March 6, 2015
ALASKA DEPARTMENT OF NATURAL RESOURCES
STATE PIPELINE COORDINATOR'S OFFICE

ANALYSIS OF TRANSFER OF INTEREST REQUEST FOR THE NORTH FORK PIPELINE RIGHT-OF-WAY LEASE, ADL 230928, ANCHOR POINT ENERGY, LLC, FROM ARMSTRONG COOK INLET, LLC & OTHERS TO COOK INLET ENERGY, LLC

I. Nature of the Request:

On November 25, 2013, Cook Inlet Energy, LLC (CIE), entered into a Purchase and Sale Agreement by and among Armstrong Cook Inlet, LLC (Armstrong); GMT Exploration Company, LLC; Dale Resources Alaska, LLC; Jonah Gas Company, LLC; and Nerd Gas Company, LLC (together, the Sellers). Pursuant to a Purchase and Sale Agreement Armstrong Oil and Gas, Inc. has agreed to sell the North Fork Pipeline to CIE, a wholly-owned subsidiary of Miller Energy Resources, Inc. (Miller Energy).

The proposed transfer is part of a larger transaction in which CIE acquired a 100% working interest in oil and gas properties and related leases in the Cook Inlet region of the State of Alaska in addition to the North Fork Pipeline and related facilities.

The North Fork Pipeline Lease, ADL 230928, is currently held by Anchor Point Energy, LLC (APE). APE is owned by the Sellers: Dale Resources Alaska, LLC (35%); GMT Exploration Company, LLC (30%); Armstrong Cook Inlet, LLC (20%); Jonah Gas Company, LLC (7.5%); and Nerd Gas Company, LLC (7.5%). As proposed, CIE will own 100% of APE and will retain the name, Anchor Point Energy, LLC, along with the responsibilities as lessee and operator of the North Fork Pipeline.

In order to transfer control of a lessee's interest in a right-of-way lease, the Commissioner of the Department of Natural Resources (Commissioner) is required to consider if the transferee is fit, willing and able to perform the transportation or other acts proposed in a manner that will reasonably protect the lives, property, and general welfare of the people of Alaska (Alaska Statute (AS) 38.35.120(a)(09)). The authority to approve a transfer of interest in a Right-of-Way Lease issued under AS 38.35 has been delegated to the State Pipeline Coordinator (Department Order 003 "Delegations of Authority").

II. Background:

The State of Alaska issued the North Fork Pipeline Right-of-Way Lease to Anchor Point Energy, LLC (APE) on September 24, 2010. In the Lease, "Pipeline" is defined in the Lease as "means two approximately 4.0 to 4.5-inch diameter steel/composite common carrier Natural Gas pipelines and all parts of those physical facilities through which Natural Gas is transported." APE has been operating the pipeline since the lease was issued.

The North Fork Pipeline is a 7.4-mile long natural gas pipeline that originates at the North Fork Production Pad, approximately 8.6 miles east of Anchor Point. The pipeline terminates in Anchor Point, where it connects to Alaska Pipeline Company's Anchor Point Pipeline. The Construction Right-of-Way contains six areas totaling approximately 23.060 acres, and the width varies from 10 feet to 50 feet wide. On January 29, 2015, the State Platting Supervisor approved

EPF 20110037, which is the as-built survey that defines the Operation and Maintenance Right-of-Way for the North Fork Pipeline, generally 20-feet in width, for a total of 14.466 acres of state land. The as-built survey was recorded in the Homer Recording District as Plat No. 2015-2 on February 6, 2015. The Lessee is requesting approval from the Department of Natural Resources (DNR) Commissioner for the release of the Construction Right-of-Way; the Lessee will then retain the Operation and Maintenance Right-of-Way for the North Fork Pipeline.

The North Fork Right-of-Way Lease was written in accordance with AS 38.35 and includes all covenants required under AS 38.35.120. The lease was written in a manner intended to provide mitigation to potential conflicts with existing uses and specific protection of state and private property interests. The lease contains environmental mitigation stipulations that require the implementation of approved surveillance and monitoring and quality assurance programs, to be adhered to during operations and construction activities. These programs specify how the lessee will implement mitigation measures and administer programs to prevent adverse environmental impacts and damage to fish and wildlife, as described in the lease. The lease also addresses the protection of interests of individuals living in the general area and continued public access upon the leasehold.

Financial Assurances

As the lessee and operator, APE is currently covered under five separate unconditional guaranties from each owner company. The guaranties provide, in summary, that the Guarantor "...unconditionally guarantees to the State the full performance, fulfillment, and satisfaction of all of the duties, obligations, and liabilities of APE arising under or pursuant to the lease."

