

FOR CONSIDERATION

November 18, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Big Flats (Chemung County) – Talisman Energy USA Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions; Determination of No Significant Effect on the Environment

General Project Plan

I. Project Summary

Grantee: Talisman Energy USA Incorporated (“Talisman” or the “Company”)

ESD* Investment: A grant of up to \$200,000 to be used for a portion of the cost of building fit out including furniture, fixtures and equipment.

* The New York State Urban Development Corporation doing business as the Empire State Development Corporation (“ESD” or the “Corporation”)

Project Location: Airport Corporate Park, Lot 3, Daniel Zenker Drive, Big Flats, Chemung County

Proposed Project: Establishment of corporate headquarters in newly constructed 33,000-square-foot leased facility

ESD Incentive Offer Accepted: October 24, 2007

Project Completion: June 2008

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	50
Current employment level:	59
Minimum employment on January 1, 2011:	80

Grantee Contact: Mark Marosek, Performance & Financial Reporting Team Leader
50 Pennwood Place
Warrendale, PA 15086
Phone: (724) 814-5331
Fax: (607) 795-2701

Anticipated
Appropriation
Source:

Empire State Economic Development Fund

ESD Project No.: V715

Project Team:	Origination	Joe Roman
	Project Management	Robin Alpaugh
	Affirmative Action	Denise Ross
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>	
Construction/FF&E	<u>\$4,750,707</u>	
Total Project Costs	<u>\$4,750,707</u>	
<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$200,000	4%
Company Equity	<u>4,550,707</u>	<u>96%</u>
Total Project Financing	<u>\$4,750,707</u>	<u>100.0%</u>

III. Project Description

A. Background

Talisman, formerly known as Fortuna Energy, was incorporated in 2002 and is an indirect, wholly owned subsidiary of Talisman Energy Inc. of Calgary, Alberta, Canada. Talisman began conducting operations in the Appalachian basin in 2002 by acquiring partial assets and land lease holdings from several local companies. Talisman has invested more than \$650 million in the Southern Tier and has grown to become New York State's largest gas producer. Today, the Company operates approximately 100 natural gas wells, with over 140 miles of gathering system pipeline and four compressor stations in the Appalachian basin. The Company has oil and gas

leases with more than 16,000 landowners covering one million acres in New York, Pennsylvania, Ohio and West Virginia. In 2008, Talisman produced on average 72 million cubic feet of natural gas daily.

Major customers include BP, Nexen and Sequent, which represent approximately 80% of the Company's sales. Competitors include Western Land Services, Chesapeake Energy and East Resources. The Company's strengths are its social and environmental responsibility track record and extensive experience in exploring complicated geological plays. In addition, Talisman has the resources to explore and develop other tight gas geologic gas plays such as the Marcellus Shale deposit, which runs from New York through Pennsylvania into West Virginia. Its weaknesses are its lack of industry support services and experience in the region which is required to meet planned growth efforts.

Talisman approached ESD in 2007 when it was seeking suitable office space to establish its headquarters near Marcellus shale deposit, where the company has an aggressive natural gas exploration and development program in place. The Company, which was leasing space in nearby Horseheads, considered locations in Pennsylvania, which is central to the Appalachian region. ESD offered the Company a \$200,000 capital grant to encourage the Company to locate its headquarters and grow its operations in New York; the Company accepted ESD's Incentive Proposal on October 24, 2007. The Company agreed to create 30 new full-time and retain 50 existing permanent employees at the Big Flats location through January 2013. Without ESD assistance, the Company would likely have located elsewhere, and New York State would have lost these 80 jobs.

B. The Project

The Company entered into a 10-year lease agreement (plus three 5-year options to renew) with private developer Riverside Realty LLC, which would build a new 33,000-square-foot, single story facility in Big Flats; Talisman outfitted the facility with furnishings, fixtures and communications equipment. The project began in May 2007 and was completed in June 2008. Administrative and technical engineering staff, including employees overseeing work at the Marcellus Shale sites, are located in the building.

