

March 17, 2016
Alaska Department of Natural Resources
Division of Oil and Gas - State Pipeline Coordinator's Section

**Analysis of Transfers of Interest from Miller Energy Resources, Inc. to
Apollo Investment Corporation and Highbridge Principal Strategies, LLC**

**Badami Sales Oil Pipeline Right-of-Way Lease, ADL 415472;
Badami Utility Pipeline Right-of-Way Lease, ADL 415965; and
North Fork Pipeline Right-of-Way Lease, ADL 230928**

I. Nature of the Request:

The Badami pipeline right-of-way leases, ADL 415472 and ADL 415965 (referred to herein as "Badami Pipeline Leases"), are held by Nutaaq Pipeline LLC¹, a subsidiary of Savant Alaska, LLC (Savant). The North Fork pipeline right-of-way lease, ADL 230928 (referred to herein as "North Fork Pipeline Lease"), is held by Anchor Point Energy, LLC (APE), a subsidiary of Cook Inlet Energy, LLC (CIE). Miller Energy Resources, Inc. (Miller) is the sole member of both Savant and CIE.

Miller, along with its subsidiaries CIE, APE, and Savant, filed for voluntary Chapter 11 bankruptcy protection on October 1, 2015. In a letter dated January 27, 2016, Savant and CIE request that the Department of Natural Resources (DNR) approve a transfer of their sole member ownership of Miller to a joint interest ownership under Apollo Investment Corporation² and Highbridge Principal Strategies, LLC³ (referred to herein as "Apollo" and "Highbridge"). Apollo and Highbridge acquired Miller through a court proceeding, Case Number 15-00236, confirmed by the United State Bankruptcy Court for the District of Alaska on January 28, 2016. Final court acceptance of the bankruptcy reorganization plan is dependent on the DNR transfer approvals. Miller, formerly a publicly traded company, will continue to exist as a standalone company with private equity ownership held jointly by Apollo and Highbridge.

In order to transfer control of a lessee's interest in a right-of-way lease, the DNR Commissioner is required, pursuant to Alaska Statute (AS) 38.35.120, 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. The authority to authorize a transfer of interest in an AS 38.35 Right-of-Way Lease as described in AS 38.35.120(a)(09) has been delegated to the State Pipeline Coordinator (SPC) via Department Order 003 "Delegations of Authority."

¹ Nutaaq Pipeline LLC, members include Savant Alaska, LLC (67.5%) and Badami Pipeline Holdings, LLC (32.5%). Badami Pipeline Holding, LLC is a wholly-owned subsidiary of ASRC Exploration, LLC, which in turn is a wholly-owned subsidiary of Arctic Slope Regional Corporation.

² Apollo Investment Corporation, a Maryland company, is administered by Apollo Investment Administration LLC, and managed by Apollo Investment Management, L.P., both Delaware companies.

