



THE INFRASTRUCTURE PLANNING (APPLICATIONS: PRESCRIBED FORMS AND PROCEDURE) REGULATIONS 2009

Preesall Underground Gas Storage Facility, Lancashire

Funding Statement

Regulation No:	5(2)(h)
Document Ref:	7.2
Author:	Halite Energy Group Limited William (Bill) Reynolds (CFO) Unit 5, St Georges Court St Georges Park Kirkham PR4 2EF Tel: +44 (0)1772 672244 Email: bill.reynolds@halite.net WWW: www.halite.energy.co.uk
Date:	November 2011
Version Number:	1

CONTENTS

	Summary	1
Section 1.0	Introduction	3
Section 2.0	Halite Funding Sources to Date	3
Section 3.0	Land Acquisition Requirements and Estimated Costs	5
Section 4.0	Estimated Project Construction Costs	7
Section 5.0	Project Financing Plan	8
	Appendix	10

SUMMARY

1. This Funding Statement (Statement) relates to an application by Halite Energy Group Limited (Halite) to the Infrastructure Planning Commission (IPC) for a Development Consent Order (DCO) to construct an Underground Gas Storage (UGS) Facility at Preesall, Lancashire and related development (the Project).
2. It is required as the application for the DCO is seeking authorisation for compulsory acquisition of land and rights in land.
3. The Statement explains how Halite proposes to fund the land and rights to be acquired and also the implementation of the Project. It is part of a suite of DCO application documents and should be read alongside those documents. In particular, the Statement should be read in conjunction with the Statement of Reasons [7.1].
4. To date, Halite has expended approximately £19.8 million to acquire the necessary interests and rights in land for the Project. This is approximately 89% of the estimated total cost of property related acquisitions required for the Project. Pursuant to its application for the DCO, Halite is requesting compulsory purchase powers for the acquisition of the interests, rights and use of land not secured to date.
5. Total estimated costs to acquire the remaining land and rights are approximately £2.5 million. Halite has sufficient committed funds and resources available to fund these acquisitions, related compensation and any statutory blight claims that may arise.
6. Total estimated construction costs are approximately £606 million, with £406 million for estimated capital expenditures, £60 million for cushion gas, £2.5 million for land and rights acquisitions and £140 million for contingency.
7. Halite has solicited an opinion from BNP Paribas S.A.'s ("BNP Paribas") project finance team regarding the ability of Halite to obtain project finance for the proposed Project.
8. In BNP Paribas' opinion, Halite should be able to obtain sufficient financing under reasonable market terms to fully develop and commercialise the Preesall Gas Storage Project once Halite is able to achieve the following: (i) grant of the DCO,

(ii) completion of detailed pre-construction engineering work to provide further assurance on construction costs and timescales, and (iii) detailed indications of commercial interest from potential customers of the facility to provide assurance on the ability of the project to service the financing.

Funding Statement

1. Introduction

- 1.1. This Funding Statement relates to an application by Halite Energy Group Limited (Halite) to the Infrastructure Planning Commission (IPC) for a Development Consent Order (DCO) to construct an Underground Gas Storage Facility (UGS) at Preesall, Lancashire and related development (the Project).
- 1.2. This Statement has been prepared as required by Regulation 5(2)(h) of the (IPC) (Applications: Prescribed Forms and Procedure) Regulations 2009 and in accordance with Department for Communities and Local Government guidance (DCLG), "Planning Act 2008: Application Form Guidance" and "Planning Act 2008: Guidance related to procedures for compulsory acquisition". It is required as the application for the DCO is seeking authorisation for compulsory acquisition of land and rights in land.
- 1.3. This Statement explains how Halite proposes to fund the land and rights to be acquired and also the implementation of the Project. It is part of a suite of DCO application documents and should be read alongside those documents. In particular, this Statement should be read in conjunction with the Statement of Reasons [7.1].

