

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Land Division  
Honolulu, Hawaii 96813

June 26, 2015

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

GRML No. R-2

Hawaii

Consent to Transfer of 40% Ownership Interest of Parent Company of Puna Geothermal Venture, Sublessee Under Geothermal Resource Mining Lease No. R-2, with an Estoppel Certificate, Kapoho, Puna, Hawaii, TMK: (3)1-4-001:001, 003, 019, 058 and portion of 002.

APPLICANT:

Puna Geothermal Venture (PGV), sublessee under Geothermal Resource Mining Lease No. R-2 (GRML R-2), a Hawaii general partnership.

LEGAL REFERENCE:

Section 171-36(a)(5) and Section 182-11, Hawaii Revised Statutes, as amended.

LOCATION AND AREA:

The geothermal resources and geothermal by-products in and under all those certain parcels of land, portion of which is described in and covered by Royal Patent 4497, Land Patent 8177, Land Commission Award No. 8559, Apana 5 to C. Kanaina, situate, lying and being at Kapoho, Puna Hawaii, identified by Tax Map Key: (3) 4-1-001:001, 003, 019, 058 and portion of 002, consisting of approximately 816 acres of land owned by Kapoho Land and Development Company and leased to Kapoho Land Partnership (KLP), as shown on the attached map labeled Exhibit A.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

Pursuant to Section 182-7(c), Hawaii Revised Statutes, the County of Hawaii receives 30% of all royalties derived from geothermal resources.

CHARACTER OF USE:

The right to develop geothermal resources and geothermal by-products in and under the leased lands, and also, the exclusive right to drill for, produce and take geothermal resources from the leased lands and occupy and use so much of the surface of the leased lands as may be reasonably required pursuant to the provisions of Section 182-3, Hawaii Revised Statutes, as amended and Section 6.1 of the regulations.

TERM OF LEASE:

A primary term of 10 years, commencing on February 20, 1981 and for so long thereafter as geothermal resources are produced or utilized in commercial quantities, provided that the maximum term shall not exceed 65 years. Royalty rates shall be readjusted at the expiration of the 35<sup>th</sup> and 50<sup>th</sup> years of the lease. The first royalty rate readjustment is scheduled for February 20, 2016.

ANNUAL RENTAL: First 35 years

Fixed minimum: \$816.00

Geothermal resources royalties: 10% of the gross proceeds received by the Lessee from the sale or use of geothermal resources produced from the leased lands.

Geothermal by-products: 5% of the gross proceeds received by the Lessee from the sale of any such by-products produced under the lease, including desalted water.

Note: For the 12 month period ending December 2014, PGV paid royalties to the State in the amount of \$2,405,825.15. Of this sum \$721,747.55 was paid to the County of Hawaii and \$481,165.03 to the Office of Hawaiian Affairs.

CONSIDERATION:

\$175,000,000.00 as equity transfer of 40% interest in newly formed parent company, ORPD LLC, of Puna Geothermal Venture.

RECOMMENDED PREMIUM:

Not applicable as the lease does not allow for a premium.

BACKGROUND:

The Board approved the issuance of GRML R-2 to Kapoho Land Partnership (KLP) at its meeting of December 29, 1980, agenda item F-3. Then at its meeting of January 23, 1981, agenda item F-1-b, the Board approved a sublease to Thermal Power Company and Dillingham Corporation.

At its meeting of August 27, 1982, agenda item F-1-b, the Board consented to the assignment of sublease from Thermal Power Company and Dillingham Corporation to Puna Geothermal Venture, the current Sublessee under GRML R-2.

On June 14, 1983 Act 296, SLH 1983, relating to geothermal energy, was signed into law by then Governor George R. Ariyoshi. Act 151, SLH 1984, also relating to geothermal energy, clarified various aspects of existing geothermal development activities within the State and the roles of State and County government.

The Board of Land and Natural Resources (Board) is charged with the responsibility of designating geothermal resource subzones, which are the only areas where geothermal development activities may be conducted. The Board identified nine subzones in Hawaii County having geothermal resources, five of which were determined to have a probability greater than 25% of harboring a high temperature resource (greater than 125 degrees C) at depths less than three kilometers. The geothermal rights demised under GRML R-2 are within the Kilauea Lower East Rift Subzone where there is a greater than 90% probability of locating a high temperature resource.

In 1990 PGV borrowed \$100 million from Credit Suisse to develop and construct the GRML R-2 geothermal project. The Chairperson consented to the mortgage on July 9, 1990. The loan was subsequently paid off in June 2004.

At its meeting of April 1, 2005, agenda item D-9, the Board consented to a Sale-Leaseback Financing Agreement which provided PGV the capital to expand the project's capacity from 25 MW to 30 MW.

REMARKS:

Ormat Nevada, Inc. (Ormat), the parent company of PGV, has decided to enter into an equity transfer transaction with Northleaf Capital Partners (Northleaf), under which Ormat will contribute certain geothermal and recovered energy generation power plants into a newly established holding company, ORPD LLC, and Northleaf will acquire approximately 40% equity interest in ORPD LLC. Ormat will raise approximately \$175,000,000.00 from the transaction which it will use to support future growth as well as repay high-cost debt.

