other benefits such as retirement plans, healthcare benefits, and paid vacation. We suggest a high-level compensation comparison to determine peer market competitiveness.

Natural Gas System

- FNG operates its natural gas utility under a Certificate of Public Convenience and Necessity (No. 514) awarded by the Regulatory Commission of Alaska.
- FNG provides natural gas service to approximately 1,145 residential, commercial, and industrial customers within its service territory.

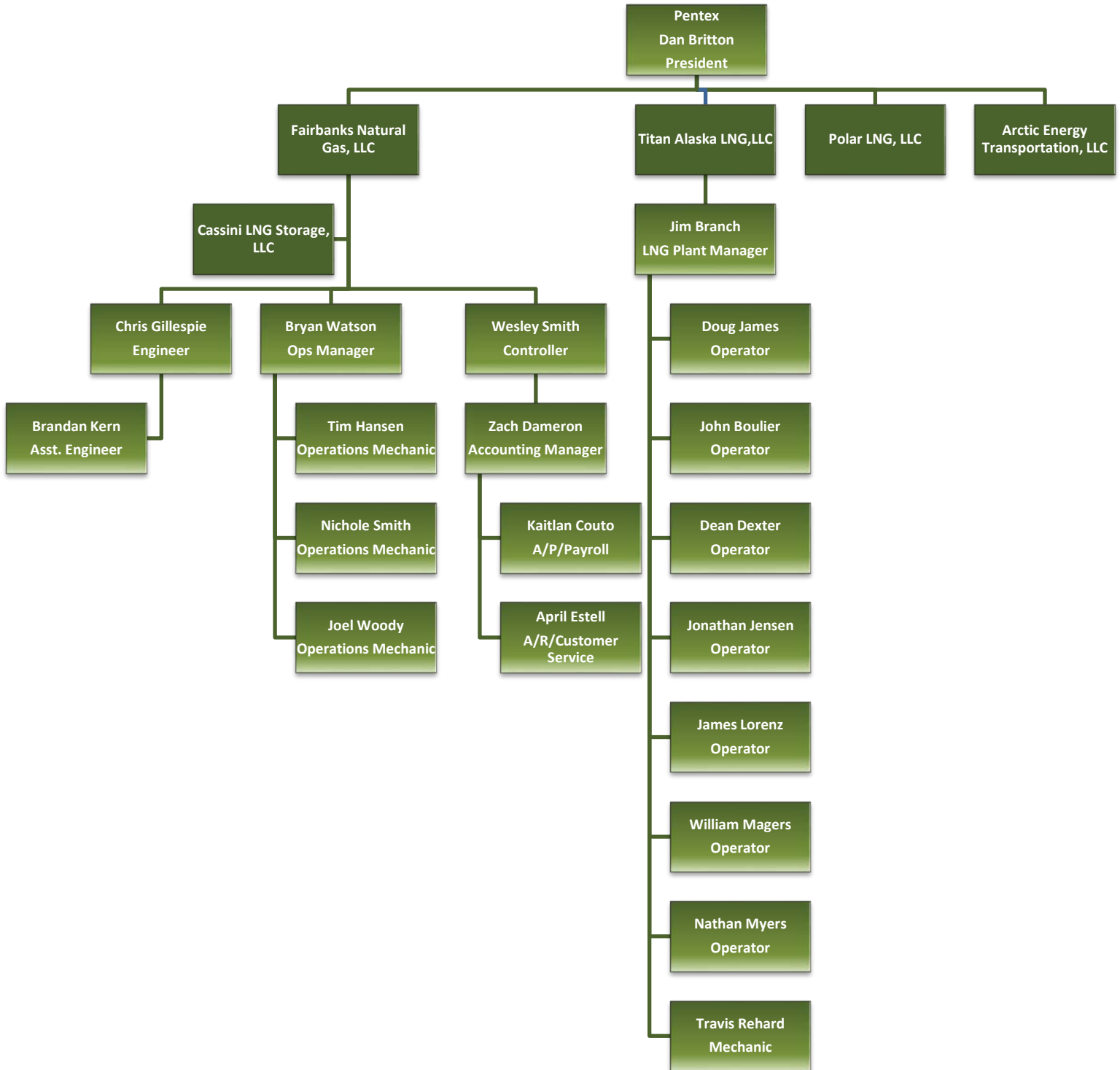
- Titan purchases its natural gas under an agreement with Hilcorp which terminates in March 31, 2018. In 2016, the average cost of natural gas purchased was approximately \$8 per MCF. Titan's cost, on a \$ per MCF basis, has been stable for the past three years. See Figure 2-2 for the average cost of purchased gas over the 2013 through 2017 period.
- FNG purchases its LNG needs from Titan at a price that includes the cost of purchased natural gas, liquefaction, and transportation. In 2016, FNG's total cost of LNG delivered to FNG was approximately \$15.5 per MCF and has been stable for the past three years. See Figure 2-3 for the cost of gas delivered to FNG for the 2013 through 2017 period.
- A review of FNG's historical financial performance indicates a significant decrease in operating income over the last five years (see Table 2-4). This decrease is the result of AIDEA's rate reduction strategy combined with lower gas sales due to continued low oil prices.
- Although existing rate revenue is sufficient to cover operating costs and planned capital improvements, very little margin is generated for future debt service or reserves.
- A review of revenue, customer, and sales statistics for the four-year period beginning FY 2014 yielded the following (also see Table 2-7):
 - FNG rate revenues have decreased approximately 22%
 - The total number of customers has remained fairly stable
 - Total gas sales have decreased approximately 15%
- Decreased natural gas sales and the associated decrease in revenues is generally attributable to low oil prices, the ability of some large customers to switch from natural gas to oil, and a rate decrease in January 2016.