2. Halite Funding Sources to Date

- 2.1. Since 2001 approximately £80.8 million has been invested by third parties into Halite and Preesall Energy Services Limited and their predecessors, Canatxx Gas Storage Limited (CGS) and Canatxx Energy Ventures Ltd respectively. (The former are referred to as 'Halite' and the latter as 'Preesall Energy Services' through this document unless the context dictates otherwise). These investments have primarily been utilised for the development of an UGS at Preesall. These investments have partially been in the form of loans secured by the project assets, including the land at Preesall where the primary development and operations are to take place (as described more fully in Section 3 below), and partially in the form of share ownership in Halite.
- 2.2. Since December 2005, project funding has primarily come from (i) D. E. Shaw Laminar Portfolios, L.L.C. and certain of its subsidiaries (collectively, "Laminar") and (ii) BNP Paribas. As of 30 September 2011, the total combined investment to date by Laminar and BNP Paribas is £55.6 million (which is included in the total £80.8 investment referenced in paragraph 2.1), and Laminar and BNP Paribas are continuing to fund the current operations of Halite. In conjunction with its investments, Laminar acquired a majority ownership in the ultimate parent holding company for Halite in July 2010.

2.3. Laminar is an investment entity managed by the D. E. Shaw group, a global investment firm with more than 1,200 employees, approximately \$21 billion in investment capital as of 1 July 2011, and offices in North America, Europe, the Middle East and Asia. Since its organisation in 1988, the firm has earned an international reputation for financial innovation and technological leadership. The D. E. Shaw group is engaged in a broad spectrum of investment activities in many of the world's capital markets, including debt financing and private equity investing and has significant experience in the financing and development of power-generating and energy infrastructure assets. In recent years, entities of the firm have made substantial capital investments in energy-related projects worldwide and across multiple energy sectors, including independent U.S.-based developers of onshore and offshore wind facilities; U.S.-based oil and gas exploration companies; U.S.-based biomass facilities; a U.S.-based developer of clean coal facilities; a U.S.-based refined products storage operator; a U.K.-based independent power company; a China-based solar energy company; and an India-based renewable energy company. The firm deploys experienced professionals who have an established track record of financing, structuring and managing energy development projects. Along with this experienced staff, the firm engages globally recognised management teams, Board members and consultants on its projects.

2.4. BNP Paribas S.A. is a European leader in global banking and financial services and one of the best-rated banks in the world (Rated AA- by Standard & Poor's). Present across Europe through all its business lines, the Group has four domestic retail banking markets in France, Italy, Belgium and Luxembourg. It has one of the largest international networks with operations in more than 80 countries and 205,300 employees, including 162,500 in Europe, 15,200 in North America and 12,500 in Asia (30 June 2011). The Bank is a world leader in structuring financial solutions for Infrastructure, Power (conventional and renewable), Oil and Gas and Transportation covering over 420 projects worldwide with a worldwide commitment of circa €15 billion. It has 160 dedicated project finance professionals allowing it to advise, structure, arrange and agent any Project Finance transaction. It consistently holds top positions in the project finance syndicated loan markets allowing it to achieve a strong distribution combined with a thorough understanding of the project finance syndication market.