ESD board approval was delayed earlier this year when a March 13, 2010, article in the *Elmira Star Gazette* reported that the company would be relocating 15 jobs to their Warrendale, PA facility and reorganizing the New York State operation. Additionally, an April 2010 NYS Department of Labor layoff WARN Notice stated that Talisman (Fortuna Energy) had 89 current employees and that 43 would be affected (19 workers affected by layoff at the time of announcement, an additional 8 workers to be affected by layoff on 1/1/2011, and 16 to be relocated to Warrendale). ESD senior management received assurances from the company in September 2010 that Talisman is committed to the Big Flats facility and that job commitment goals would be attained, as outlined in ESD's Incentive Proposal. Currently, the Company has 59 employees and expects to surpass its goal and reach 82 jobs by the end of 2010.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$200,000 (\$2,000) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will be obligated to advise ESD of a material adverse change in its financial condition prior to disbursement.
3. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed. Equity is defined as cash injected into the project by the Company or by investors, and should be auditable through Company financial statements or Company accounts, if so requested by ESD. Equity cannot be borrowed money secured by the assets in the project.
4. Prior to disbursement, the Company must employ at least the number of Full-time Permanent Employees set forth as the Baseline Employment in the table below. A Full-time Permanent Employee shall mean (a) a full-time, permanent, private-sector employee on the Grantee's payroll, who has worked at the Project Location for a minimum of thirty-five hours per week for not less than four consecutive weeks and who is entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Grantee's payroll, who have worked at the Project Location for a combined minimum of thirty-five hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties.
5. Up to \$200,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$100,000) will be disbursed upon completion of the project as described in these materials, documentation of project costs totaling \$4,500,000, and documentation of the employment of at least 50 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of an amount equal to 25% of the grant (\$50,000) will be disbursed upon documentation of the employment of at least 65 Full-time Permanent Employees at the Project Location (Employment Increment of 15), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$50,000) will be disbursed upon documentation of the employment of at least 80 Full-time Permanent Employees at the Project Location (Employment Increment of 15), provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESDC of an invoice and such other documentation as ESDC may reasonably require. Expenses must be incurred on or after October 24, 2007, to be considered eligible project costs. All disbursements must be requested by December 31, 2011.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$200,000, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Company and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.

7. In consideration for the making of the Grant, Grantee will achieve the Employment Goals set forth in Column B of the table below. If the Full-time Permanent Employee Count for the year prior to the reporting date set forth in Column A of the table below is less than eighty-five percent (85%) of the Employment Goal set forth in Column B (an “Employment Shortfall”), then upon demand by ESD, Grantee shall be obligated to repay to ESD a portion of each disbursement of the Grant, as follows:

The Recapture Amount is based on the time that has lapsed between when the Grant funds were disbursed and when the Employment Shortfall occurred. The Recapture Amount shall be calculated by aggregating the Recapture Amount for each disbursement of the Grant, which in each instance shall be equal to:

- (i) 100% of the disbursed amount if the Employment Shortfall occurred in the calendar year that the disbursement was made, or in the first full calendar year after the disbursement was made;
- (ii) 80% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;
- (iii) 60% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 40% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 20% of the disbursed amount if the Employment Shortfall occurred in the fifth full calendar year after the disbursement was made.

The Grantee’s number of Full-time Permanent Employees shall be deemed to be the greater of the number as of the last payroll date in the month of December for such year or the average employment for the 12 month period computed by quarter.

Baseline Employment	50
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A	B
Reporting Date	Employment Goals
February 1, 2012	50+X+Y
February 1, 2013	50+X+Y

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.5 above (i.e. X=15, and Employment Goals shall equal $50 + X = 65$] if the Second Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Second Disbursement has not yet been made then X=0.