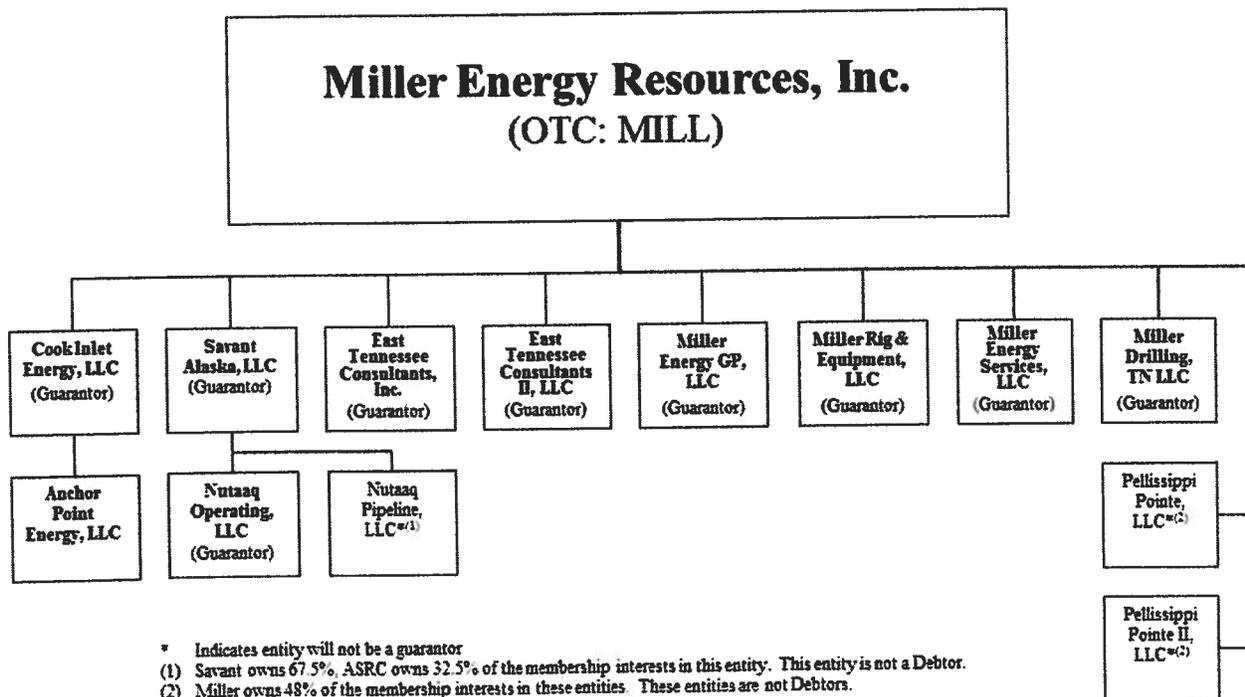
³ Highbridge Principal Strategies, LLC, is an investment manager for Highbridge Principal Strategies – Specialty Loan Fund III, L.P.; Highbridge Principal Strategies – Specialty Loan VG Fund, L.P.; Highbridge Principal Strategies – NDT Senior Loan Fund, L.P.; Highbridge Principal Strategies – Specialty Loan Institutional Fund III, L.P.; Highbridge Specialty Loan Institutional Holdings Limited; Highbridge Aiguilles Rouges Sector A Investment Fund, L.P.; Highbridge Specialty Loan Sector A Investment Fund, L.P.; Lincoln Investment Solutions, Inc.; and Highbridge Specialty Loan Holdings II, L.P.

II. Background:
Ownership and Control

The Badami Pipeline Leases were originally entered into and made effective between the State of Alaska and BP Transportation Alaska, Inc. (BPTA) on December 15, 1997. On January 7, 2012, BPXA transferred the Badami Unit to Savant and ASRC Exploration, LLC; since that time Savant has been providing operator services to the Badami Pipelines. On April 25, 2013, BPTA and Nutaaq Pipeline LLC (Nutaaq) submitted a transfer of interest request to the DNR State Pipeline Coordinator's Section (SPCS), which was approved on December 24, 2013. Nutaaq is owned by Savant, which holds a 67.5% interest, and Badami Pipeline Holding, LLC, which holds the remaining 32.5% interest. Badami Pipeline Holding, LLC is a wholly-owned subsidiary of ASRC Exploration, LLC, which in turn is a wholly-owned subsidiary of Arctic Slope Regional Corporation. On December 11, 2014, the SPCS approved the transfer of Savant's interest in the Badami Pipeline Leases to Miller, the sole member of Savant.

The North Fork Pipeline Lease was entered into and made effective between the State of Alaska and APE on September 24, 2010. On March 6, 2015, the SPCS approved the transfer of ownership and control of APE, originally held by 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 (7.5%), to the new owner and operator CIE, a subsidiary of Miller.

As a result of the reorganization process and the current transfer application, Apollo and Highbridge will now be the owners of Miller and, through this process, also have ownership of Savant, CIE, and APE. The requested transfer of interest does not include changes in the current use or additional use of the pipeline rights-of-way.



Right-of-Way Leases

The Badami Pipeline Leases and North Fork Pipeline Lease have been written in accordance with AS 38.35 and include all covenants required under AS 38.35.120. The leases are written in a manner intended to mitigate potential conflicts with existing uses and specific protections of the public and private property interests. These leases contain environmental mitigation stipulations and require the implementation of approved surveillance and monitoring and quality assurance programs. These programs specify how the lessees will implement mitigation measures and administer plans to prevent potential significant adverse environmental impacts and damages to fish and wildlife, as described in the lease. The leases also address the protection of interests of individuals living in the general area and continued public access upon the leaseholds.

Financial Assurances

The pipeline right-of-way leases require, as described in AS 38.35.120(a)(14), that the lessees procure and furnish liability and property damage insurance from a company licensed to do business in the state, or furnish other security or undertaking upon the terms and conditions the Commissioner considers necessary if the Commissioner finds that the net assets of the lessee are insufficient to protect the public from damage for which the lessee may be liable arising out of the construction or operation of the pipelines.