3. Land Acquisition Requirements and Estimated Costs

- 3.1. The development of the proposed Project requires the acquisition of interests in land, rights under and over land, and the temporary use of land.
- 3.2. To date, Halite has expended approximately £19.8 million to acquire the necessary interests and rights in land, as outlined below. This is approximately 89% of the estimated total cost of property related acquisitions required for the Project. Pursuant to its application for the DCO, Halite is requesting compulsory purchase powers for the acquisition of the interests, rights and use of land not secured to date.
- 3.3. In 2006, Halite and Preesall Energy Services acquired a freehold interest in 539.5 hectares (1,333 acres) of land at Preesall (the “Preesall Site”) for approximately £19.5 million. Approximately 313 hectares (774 acres) of the land is predominately productive agricultural land, and the balance of 226.5 hectares (559 acres) is comprised of ponds, tidal foreshore, marshes and riverbeds. The majority of the agricultural land is occupied and actively farmed under a series of agricultural tenancies, which confer varying degrees of security on the tenants. The non-agricultural land is predominately tidal foreshore and much of this is designated as a Site of Special Scientific Interest. The majority of the development is to be carried out on land owned by Halite although the proposed Access Road to the site and part of the Gas Pipeline to the National Transmission System are located on land owned by Preesall Energy Services.
- 3.4. The Preesall Site is where the majority of the above ground infrastructure will be located, including the Wellhead Compounds, the Gas Compressor Compound, the Booster Pump Station, the Security and Support facility, the Gas Manifold and distribution infrastructure, certain segments of the Seawater, Brine Discharge and Gas Interconnector Pipelines, and other necessary infrastructure. The primary operations of the facility will be conducted and managed on the Preesall Site.
- 3.5. In addition to the Preesall Site, Halite has acquired the following interests and rights in land:
 - 3.5.1. The freehold acquisition of land, a lease and an easement strip from the Associated British Ports (ABP) in connection with the Seawater Pump Station, Seawater Pipeline and Brine Pipeline. This land consists of approximately 2.2 hectares (5.5 acres) together with rights for a temporary construction compound and was acquired in 2006. The freehold land acquired is the former track bed of a disused railway line that supplied coal to the former power station on the site. The lease for the Seawater Abstraction, Seawater Pump Station site, leasehold easement for the brine pipelines and the temporary site for drilling operations is for 50 years at an

annual rent. This section of easement represents approximately 20% of the route of the Seawater and Brine Pipelines, excluding the river crossing and long sea outfall.

- 3.5.2. An option to acquire 1.1 hectares (2.75 acres) of land for the Gas Metering Station on the NTS Interconnector pipeline. This option is for a period of four years from 9th September 2009 with an option to extend for a further four years. The land has full rights of access along the former disused railway line adjacent to the Transco compound on the NTS feeder pipeline.
 - 3.5.3. The long sea outfall runs approximately 2.3 kilometres from Rossall Beach to the diffuser ports in the Irish Sea. The seabed below the lowest astronomical tide is owned by The Crown. Principal terms have been agreed with The Crown for a lease for the long sea outfall based on a term of 50 years at an annual rent, subject to indexation from 2005.
 - 3.5.4. The total amount expended to date (excluding any lease payments made to date) on the acquisitions described in Sections 3.5.1 to 3.5.3 is approximately £280,000.
- 3.6. Halite does not currently possess or have a contractual options to acquire the following land and rights required for the proposed Project:
- 3.6.1. Easements for the NTS interconnector pipeline. Negotiations are ongoing with approximately 45% of the landowners regarding an option for a deed of grant of easement for the pipeline. The remaining landowners have to date been unwilling to enter into negotiations, but Halite will continue seeking to acquire an option by agreement in parallel with the application for the DCO.
 - 3.6.2. Easements over approximately 80% of the length of route for the Seawater and Brine Pipeline between the Preesall Site and the commencement of the long sea outfall at Rossall.
 - 3.6.3. Easements to place a electricity supply cable beneath the land of four landowners between the Stanah Switchyard and the main Preesall site. Heads of terms for options have been agreed (but not executed) with three of those landowners. The fourth landowner, the Duchy of Lancaster, has stated that it will not enter into negotiations until the DCO has been granted.
 - 3.6.4. A 2.5 acre parcel of land on Knott End Golf Course just to the north of the Preesall sewage works, over which Halite requires rights for the development of a Wellhead Compound. Negotiations are ongoing with Knott End Golf Club to either purchase or lease the land.