APE has the following insurance policies in place as required by the State Pipeline Coordinator's Office (SPCO):

- S&A (Sudden and Accidental) Pollution ($2million (mm))
- Pipeline Property Damage ($5mm)
- General Liability ($2mm)
- Excess or Umbrella Liability ($20mm)

General Liability ($2mm), Sudden and Accidental Pollution ($2mm) and Pipeline Property Damage ($5mm) policies need to cover the following expenses with reasonable coverage amounts and deductibles.

- Damage to rented premises
- Remediation expenses - exclusively for remediation of pollutants that are on or under a covered property, provided the remediation expenses arise from Onsite Pollution
- Emergency response - emergency response expenses as a result of pollution incident and incurred in response to an imminent and substantial threat to human health or environment
- Third-party claims - bodily injury or property damage
- Transportation - bodily injury, property damage, or remediation claims that arise from transportation activities
- Waste disposal activities - bodily injury, property damage or remediation from a pollution incident resulting from waste disposal
- Business interruption and failure to supply - insured's business interruption expenses
- Damage to pipeline, associated facilities, etc.

Additional requirements:

- SPCO must be listed as the additional insured on the policies described above.
- The lessee must provide to the SPCO updated copies of the insurance policies and maintain those policies for the duration of the lease.
- The lessee must ensure that the policies are "occurrence" rather than "claims-made" and they cover claims arising from injury or damage occurring while the policy is in force, regardless of when the claim is first made.

Pipeline Operations
APE has been operating the pipeline for the duration of the right-of-way lease in accordance with all lease requirements. The North Fork Pipeline Right-of-Way Lease has specific stipulations that address a range of environmental and technical requirements related to construction, operations and maintenance. Regular reporting, rental payments, reimbursement to the state and communications are also outlined in the lease and stipulations.

The stipulations specifically require surveillance and monitoring and quality assurance programs which detail the lessee's programmatic adherence to applicable federal and state laws governing the operation of pipelines. Additionally, these programs provide details on the procedures for inspections, record keeping, repair/replacement, damage prevention, integrity management and other stipulations contained within the lease. These programs are utilized by SPCO staff to evaluate the lessee for compliance with the right-of-way lease. APE has been successfully administering these programs for the life of the lease.

Transferee
Cook Inlet Energy, LLC, was established in Anchorage, Alaska in 2009 and was acquired as a 100% subsidiary of Miller Energy on December 10, 2009. Miller Energy is an oil and gas exploration, production and drilling company headquartered in Huntsville, Tennessee. It is the owner/operator of oil and natural gas wells in the state of Tennessee, with lease holdings and about 600 wells. Miller Energy has invested considerably in the Cook Inlet area with the 2009 acquisition of Alaskan-based assets from Pacific Energy Resources. Its Alaskan-based assets include West McArthur River Unit (WMRU), Osprey Platform, Kustatan Production Facility (KPF), Kustatan Field Unit, West Foreland natural gas field, Three Mile Creek field (30% interest), Sabre field, Valkyrie Field and the acquisition of 67.5% interest in the Badami pipelines.

III. Administrative Record:

The following documents constitute the administrative record for this analysis.

- The North Fork Pipeline Right-of-Way Lease, ADL 230928, and associated case file

IV. Technical Review:

The North Fork pipeline system consists of two identical natural gas pipelines. Each pipeline is composed of a shorter steel segment and a longer plastic composite segment. An independent engineering firm has performed yearly corrosion protection surveys on the metal segments and connectors between the composite spools of pipe and has found no significant problems. A hydrostatic test, performed in 2010, demonstrated that the pipelines could hold pressure in excess of their maximum allowable operating pressure.

The plastic composite segment is monitored and inspected in accordance with an agreement between the operator and the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA). PHMSA issued a Special Permit for the use of the composite pipe because the plastic pipe is not listed as a standard pipeline material under current regulations. The Special Permit has 16 requirements and eight limitations. The pipeline operator must monitor and maintain the composite pipeline segments to stricter requirements than those in the federal pipeline codes and regulations.