Financial assurances previously accepted by DNR will remain in place. Additionally, an amended dismantlement, removal and restoration (DR&R) agreement has been executed by DNR and Miller, to include the Badami Pipeline Leases.

III. Administrative Record:

The following constitutes the administrative record for this analysis:

- Right-of-Way Lease for the Badami Sales Oil Pipeline, ADL 415472, and associated case file;
- Right-of-Way Lease for the Badami Utility Pipeline, ADL 415965, and associated case file; and
- Right-of-Way Lease for the North Fork Pipeline, ADL 230928, and associated case file.

IV. Proposed Transfer:

The transfer request proposes that Miller transfer all of its membership interests, including ownership and control of Miller's subsidiaries CIE, APE, and Savant, to Apollo and Highbridge as outlined by the reorganization plan confirmed by the United States Bankruptcy Court for the District of Alaska. Upon DNR's approval of the transfer, the United State Bankruptcy Court will finalize and accept the reorganization plan. Miller has ceased to be a publicly traded company, and under the approved reorganization plan will continue to exist as a private equity company wholly owned by Apollo and Highbridge.

Upon completion of the pending transfer, no management changes are anticipated in the operation of the both the Badami and North Fork pipelines. Savant and CIE will continue providing operator services for the pipelines respectively, and will continue these services once the reorganization plan is implemented.

The requested transfer of interest does not include changes in the use or propose additional use of the Badami or North Fork pipeline leases. According to the application, Miller, through its subsidiaries CIE, APE and Savant, accepts and agrees to be bound by the terms and conditions of the Badami and North Fork pipeline leases.

V. Technical Review: **Badami Pipelines**⁴

DNR staff reviewed the technical condition of both the Badami gas and oil pipelines for the analysis of the BPTA-to-Nutaaq transfer of ownership request in late 2013. For the review in 2013, staff developed a list of eight technical questions and data requests to assess the condition of the pipelines. BP produced documentation that satisfactorily answered all of those questions. DNR staff has evaluated developments and inspections of the pipelines conducted during the interim and found no significant changes. The pipelines remain in relatively good condition and, in general, Savant has continued with previous maintenance practices.

The review by the SPCS was intended to assess the condition of the pipelines for continued operations under current programs and conditions; this was not intended to be a full engineering analysis. The review did not reveal any significant deficiencies, corrosion problems, settling or other issues that would require a new owner to perform major maintenance or assume inordinate risk. It did reveal that the buried stream crossings were likely the greatest operating risk; however, this part of the original construction is a design that BPTA has successfully managed and operated since the beginning of Badami production.⁵ The DNR, USDOT Pipeline Hazardous Materials Safety Administration (PHMSA), and other government agencies have monitored these crossings since the production began and have seen no significant problems develop during nearly 15 years of operation.

BPXA's Technical Authority for Pipelines produced a brief condition report on the Badami pipelines. Among other conclusions, he stated, "based on the information review, the Badami Oil and Gas Pipelines are fit for continued service." He also stated that "the pipelines have been maintained and are in good condition."⁶

North Fork Pipeline⁴

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 annual 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 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

⁴ The Technical Review sections of this analysis were updated from previously approved transfer analysis completed for the Badami Pipeline Leases, dated December 11, 2014, and the North Fork Lease, dated March 6, 2015.

⁵ Memo, Louis Kozisek, PE, to Allison Iversen, BP to Savant Transfer, November 26, 2013.

⁶ Correspondence, Glen Pomeroy to Don Turner, Subject: Badami Oil and Gas Pipeline Status, November 8, 2013.

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.

SPCS 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 SPCS 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 SPCS review did not find any significant deficiencies, corrosion problems, erosion, settling, or other issues. Additionally, the lease requires that the new operator will maintain, repair and operate the pipeline to conform to the SPCS 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.

VI. Financial Review:

This analysis assesses the financial standing of the companies involved in the transfer as required by AS 38.35.120. As lenders, Apollo and Highbridge will provide Miller sufficient financing to fund operations. The reorganized debtors (Miller and its subsidiaries) shall continue to exist as separate entities under their respective certificates of incorporation or formation, or as amended subject to the conditions of the court confirmed reorganization plan.

Apollo and Highbridge have agreed to provide DNR a formal corporate resolution explaining the new corporate structure of Miller, including three designees authorized to sign on their behalf after final acceptance of the reorganization plan is approved through the court proceedings.