- 3.6.5. The acquisition of land for the permanent access road between A588 and Back Lane, which is owned by five land owners. Terms have been agreed for an option with one landowner, and negotiations are ongoing with three of the other four landowners.
- 3.6.6. The majority of the surface infrastructure on the Preesall land is to be located on land currently occupied by two agricultural tenants. The infrastructure includes permanent roads, buildings, wellheads and permanent landscaping features associated with this infrastructure. The majority of the infrastructure is located on land occupied by one of the agricultural tenants. Heads of terms have been agreed with the said tenant for the land and rights required for the Project on both a permanent and temporary basis to be released from his tenancy. Heads of terms have not yet been agreed with the other tenant.
- 3.7. The total estimated costs to acquire the remaining land and rights are approximately £2.5 million. Halite has sufficient committed funds and resources available to meet (a) the compensation arising from all compulsory acquisition of land and rights pursuant to the DCO and (b) any statutory blight claims that may arise.
- 3.8. In summary, Halite has already expended approximately £19.8 million, or approximately 89%, of the total estimated cost of approximately £22.3 million to acquire all the necessary land and rights required for the proposed Project.

4. Estimated Project Construction Costs

- 4.1. Halite commissioned Costain Energy & Process Ltd (Costain) to provide a capital cost estimate for the gas storage development. This estimate was developed using accepted industry cost estimating practices for industrial infrastructure developments and Costain's experience with other gas storage developments recently or currently being constructed in the U.K.
- 4.2. The estimated capital cost for the Project, as evaluated by Costain, is approximately £404 million, with a degree of accuracy of plus or minus 30%. The cost estimate also does not include the land acquisition costs described in Section 3 above of £2.5 million.
- 4.3. The estimated cost also excludes the requirement to purchase or lease an estimated 300 MCM of cushion gas, which based on current market forward pricing for the anticipated time period of acquisition would cost approximately £60 million.
- 4.4. When 30% is added for contingency, total estimated construction cost is approximately £606 million.

5. Project Financing Plan

- 5.1. Halite intends to raise a sufficient amount of project debt financing and equity capital to construct the gas storage facility, acquire or lease cushion gas, and pay for other ancillary costs to be incurred prior to the commencement of commercial operations. It is typical in projects of this nature for the developer to engage in such project financing efforts only after receipt of the necessary major planning permissions required in developing such projects.
- 5.2. Halite has solicited an opinion from BNP Paribas S.A.'s ("BNP Paribas") project finance team regarding the ability of Halite to obtain project finance for the proposed development (copy of BNP Paribas' letter is attached at Appendix 1). BNP Paribas is a European leader in global banking and financial services including the raising of project debt financing and equity capital for projects for energy infrastructure projects. In preparing its opinion, BNP Paribas performed an independent evaluation of the merits of the Project relative to other infrastructure projects that have successfully obtained project financing.
- 5.3. In BNP Paribas' opinion, Halite should be able to obtain sufficient financing under reasonable market terms to fully develop and commercialise the Preesall gas storage project once Halite is able to achieve the following: (i) grant of the DCO, (ii) completion of detailed pre-construction engineering work to provide further assurance on construction costs and timescales, and (iii) detailed indications of commercial interest from potential customers of the facility to provide assurance on the ability of the project to service the financing.
- 5.4. Based on BNP Paribas' opinion and consistent with the typical process for raising project finance, once the Order is issued Halite intends to (i) solicit firm indications of commercial interest in the facility and (ii) engage a globally recognised engineering and construction firm to finalise the project design and engineering. These efforts will provide the requisite assurance regarding the level and timing of project cash flows to attract project finance and equity capital under reasonable market terms.
- 5.5. Specifically, Halite intends to enter into long-term customer contracts for usage of a substantial portion of the working gas capacity of the facility. These contracts will ensure a minimum level of revenues for the facility once operational, thereby providing the necessary financial assurance to potential providers of project finance such as commercial financial institutions and infrastructure investment funds. Halite has engaged in preliminary discussions with several potential commercial counterparties, including major European utilities, oil and gas companies and trading firms who have indicated their

interest in entering into such contracts under market-based terms once the DCO has been granted.