Accounting and Financial Statements

- NewGen conducted a management-level review of accounting and financial statements provided by Pentex. This information included audited and unaudited reports as listed in Table 3-1.
- NewGen's review was conducted in support of IGU's due diligence efforts and does not represent an audit or review by a certified public accountant or financial advisor.
- Historical balance sheet, statement of operations, and cash flow summaries for FNG, Titan, AET, and Pentex are presented in Table 3-2 through Table 3-13 for reference.
- Note that, at the end of calendar year 2016, Pentex financial reporting transitioned from calendar year to fiscal year ending June 30.

Appendix A

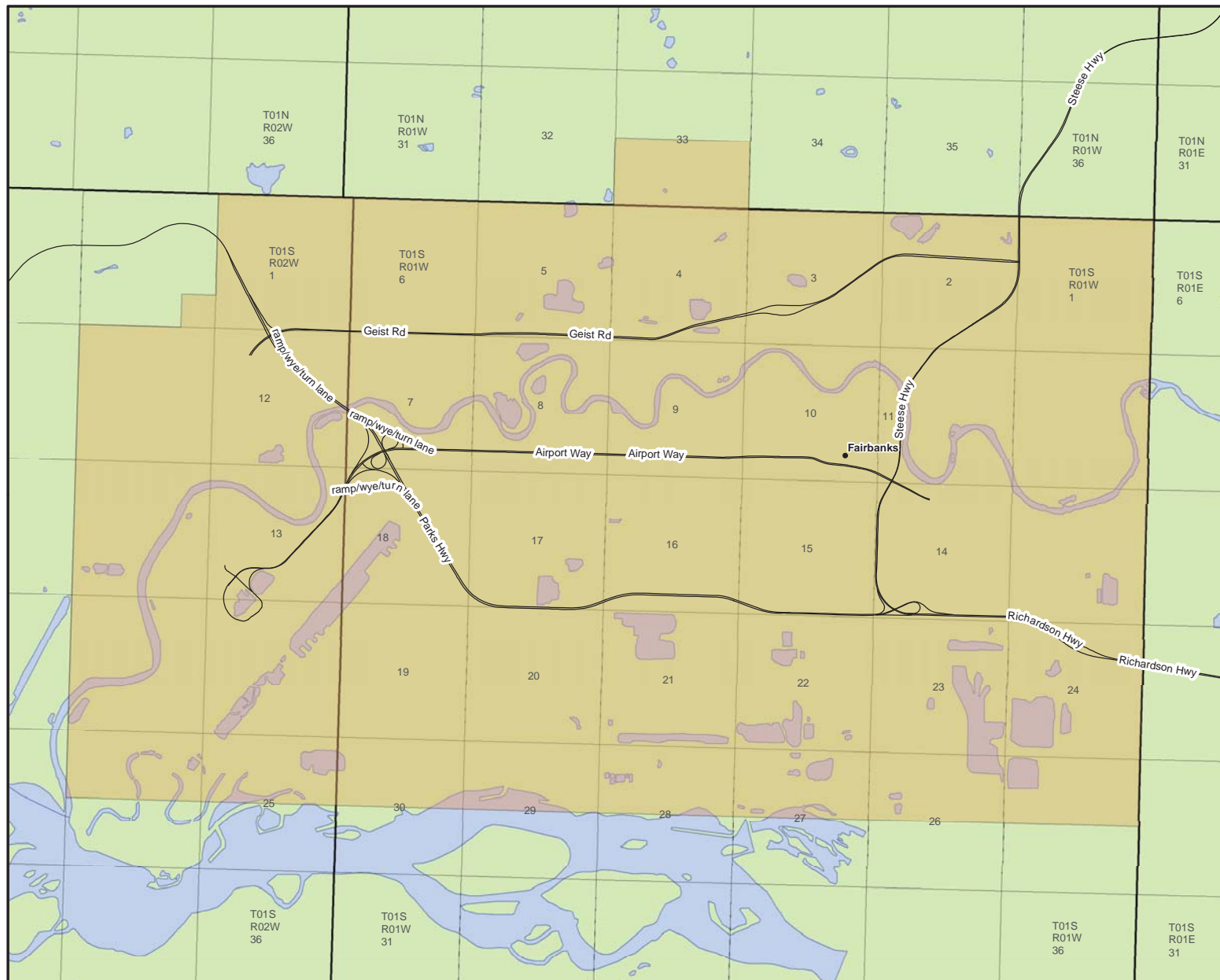
Pentex Detailed Organization Chart



SOURCE: provided by FNG

Appendix B

FNG Service Territory



Regulatory Commission
of Alaska

DRAFT

APPENDIX A
Certificate of Public Convenience
and Necessity No. 514 Granted to

FAIRBANKS NATURAL GAS, LLC

Utility Type:
GAS

Legend

Service Area - CPCN 514

Map 1 of 1



0 0.5 1 2 Miles

Alaska Albers Equal Area Conic
1983 North American Datum

Order U-05-053(1E), April 16, 2014

Date: June 3, 2015

File: SA_Merge_20150603.shp

Author: RCA-JOL

Appendix C

FNG Capital Improvements

FNG					
Item	2013	2014	2015	2016	2017 Budgeted