PGV is owned by OrPuna LLC and ORNI 8 LLC, each holding 50% ownership. Ormat owns 100% of both OrPuna LLC and ORNI 8 LLC. Ormat is transferring ownership of

OrPuna LLC, ORNI 8 LLC and 4 other project companies to ORPD LLC. Ownership of ORPD LLC will be 59% vested in Ormat, 40% vested in Northleaf and 1% vested in ORPD Holdings LLC (1% member). Refer to attached Exhibit B. The 1% member company is necessary for tax reasons. Ormat will retain control of management and operations as the managing member.

Provision 15 of GRML R-2 regarding assignment or sublease states:

*“Lessee shall have the right to transfer this lease to any person qualified under the applicable law and regulations by assignment, sublease, or other transfer, of any nature including the creation of security interests in Lessee’s interest in this Lease and Lessee’s rights hereunder, in whole or in part, and as to all or part of the leased lands, subject to the approval of the Lessor, which approval will not unreasonably be withheld. Upon approval, Lessor may release the transferor from any liabilities or duties except for any liability or duty which arose prior to such approval.”*

Pursuant to the terms and conditions of GRML R-2 as stated above, this transaction qualifies as an ownership interest transfer, in part, and as such requires Board approval.

PGV is in compliance with all lease terms and conditions. The first royalty rate readjustment is scheduled for February 20, 2016. Royalties have been paid on time and accurately. There are no royalty rate issues.

Northleaf has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

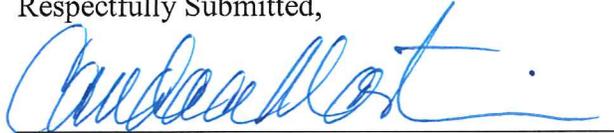
Northleaf is asking Ormat to provide an Estoppel Certificate from the State of Hawaii to ensure the lease is in good standing. PGV’s preferred form of Estoppel Certificate is attached as Exhibit C.

**RECOMMENDATION:**

1. That the Board Consent to the transfer of 40% Ownership Interest of the Parent Company of Puna Geothermal Venture, Sublessee Under Geothermal Resource Mining Lease No. R-2 as referenced above and subject to the following:
  - a. The standard terms and conditions of the most current consent form, as may be amended from time to time;
  - b. Review and approval by the Department of the Attorney General; and
  - c. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

2. Authorize the execution of an Estoppel Certificate subject to the following:
  - a. Form of Estoppel Certificate provided by PGV, but subject to review and approval by the Department of the Attorney General; and
  - b. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interest of the State.

Respectfully Submitted,



Candace Martin  
Land Agent

APPROVED FOR SUBMITTAL:

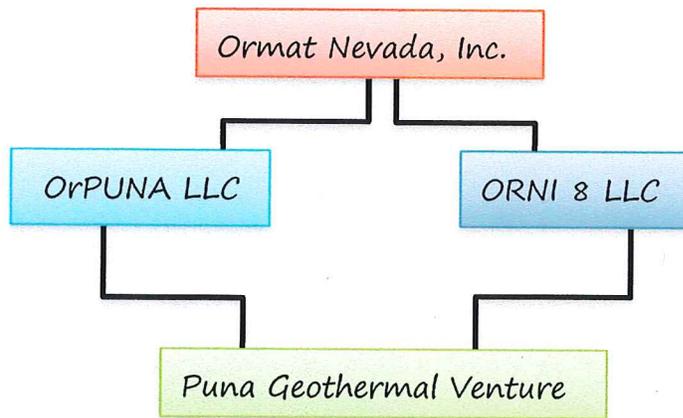

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Suzanne D. Case, Chairperson