Y = Grantee's Employment Increment that will be the basis of the Third Disbursement of the Grant as described in section C.5 above (i.e. Y=15, and Employment Goals shall equal $[50 + X + Y = 80]$ if the Third Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Third Disbursement has not yet been made then Y=0.

IV. Statutory Basis

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms.

As a result of this project, the Company will maintain its employment level of 50 Full-time Permanent Employees and create 30 new jobs.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

The Company considered relocating its operations to Pennsylvania. ESD's assistance helped to reduce costs and make the project feasible in New York.

3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.

Evaluated over a seven-year period, the following are anticipated project impacts (dollar values are present value):

- Fiscal benefits to NYS government from the project are estimated at \$2,182,946;
- Fiscal cost to NYS government is estimated at \$200,000;
- Project cost to NYS government per direct job is \$3,302;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$2,590;
- Ratio of project fiscal benefits to costs to NYS government is 10.91:1;
- Fiscal benefits to all governments (state and local) are estimated at \$3,676,499;
- Fiscal cost to all governments is \$200,000;
- All government cost per direct job is \$3,302;
- All government cost per total job is \$2,590;
- The fiscal benefit to cost ratio for all governments is 18.38:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$20,907,512, or \$270,721 per job (direct and indirect);
- The economic benefit to cost ratio is 104.54:1;
- Project construction cost is \$4,179,000 which is expected to generate 51 direct job years and 23 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.28 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

(See Project Summary Benefit-Cost Evaluation attached for detail and definitions.)

4. The requirements of Section 10(g) of the Act are satisfied.
No residential relocation is required because there are no families or individuals residing on the site.

V. Environmental Review

The Town of Big Flats Planning Board, as lead agency, has completed an environmental review of the proposed project, pursuant to the requirements of the State Environmental Quality Review Act (“SEQRA”) and the implementing regulations of the New York State Department of Environmental Conservation. This review found the project to be an Unlisted Action, which would not have a significant effect on the environment. ESD staff reviewed the supporting materials and concurs. It is recommended that the Directors make a Determination of No Significant Effect on the Environment.

VI. Affirmative Action

ESD’s Non-discrimination and Affirmative Action policy will apply. The Grantee is encouraged to include minorities and women in any job opportunities created by the project, and to solicit and utilize Minority and Women-owned Business Enterprises for any contractual opportunities generated in connection with the project.

VII. ESD Financial Assistance Subject to Availability of Funds and Additional Approval

The provision of ESD financial assistance is contingent upon the availability of funds and the approval of the State Division of the Budget.

IX. Additional Submissions to Directors

Resolutions
New York State Map
Project Finance Memorandum
Cost-Benefit Analysis

November 18, 2010

Big Flats (Chemung County) – Talisman Energy USA Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

RESOLVED, that on the basis of the materials presented to this meeting, a copy of which is hereby ordered filed with the records of the Corporation, relating to the Talisman Energy USA Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Sections 16-m and 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of family farms;
2. The project would be unlikely to take place in New York State without the requested assistance;
3. The project is reasonably likely to accomplish its stated objectives and that the likely benefits of the project exceed costs;
4. There are no families or individuals to be displaced from the project area; and be it further

RESOLVED, that the Corporation does hereby adopt, subject to the requirements of Section 16(2) of the Act, the proposed General Project Plan (the “Plan”) for the Project submitted to this meeting, together with such changes therein as the Chairman and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, a copy of which Plan, together with such changes, is hereby ordered filed with the records of the Corporation; and be it further

RESOLVED, that upon written finding of the Chairman and Chief Executive Officer of the Corporation or his designee(s) that no substantive negative testimony or comment has been received at the public hearing held on the Plan, such Plan shall be effective at the conclusion of such hearing, and that upon such written finding being made, the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Talisman Energy USA Incorporated a grant for a total amount not to exceed Two Hundred Thousand Dollars (\$200,000) from the Empire State Economic Development Fund, for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the Chairman and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

RESOLVED, that the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, subsequent to the making of the grant, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the grant as he or she may deem necessary or appropriate in the administration of the grant; and be it further

RESOLVED, that the provision of ESD financial assistance is expressly contingent upon: (1) the approval of the Public Authorities Control Board, if applicable, and (2) receipt of all other necessary approvals; and be it further

RESOLVED, that the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Corporation to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions.