Distribution Construction	\$ 1,201,168	\$ 6,763,102	\$ 6,443,361	\$ 61,793	\$ -
Distribution Construction (Equipment)	\$ -	\$ 296,082	\$ 613,028	\$ -	\$ -
Distribution Construction (Restoration)	\$ -	\$ -	\$ 120,407	\$ 50,698	\$ -
Service Lines & Meters	\$ 75,214	\$ 152,633	\$ 20,100	\$ 23,475	\$ -
5M Storage Project	\$ 886,946	\$ 637,195	\$ 20,154	\$ -	\$ -
SCADA	\$ -	\$ 23,302	\$ 109,317	\$ 63,117	\$ -
ITRON - Auto Meter Read System	\$ 95,578	\$ 2,356	\$ 2,554	\$ -	\$ -
Storage Site upgrades		\$ 10,056	\$ 20,707	\$ 34,108	\$ -
Auto & Trucks	\$ 153,698	\$ 110,276	\$ 31,216	\$ -	\$ -
Office Furniture	\$ 8,136	\$ 11,152	\$ -	\$ -	\$ -
Computer & Office Equipment	\$ 32,416	\$ 10,832	\$ 1,955	\$ 3,676	\$ 18,000
Software	\$ -	\$ 14,613	\$ -	\$ -	\$ -
Tools & Shop Equipment	\$ 33,434	\$ -	\$ 3,604	\$ 2,411	\$ -
Power Equipment	\$ 8,603	\$ -	\$ -	\$ -	\$ -
Titan Alaska Capitalization	\$ 182,271	\$ -	\$ -	\$ -	\$ -
CNG Compressor (Asset Transfer)	\$ -	\$ -	\$ 35,000	\$ 15,776	\$ -
Storage Site upgrades (Sale Related)	\$ -	\$ -	\$ 664,584	\$ -	\$ -
Locate wire repair	\$ -	\$ -	\$ -	\$ -	\$ 10,100
Totals	\$ 2,677,463	\$ 8,031,600	\$ 8,085,987	\$ 255,053	\$ 28,100

Appendix C

Titan					
Item	2013	2014	2015	2016	2017 Budgeted
Trailer Painting & Repairs	\$21,373	\$-	\$-	\$-	\$-
Relief Valve Tester	\$15,740	\$-	\$-	\$-	\$-
Portable O2 Analyzer	\$3,797	\$-	\$-	\$-	\$-