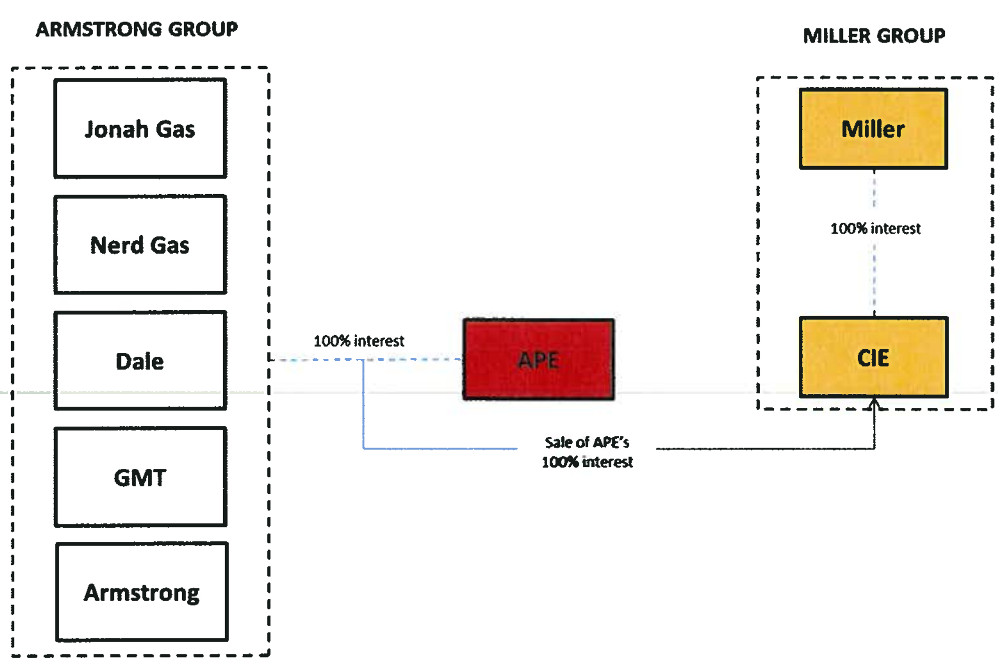
SPCO engineering staff conducted a technical review of the two North Fork pipelines and concluded that the pipelines are in good-to-excellent condition. The review by the SPCO was intended to assess the condition of the pipelines for continued operations under current programs and conditions; it was not intended to be a full engineering analysis. The SPCO review did not find any significant deficiencies, corrosion problems, erosion, settling, or other issues.

In addition, the lease requires that the new operator will maintain, repair and operate the pipeline to conform to the SPCO design basis. This document references regulations, standards and codes that provide assurance that the pipeline will meet, at a minimum, industry and legal standards, and DNR requirements under AS 38.35.

V. Financial Review:

CIE has acquired 100% membership interest of APE, the lessee for ADL 230928 and owner and operator of North Fork Pipeline. This acquisition is part of CIE's larger acquisition of the North Fork Unit with its associated oil and gas leases, interests and assets from Armstrong Cook Inlet, LLC, GMT Exploration Company, LLC, Dale Resources Alaska, LLC, Jonah Gas Company, LLC and Nerd Gas Company, LLC. Under this acquisition CIE acquired 100% interest in the North Fork Unit and the North Fork Pipeline, and will be the unit and pipeline facilities operator.

APE Acquisition



CIE is a subsidiary of Miller Energy and its main operating unit. Its financials are not separated from Miller Energy's financials. According to Miller Energy's 2014 annual report filed with the U.S. Securities and Exchange Commission (SEC), CIE's business accounts for approximately 95% of Miller Group's consolidated revenues and 98% of reserves. CIE's main operations in Alaska have been in the Cook Inlet area, but it has recently acquired Savant Alaska, LLC, and its interests in the Badami Unit and Badami Pipeline on the North Slope, expanding its presence in the state.

DNR reviewed the financial statements of Miller Energy for the last four years (2011-2014) and their most recent reserves report. The reserves report was prepared by a third party in accordance with SEC guidelines. The financial statements were prepared in accordance with generally-accepted accounting and auditing principles and certified by independent certified public accountants. DNR looked specifically at Revenue, Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA), Debt, Equity, Cash from Operations, Cash and Cash Equivalents, EBITDA/Revenue, Net Debt/EBITDA, EBITDA/Net Interest Expense, and Altman's Z-score.