- 5.6. In addition, to carry out the Project, Halite intends to enter into an engineering, procurement and construction contract with a globally respected construction firm with particular expertise in delivering energy infrastructure in the U.K. The appointed firm will have the primary responsibility for the final design of the Project and for overseeing the overall delivery of the Project.

Halite Energy Group Limited

Appendix 1 - BNP Paribas letter

- The ability of Halite to obtain long-term contracts with users of Preesall Gas Storage to ensure sufficient revenues to cover operating costs, project debt finance costs, and deliver an acceptable rate of return to project equity finance providers.
- The level of design and cost estimation work performed to date, and the confidence regarding the project development timescales and budget.
- Halite's estimates for ongoing operating and maintenance costs for the facility.
- Current and anticipated market conditions for gas storage and project financing.

Commentary and Analysis

The primary milestones that must be satisfied before Halite can pursue project financing are: (i) receipt of required DCO (which are being applied for with the Infrastructure Planning Commission), (ii) demonstration of sufficient customer interest, at a minimum through the receipt of written indications of interest, to provide assurance that Halite will generate sufficient financial performance to satisfy its financial obligations including the terms of the project financing being obtained, and (iii) finalization of project design and engineering to produce a final project cost and development timeline.

The UK has a widely-recognized need for fast-response storage. Preesall Gas Storage is well positioned to meet this need, as it is designed to be a fast response facility and is also on the low end of the cost curve for proposed U.K. gas storage projects due to its onshore location and ready access to water supply for cavern washing.

Based on overall need for this type of facility and our understanding of the current market dynamics, we believe that Halite will be able to secure sufficient customer interest to satisfy prospective project finance providers that Halite's financial projections are obtainable.

With respect to the project design and construction timeline, Halite has already commissioned Costain Energy & Process Ltd ("Costain") to provide a detailed preliminary engineering design for Project's main above ground facilities, as well as a detailed preliminary cost study for the development of the Project. Costain is one of the UK's top engineering and construction solutions providers across the infrastructure, environment and energy industries including gas storage, gas processing, nuclear and power plants. Costain's expertise ranges from conceptual design through detailed engineering and procurement to construction and commissioning. Costain has particular expertise in onshore UK salt cavern storage, having worked on two of the most recent substantial new development projects - E.ON's Holford Gas Storage Project in Cheshire and Storengy UK Ltd's Stublach Gas Storage Project, also located in Cheshire.

Costain's preliminary cost estimate to construct the Project is £404 million, which includes the cost to drill and leach all of the caverns, construct all above ground infrastructure, and also includes all contractor's fees.

This cost estimate does not include the cost to acquire cushion gas, which is estimated to cost an additional £60 million based on current forward market prices. This cost estimate assumes that Halite utilizes a traditional and proven approach towards project management, in which an EPC contractor has the primary responsibility for managing the process and delivering the project on time and on budget. In our experience, this is the approach most preferred by providers of project finance. While further work is required to finalize the design and cost estimates, we are satisfied that Costain's provides a representative estimate, in particular given Costain's recent involvement with other U.K. onshore salt cavern gas storage projects (Holford and Stublach).

Conclusions

Based on its review of the project, it is BNP Paribas' belief that Halite will obtain the requisite project financing to develop Project, once the primary regulatory approvals are obtained for this Project and sufficient commercial interest is demonstrated to support Halite's financial projections.

For the avoidance of doubt, this letter does not represent, nor shall be construed as, an offer to lend or arrange funds . Any offer to provide financing will require approval from BNP PARIBAS' credit committees and remains subject to legal review and due diligence. Nothing in this letter shall create a legal relationship between BNP PARIBAS and any of the persons referred to in it or any other person and BNP PARIBAS shall have no liability to any person whatsoever.

Yours sincerely ,

A handwritten signature in dark ink, appearing to read 'Remi Collonges-Dufouleur', written in a cursive style.

Remi Collonges-Dufouleur
Managing Director
Upstream Oil & Gas, Business Development