Trailer #14 Painting	\$12,840	\$-	\$-	\$-	\$-
Trailer #4 Painting	\$12,840	\$-	\$-	\$-	\$-
Air Compressor	\$8,645	\$-	\$-	\$-	\$-
Misc Purchases	\$4,948	\$-	\$-	\$-	\$-
BTB Compressor (Upgrade)	\$-	\$157,256	\$-	\$-	\$-
BTB Emission Upgrade	\$-	\$259,198	\$-	\$-	\$-
Frick Compressor	\$-	\$45,368	\$-	\$-	\$-
T-800 Add Ons	\$-	\$16,187	\$-	\$-	\$-
Vacuum Pump	\$-	\$-	\$4,265	\$-	\$-
Frost Fighter Heater	\$-	\$-	\$7,590	\$-	\$-
Trailer #8 Painting	\$-	\$-	\$19,364	\$-	\$-
PHMSA Upgrade (Fencing)	\$-	\$-	\$23,702	\$-	\$-
Plant Insulation (Cascade)	\$-	\$-	\$101,925	\$-	\$-
Plasma Cutter	\$-	\$-	\$2,384	\$-	\$-
Heil Trailer #19	\$-	\$-	\$-	\$343,285	\$-
Plant Insulation	\$-	\$-	\$-	\$125,999	\$-
Trailer Painting	\$-	\$-	\$-	\$43,598	\$-
Civil upgrades	\$-	\$-	\$-	\$9,260	\$-
Leased Trailer Purchase	\$-	\$-	\$-	\$-	\$150,000
Auto & Trucks	\$-	\$-	\$-	\$-	\$55,000
Computer & Office Equipment	\$-	\$-	\$-	\$-	\$2,800
HVAC - Office	\$-	\$-	\$-	\$-	\$11,000
Totals	\$80,183	\$478,008	\$159,230	\$522,142	\$218,800

AET

Item	2013	2014	2015	2016	2017 Budgeted
Fire Suppression Systems	\$-	\$54,015	\$-	\$-	\$-
CNG Compressor (Asset Transfer)	\$-	\$-	\$15,253	\$-	\$-
Tank Painting - Fairbanks	\$-	\$-	\$38,745	\$-	\$-
Totals	\$-	\$54,015	\$53,998	\$-	\$-



Introduce on: June 20, 2017
Reconsidered on: December 5, 2017
Approved on:

RESOLUTION # 2017-06R

A RESOLUTION AUTHORIZING THE GENERAL MANAGER OF THE INTERIOR GAS UTILITY TO EXECUTE A PURCHASE & SALES AND FINANCE AGREEMENT WITH THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY FOR THE ACQUISITION OF PENTEX and FINANCING OF DEVELOPMENT OF THE INTERIOR ENERGY PROJECT

WHEREAS, the Fairbanks North Star Borough through Ordinance 2012-52 titled *An Ordinance Acquiring an Areawide Natural Gas Utility Power By Transfer From The Cities of Fairbanks And North Pole, Establishing the Interior Alaska Natural Gas Utility and Providing For Its Management* to action to create an areawide natural gas utility empowered to ensure its citizens affordable access to natural gas and/or propane; and

WHEREAS, the Interior Alaska Natural Gas Utility (IGU) 6-Year Plan dated May 20, 2014, states that the IGU mission is to provide low cost, clean burning, natural gas to the most people in the Fairbanks North Star Borough as soon as possible; and

WHEREAS, IGU Board through unanimous approval of Resolution 2017-01 titled *A Resolution Requesting Authorization for the General Manager of Interior Gas Utility to Execute a Non-Binding Memorandum of Understanding With the Alaska Industrial Development Export Authority for Acquisition of Pentex* authorized the General Manager to execute a non-binding Memorandum of Understanding (MOU) for the acquisition of Pentex Alaska Natural Gas Company, LLC (Pentex) and financing of development of the Interior Energy Project with Alaska Industrial Development and Export Authority (AIDEA), and to negotiate in good faith to finalize executable agreements with respect to the purpose of the MOU; and

WHEREAS, the MOU for the acquisition of Pentex and financing of development of the Interior Energy Project was executed by the IGU General Manager and Executive Director of the AIDEA on January 25, 2017; and

WHEREAS, the Fairbanks North Star Borough, through Ordinance 2017-25 titled *An Ordinance Amending FNSBC 11.04.020 Management of the Interior Alaska Natural Gas Utility*, took action clarifying the IGU enabling ordinance to expressly provide IGU with the power to borrow money, retroactive to the date of enactment; and further resolved that IGU has the authority to borrow money and, as evidence of that borrowing, to enter into loan agreements and issue bonds, notes or other obligations, and may pledge any of its assets or revenues to pay or secure the payment of any such borrowing; and

WHEREAS, the IGU and AIDEA negotiating teams have agreed to a LLC Membership Purchase and Sale Agreement, a Financing Agreement and other agreements for the acquisition

of Pentex by IGU and financing of associated development of the Interior Energy Project in conjunction with AIDEA. (Attachments No. 1 and No. 2.); and

Whereas, to facilitate closing under the Agreements, the date of conversion (expiration of Line Time Period and loan Maturity Date) under the Amended and Restated Loan Agreement Number 1314002 between AIDEA and IGU is to be extended to Closing on Agreements and the loan further modified to allow for Pentex acquisition due diligence and disclosure review expenses.

NOW, THEREFORE, BE IT RESOLVED BY THE IGU BOARD OF DIRECTORS AS FOLLOWS:

Section 1) The General Manager is authorized to execute the LLC Membership Purchase and Sale Agreement, the Financing Agreement and other related agreements with Alaska Industrial Development and Export Authority for the acquisition of Pentex Alaska Natural Gas Company, LLC and financing of the development of the Interior Energy Project.

Section 2) The Authorization to execute is contingent upon the IGU Amended and Restated Loan Agreement Number 1314002 being modified to:

- a) Extend the date of conversion (expiration of Line Time Period and loan Maturity Date) under the IGU Amended and Restated Loan Agreement Number 1314002 to Closing on Agreements; and
- b) Allow for use of proceeds to pay for due diligence and disclosure review expenses.

Michael Meeks - Chair, IGU Board

Date

David Prusak- Secretary to the IGU Board of Directors

Date

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