			Miller (in US$ M)			
			2011	**2012**	**2013**	**2014 (for the period ending in April)**
		Total Assets:	509,081	536,389	575,405	766,822
		Current Assets:	8,304	14,603	30,564	71,236
		Current Liabilities:	15,986	43,181	26,309	74,914
		Working Capital	-7,682	-28,578	4,255	-3,678
		Depreciation				33,528
		Shares on April 30	39,880,251	41,086,751	43,444,694	45,756,697
	MarketValue	Share price on April 30	5.77	5.43	3.80	4.82
T1 weight	1.2	Working Capital / Total Assets	-1.51%	-5.33%	0.74%	-0.48%
		Retained Earnings:	245,725	226,188	200,693	158,926
T2 weight	1.4	Retained Earnings / Total Assets	48.27%	42.17%	34.88%	20.73%
		EBIT:	-14,592	-25,085	-32,349	-10,693
T3 weight	3.3	EBIT / Total Assets	-2.87%	-4.68%	-5.62%	-1.39%
		Total Equity:	$230,109	$223,101	$165,090	$220,547
		Total Liabilities:	$214,339	$236,566	$255,288	$416,303
T4 weight	0.6	Total Equity / Total Liabilities	107.36%	94.31%	64.67%	52.98%
		Revenue:	22,842	35,402	34,801	70,558
T5 weight	0.999	Revenue / Total Assets	4.49%	6.60%	6.05%	9.20%
		Altman's Z-score	1.25	1.00	0.76	0.65

Miller Energy has been rapidly expanding in Cook Inlet and the North Slope through organic growth and acquisitions, increasing its production and more than doubling its revenues in 2014. Although it is still generating at a net loss, Miller Energy has managed to reduce its operating loss and generate positive cash from operations. Miller Energy has also been successful in generating interest from financial backers and substantially reducing its cost of debt, which could help it keep its financing costs under control and continue growth. At the same time, the company has assumed a larger debt burden to finance its growth, which can potentially present risks with asset integration and debt servicing. The company is still in a growth and borrowing mode. Although there have been improvements, there are still risks inherent in the company's operations, which call for additional mechanisms to ensure that the company can meet its obligations to the State.

Reflected in the table above, Miller Energy's financial metrics generate Z-score values that place the company in the "distress" zone for those years and, consequently, under risk of being unable to fulfill its financial obligations. Furthermore, holding other variables constant, considerably increasing its equity level, say from the current $220mm to $500mm, would not be sufficient remedy for Miller Energy to reverse this outcome. In fact, the main factors driving Miller Energy into the "distress" zone are (i) its increasing level of debt, and (ii) the negative values of EBIT and working capital. Understandably, Miller Energy might argue that their current Z-score placement is the result of the company still being in the acquisition/transition process for some of their assets, which may justify the increase of debt or the negative levels of working capital. In this sense, providing an unconditional parent guaranty to APE might not offer sufficient and complete coverage of their obligations related to this transfer, at least in the near term. The proposed financial assurances mechanism of defined and potential contributions is designed with enough room for both safeguarding the interests of the State and allowing Miller Energy to waive future contributions if their financials show ability to fulfill its obligations. In this way, evaluation of Miller Energy's financials and frequent calculation of its Z-score intend to mitigate this risk, especially in periods during which the company might be subject to financial distress.

VI. Fit, Willing and Able Analysis of Transfer Request:

In accordance with the lease and AS 38.35.120(a)(9), the DNR Commissioner is required to consider the protection of the public interest, including whether the proposed transferee, CIE is fit, willing, and able to perform the transportation or other acts proposed in a manner that will reasonably protect the lives, property, and general welfare of the people of Alaska.

CIE has agreed to accept the terms of the lease without modification to the existing stipulations or terms. CIE will assume all of the responsibilities for implementing plans and programs to continue operations of these pipelines in accordance with the lease agreements.

As part of this analysis, DNR requested and reviewed technical documents provided by APE in order to assess the condition of the pipelines and their fitness for continued service and operations. DNR has also been involved with active surveillance and monitoring of APE's maintenance, surveillance, and quality programs that ensure conformance with the lease requirements. Based on the cumulative information from lease compliance reports and the technical review of the pipeline integrity and infrastructure, SPCO asserts that the North Fork Pipeline is fit for transfer. Based on the technical review of CIE as an operator and owner it appears that CIE is fit to own and operate the North Fork Pipeline.

<u>Financial Assurances</u>
The State Pipeline Coordinator has determined under 8(i) and 12(a) of the North Fork Pipeline Right-of-Way Lease that CIE is fit, willing and able contingent upon the following Financial Assurances: Miller Energy will issue, for the benefit of the State, an unconditional parent guaranty covering full performance, fulfillment and satisfaction of the duties, obligations and liabilities of APE under or pursuant to the right-of-way lease.

Additionally, the State Pipeline Coordinator has also determined that Miller Group's net assets are insufficient to protect the public from damage for which APE may be liable. Accordingly, the Commissioner is requiring the following to reasonably addresses AS 38.35.100 criteria:

1. APE will procure and maintain the insurance policies and fulfill the additional requirements listed on page 2 of this analysis.

2. CIE will pay $120,000 into account in trust for the benefit of the State. The form and terms of this account must be acceptable to the State and recognize that the sole purpose of the account is to provide funds the state can draw on, if necessary to satisfy the Right-of-Way Lease obligations. This sum will be deposited in full immediately after the transfer of interest and will run with the North Fork Pipeline Right-of-Way Lease, regardless of any future transfers. The establishment of this trust does not limit any lease obligation, including the lessee's obligation to meet all costs associated with Section 27 of the lease.

VII. Conclusion:

Once the trust account has been established, the requirements for the transfer of interest have been met and the applicable statutes have been satisfied. Therefore, the transfer of Anchor Point Energy, LLC's interest in the North Fork Pipeline Right-of-Way Lease to Cook Inlet Energy, LLC, is approved. Anchor Point Energy, LLC, under Cook Inlet Energy, LLC ownership, will remain the Lessee for the North Fork Pipeline.

Don Perrin
Acting State Pipeline Coordinator
Department of Natural Resources
State of Alaska

3/6/15
Date

STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES
STATE PIPELINE COORDINATOR'S OFFICE (SPCO)
411 West 4th Avenue, Suite 2
Anchorage, Alaska 99501-2343
(907) 269-6403

TRANSFER OF OWNERSHIP AND CONTROL OF LESSEE UNDER RIGHT-OF-WAY LEASE

Non-refundable filing fee: $100.00
$200.00 if transferee is a corporation

ADL 230928

The members of Anchor Point Energy, LLC ("APE"), Lessee and owner of North Fork Pipeline ("NFP"), whose address is 1421 Blake Street, Denver, Colorado 80202, under State of Alaska Right-of-Way Lease, ADL 230928, recorded in the Homer Recording District, State of Alaska on November 5, 2010, as Document Number 2010-003671-0, have transferred ownership and control of APE from APE's previous owners, Armstrong Cook Inlet, LLC, a Colorado limited liability company, GMT Exploration Company, LLC, a Delaware limited liability company, Dale Resources Alaska, LLC, a Texas limited liability company, Jonah Gas Company, LLC, a Wyoming limited liability company, and Nerd Gas Company, LLC, a Wyoming limited liability company, for good and valuable consideration, and subject to all rents, covenants, and conditions, all right, title, and interest in the above lease to transferee, Cook Inlet Energy, LLC ("CIE"), whose mailing address is 601 West 5th Ave, Suite 310, Anchorage, Alaska 99501, for the unexpired term of the above lease, commencing on the date this transfer is executed by the State of Alaska, and expiring on September 27, 2040.

Dated: 9/2/14

Anchor Point Energy, LLC
(Transferor)

By [signature]

Ed Kerr -Vice President of Armstrong Oil & Gas, Inc., Manager, Armstrong Cook Inlet, LLC, Manager, Anchor Point Energy, LLC
(Print name and title)

STATE OF Colorado)
)**ss.**
County of Denver)

THIS IS TO CERTIFY that on this 2nd day of September, 2014, before me appeared Ed Kerr, known to me as the Vice President of Armstrong Oil & Gas, Inc., Manager, Armstrong Cook Inlet, LLC, Manager, Anchor Point Energy, LLC who executed the foregoing on behalf of Anchor Point Energy, LLC and acknowledged voluntarily signing it.

JESSICA SCHMIDT
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20074028358
MY COMMISSION EXPIRES JULY 24, 2015

Jessica Schmidt
Notary Public
My commission expires:
7/24/15

The Transferee, Cook Inlet Energy, herein expressly assumes the obligation to pay any and all prior or delinquent taxes, liens of any nature, penalties, interest, or any other obligations charged against the property described above and to fulfill all the terms, conditions, and covenants of the lease, ADL 230928, as of the date of this transfer.

Dated: Sept. 9, 2014

Cook Inlet Energy, LLC
(Transferee)

By [signature]

David Hall, CEO
(Print name and title)

STATE OF ALASKA)
)**ss.**
THIRD Judicial District)

THIS IS TO CERTIFY that on this 9TH day of September, 2014, before me appeared David Hall, known to me as the CEO of Cook Inlet Energy, LLC, who executed the foregoing on behalf of Cook Inlet Energy, LLC, and acknowledged voluntarily signing it.

STATE OF ALASKA
NOTARY PUBLIC
DIANNA L. LEWIS
My Commission Expires Jan. 18, 2018.

Dianna L. Lewis
Notary Public
My commission expires:
Jan. 18, 2018

APPROVED: [signature]

State Pipeline Coordinator's Office Authorized Representative

5/1/15
Date