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

In accordance with the leases and AS 38.35.120(a)(9), as delegated, the SPC is required to consider the protection of the public interest, including whether the proposed transferees, Apollo and Highbridge, are 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.

Miller, as guarantor and transferor, has agreed to accept the terms of the leases without modification to the existing stipulations or terms. Miller has agreed to ensure that its subsidiaries, Savant, CIE, and APE, continue to assume all of the responsibilities for implementing plans and programs to continue operating these pipelines in accordance with the lease agreements.

The reorganization plan resulting from the bankruptcy proceedings leaves Miller intact as a standalone company and sole member of Savant and CIE. Previously accepted guarantees, performance bonding, and requirements for insurance remain in place. At such time after the bankruptcy court finalizes the reorganization plan, the Commissioner may reevaluate the need to require additional guaranties, insurance, performance bonds, or a combination thereof, of the newly added parent companies, Apollo and Highbridge, to guarantee the performance of all the lessee's duties and obligations under the lease.

Based on the cumulative information from lease compliance reports and the technical review of the pipeline integrity and infrastructure, DNR asserts that the pipelines are fit for transfer. Based on the technical review of Miller as an owner it is determined that Miller is fit to own the operator of these Badami pipelines.

Financial Assurances Required

If the Commissioner determines at any time that the guaranty of Miller Energy Resources, Inc., or any guaranty affiliated with the Badami Pipeline Leases or North Fork Lease, is insufficient to guaranty performance of lessee's duties, obligations, and liabilities under the pipeline leases, the Commissioner may require the lessee to procure and furnish additional liability and property damage insurance or other financial assurance packages, as the Commissioner determines necessary.

VIII. Authority:

The authority to authorize a transfer of interest in an AS 38.35 Right-of-Way Lease, as described in AS 38.35.120(a)(09), has been delegated to the State Pipeline Coordinator through Department Order 003 "Delegations of Authority."

IX. Conclusion:

The requirements for the transfer of interest have been met and the applicable statutes have been satisfied. Therefore, the transfer of interest of Miller Energy Resources, Inc., for the Badami Pipeline Leases, ADL 415472 and ADL 415965, and the North Fork Pipeline Lease, ADL 230928, to Apollo Investment Corporation and Highbridge Principal Strategies is approved.

For 

Jason Walsh
State Pipeline Coordinator,
Department of Natural Resources

3-17-2016

Date

**STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
STATE PIPELINE COORDINATOR'S SECTION**

**3651 Penland Parkway, MS 600
Anchorage, Alaska 99508
(907) 269-6403**

**ACKNOWLEDGEMENT OF TRANSFER OF INTEREST
OF RIGH-OF-WAY LEASE**

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

ADL 230928

Miller Energy Resources, Inc. ("Miller"), whose address is 1001 Louisiana, Ste. 3100 Houston, Texas 77002, as the sole member of Cook Inlet Energy, LLC, owner of Anchor Point Energy, LLC, Lessee of State of Alaska Right-of-Way Lease for the North Fork Pipeline, **ADL 230928**, recorded in the Homer Recording District, State of Alaska on November 5, 2010, as Document Number 2010-003671-0, has transferred ownership and control of Miller, for good and valuable consideration, and subject to all rents, covenants, and conditions, all right, title, and interest in the above lease to transferees, **Apollo Investment Corporation**, whose mailing address is 9 West 57th Street, 43rd Floor New York, New York 10019 and **Highbridge Principal Strategies, LLC**, whose mailing address is 40 West 57th Street, Floor 32 New York, New York 10019.

The Transferor, Miller Energy Resources Inc., 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: 3/14/16

Miller Energy Resources, Inc.
(Transferee)

By *Carl F. Giesler, Jr.*
Carl F. Giesler, Jr., Chief Executive Officer
(Print name and title)

STATE OF Alaska)
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Judicial District

THIS IS TO CERTIFY that on this 14 day of March, 2016,
before me appeared Carl F. Giesler, Jr., known to me as the Chief Executive Officer of
Miller Energy Resources, Inc., who executed the foregoing on behalf of Miller Energy
Resources, Inc., and acknowledged voluntarily signing it.

NOTARY PUBLIC
KATY HOOPER
STATE OF ALASKA
My Commission Expires June 26, 2016

Katy Hooper
Notary Public
My commission expires:
6-26-16

APPROVED:

Jason Walsh
For Jason Walsh, State Pipeline Coordinator
Department of Natural Resources

3-17-2016
Date