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November 18, 2010

Big Flats (Chemung County) – Talisman Energy USA Capital – Empire State Economic Development Fund General Development Financing (Capital Grant) – Determination of No Significant Effect on the Environment

RESOLVED, that based on the material submitted to the Directors with respect to the Talisman Energy USA Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

* * *

FINANCE MEMORANDUM

TO: Frances Walton
CC: Sheila Robinson
FROM: Jonevan Hornsby
DATE: October 8, 2010
RE: Talisman Energy USA Inc. (formerly Fortuna Energy Inc.)

Grantee

- Name: Talisman Energy USA Inc. (the "Company")
- Corporate Location: Horseheads, NY
- Corporate Form: Corporation
- Ownership: Wholly-owned by Talisman Energy Inc. (the "Parent")
- Nature of Business: Natural gas production.

Financial Information

- Industry: Drilling Oil and Gas Wells
- NAICS Code: 213111
- ESDC credit score: Fair- (1)
 - Profitability:
 - Sales: Decreasing over 3 year historical period
 - Profit Margin: Below the industry median in most recent year
 - EBITDA: Positive but decreasing over 3 year historical period
 - Net Income: Increasing over 3 year historical period
 - Liquidity:
 - Current ratio: Below the industry median and below 1.0 in most recent full year of operations
 - Solvency:
 - Total debt/total assets: Above the industry median but less than 65%
 - EBITDA/Debt Service: Adequate
 - Other:
 - Audit status: All financials are unaudited.

Talisman Energy USA Inc.

	<u>Industry Median</u>	Years Ending December 31,			
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>YTD 2010⁽¹⁾</u>
Net Sales		\$ 228,415,332	\$ 215,399,018	\$ 109,657,817	\$ 117,877,448
EBITDA		\$ 117,574,843	\$ 152,300,643	\$ 36,676,223	\$ 84,762,107
Pre-tax Profit		\$ (120,748,733)	\$ (86,349,121)	\$ (117,227,230)	\$ (28,857,866)
Pre-tax profit/net sales	6.70%	-52.86%	-40.09%	-106.90%	-24.48%
Net Income		\$ (107,234,607)	\$ (23,676,471)	\$ (79,446,290)	\$ (28,862,149)
Current Assets		\$ 61,126,399	\$ 70,844,855	\$ 100,218,118	\$ 152,947,101
Current Liabilities		\$ 185,625,320	\$ 469,452,839	\$ 607,345,792	\$ 592,748,323
Current Ratio	1.10x	0.33x	0.15x	0.17x	0.26x
Total Assets		\$ 549,050,916	\$ 767,408,829	\$ 1,330,976,181	\$ 2,062,588,377
Long-term Debt		\$ 50,000,000	\$ 300,000,000	\$ 802,592,301	\$ 1,303,141,250
Total Debt		\$ 50,000,000	\$ 490,000,000	\$ 802,592,301	\$ 1,303,703,738
Total Liabilities		\$ 542,997,324	\$ 785,031,708	\$ 1,428,045,350	\$ 1,914,519,695
Net Worth		\$ 6,053,592	\$ (17,622,879)	\$ (97,069,169)	\$ 148,068,682
Total debt/total assets	33.40%	9.11%	63.85%	60.30%	63.21%
EBITDA/Debt Service		2.51x	0.67x	1.31x	NM

(1) Six Months Ending June 30, 2010; unaudited.

*Financials are unaudited.

Additional Information

The Company is receiving substantial financial support from its parent, Talisman Energy Inc., in the form of loans. Without this financial support, the Company's sustainability is highly questionable; however, the Parent is reluctant to provide a parent guarantee.