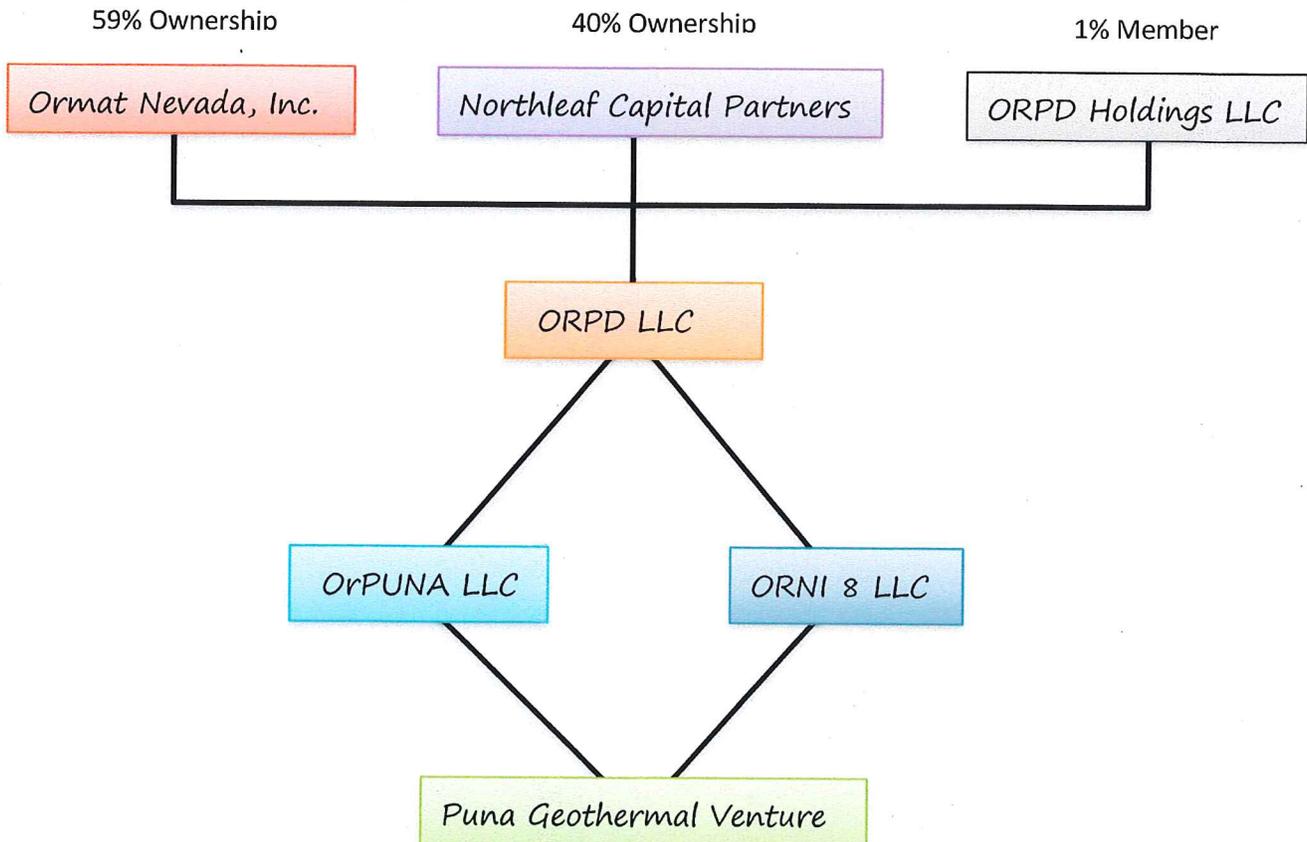


# EXHIBIT B

## Pre-Transaction Organizational Structure



## Post-Transaction Organizational Structure



## EXHIBIT C

Ormat Nevada Inc.  
6225 Neil Road  
Reno, Nevada 89511

Northleaf Geothermal Holdings LLC  
c/o Northleaf Capital Partners  
79 Wellington Street West  
6th Floor, Box 120  
Toronto Ontario M5K 1N9

Re: Geothermal Resource Mining Lease No. R-2

Dear Sirs or Madams:

At the request of Puna Geothermal Venture (the "Company"), we hereby confirm to you that (1) the Geothermal Resource Mining Lease No. R-2 between the State of Hawaii ("Hawaii DLNR") and Kapoho Land Partnership ("KLP"), dated February 20, 1981 (the "Lease") is in full force and effect; (2) there have been no amendments to the Lease; (3) Hawaii DLNR is not currently aware of any breach or default under the Lease; (4) as of the date hereof, no payments are past due and owing to Hawaii DLNR under the Lease; (5) except as contemplated by the Transaction (as defined in that certain Participation Agreement, dated as of May 18, 2005, by and among the Company, SE Puna, L.L.C., Wilmington Trust Company in its individual capacity, SE Puna Lease, L.L.C., AIG Annuity Insurance Company, American General Life Insurance Company and Allstate Life Insurance Company as the Initial Noteholders and Union Bank Of California, N.A. as Indenture Trustee (the "Participation Agreement")) and in accordance with the Operative Documents (as defined in the Participation Agreement), Hawaii DLNR has no notice of, and has not consented to, any previous assignment of all or any part of its rights or obligations in, to or under the Lease; and (6) to the knowledge of Hawaii DLNR, there is no litigation, action, suit or legal proceeding pending or threatened against Hawaii DLNR, before or by any court, administrative agency, environmental council, arbitrator or governmental authority, body or agency, that could reasonably be expected to have a material adverse effect on Hawaii DLNR's ability to perform its obligations under the Lease or that questions the validity, binding effect or enforceability thereof.

This confirmation is provided as of the date hereof and no obligation to update or provide any further information is assumed or accepted by Hawaii DLNR. This letter does not waive, and should not be interpreted as a waiver of, any and all rights and remedies of Hawaii DLNR under the Agreements.

Very truly yours,

Hawaii Department of Land and Natural Resources

By: \_\_\_\_\_  
Name:  
Title: