

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G21-17

**RESOLUTION OF THE ALASKA
INDUSTRIAL DEVELOPMENT AND EXPORT
AUTHORITY APPROVING THE
MONETIZATION AND/OR DIVESTITURE OF
ASSETS OF, OR THE EQUITY INTERESTS IN,
MUSTANG HOLDING, LLC, AND
APPROVING AN AMENDED 2021 BUDGET**

WHEREAS, the Board of the Alaska Industrial Development and Export Authority (the “Authority”) previously approved participating in the Mustang Oil Field development with Brooks Range Petroleum Corporation (“BRPC”) as a development finance project (the “Project”) under AS 44.88.172, with the Authority’s participation being through Mustang Road LLC (“MRLLC”) and Mustang Operations Center 1 LLC (“MOC1”) under Resolutions G12-08 and G14-09, respectively;

WHEREAS, in Resolution No. G18-05, adopted May 31, 2018, the Board approved a restructuring of the Authority’s involvement in the Mustang Oil Field project with the Authority selling its membership interest in MRLLC and MOC1 to Caracol Petroleum LLC (“Caracol”) an affiliate of BRPC, and the Authority providing financing to Caracol for its purchase of the membership interests in MRLLC and MOC1;

WHEREAS, consistent with Resolution No. G18-05, on May 24, 2019, the Authority closed on the transactions to restructure the Mustang Oil Field project and entered into a Loan Agreement and other ancillary agreements with Caracol, BRPC, and other parties;

WHEREAS, Caracol and BRPC encountered certain operational and cash flow difficulties in proceeding with the development of the Mustang Oil Field, although Caracol and BRPC were successful in achieving first oil production from the field;

WHEREAS, Caracol's difficulties led it to not make the initial payment due the Authority under the Loan Agreement and to not satisfy other obligations owed to the Authority under the loan documents, and the Authority notified Caracol it was in default and the Authority accelerated the indebtedness Caracol owed under the Loan Agreement;

WHEREAS, in Resolution No. G20-26, adopted September 16, 2020, the Board authorized the Executive Director and Authority staff to work with creditors to restructure the Project's debt and financial obligations;

WHEREAS, on October 5, 2020 the Authority recorded a "Corrective-Trustee's Deed and Assignment" foreclosing on certain of the Authority's collateral for the Project (the "Foreclosure");

WHEREAS, since the Foreclosure, the Authority has worked diligently with other stakeholders to stabilize the Project and determine the best path forward for the Project including the disposal of assets, as provided by AS 44.88.080(8), all while keeping the Board advised of its efforts;

WHEREAS, in Resolution No. G21-04, adopted February 10, 2021, the Board approved an annual budget and updated Project plan for calendar year 2021;

WHEREAS, the Executive Director and staff of the Authority have amended the annual budget in accordance with all applicable laws such as 3 AAC 100.050(b)(9) (Applicability of regulations);

WHEREAS, the Executive Director and staff of the Authority recommend that the Board approve the amended annual budget and Project plan, as may be non-materially amended and approved by the Executive Director in his discretion; and

WHEREAS, a restructuring of the Mustang Oil Field development as outlined herein is in furtherance of the Authority's statutory mission and advances the public interest.

NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. The Board concludes monetization and/or divestiture of the foreclosed Project collateral or Mustang Holding, LLC is in the best interest of the Authority, and it is most likely to result in furthering the Authority's mission and statutory purposes.

Section 2. The Board authorizes the Executive Director and Authority staff to enter into negotiations with such parties as the Executive Director deems appropriate with the intent of developing a term sheet for subsequent approval by the Board to monetize the foreclosed collateral or otherwise divest AIDEA of its interest in Mustang Holding, LLC. Such a proposed transaction should maximize return or minimize loss to AIDEA, further AIDEA's mission and statutory purposes, and recognize the severe financial difficulties the Project faces.

Section 3. The amended annual budget and project plan, as provided to the Board, is approved, and the monetary amounts contained in the amended annual budget will be made available for the Project in the amounts and to the relevant provider or contractor as noted. The Executive Director is authorized to make any non-material changes to the amended annual budget in his discretion to carry out the project plan.

Section 4. The Board authorizes the Executive Director to sign all documents and instruments, and to take such other actions, as may be necessary or convenient in implementing this Resolution.

Dated at Anchorage, Alaska this 12th day of August, 2021

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

Chair

SEAL
ATTEST:

Secretary



MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority (AIDEA)

From: Alan Weitzner
Executive Director

Date: August 12, 2021

Subject: Divestiture of Mustang Holding LLC and Annual Budget
Resolution No. G21-17

AIDEA staff is requesting the Board's approval to commence negotiations for the divestiture of Mustang Holding LLC per AS 44.88.080. Additionally, staff is requesting an upward revision to the Mustang Holding LLC budget for the remainder of the 2021 calendar year. The AIDEA Board has previously approved participating in the Mustang Oil Field Development (the "Project") as a development finance project under AS 44.88.172 in Resolutions G12-08, G14-09 and G20-02.

AIDEA MISSION

AIDEA's purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. The opening of new areas for natural resource development is important in supporting economic development in connection with the extraction, transportation and production of Alaska's abundant natural resources, including oil and gas resources.

Under AS 44.88.172(a), AIDEA is entitled to expend money from the economic development account to finance, acquire, manage and operate development projects that the Authority intends to own and operate or to provide development project financing, all for projects defined under AS 44.88.900(13)(A), including oil and gas development.

The Mustang Field Development, as owned through AIDEA's wholly-owned subsidiary Mustang Holding LLC, meets AIDEA's criteria for mission suitability by:

- Promoting new infrastructure development and sustaining existing Alaska infrastructure including the Trans-Alaska Pipeline System;
- Increasing the economic development opportunity on the North Slope;
- Enhancing returns to the State through increased resource development, in this case specifically increased oil and gas royalties estimated to exceed \$200 million in royalties and taxes to the State of Alaska over an estimated economic life of 20-30 years; and
- Providing opportunities for employment and growth within Alaska's oil and gas services sector.

BACKGROUND

AIDEA initially provided \$20 million of financing for the development of the Mustang Road and Pad (MRLLC) via Resolution G12-08 which was followed by an additional \$50 million directed towards the Mustang Operations Center (MOC1) processing facility via Resolution G14-09.

In May 2018 the AIDEA Board passed Resolution G18-05 which approved a restructuring of AIDEA's involvement in the Project with the Authority selling its membership interests in MRLLC and MOC1 to Caracol Petroleum LLC ("Caracol"), an affiliate of Brooks Range Petroleum Corporation, and the Authority providing financing under a loan agreement to Caracol for its purchase of the membership interests in MRLLC and MOC1 ("Loan Agreement"). Due to extended negotiations and fulfillment of conditions precedent for funding by Caracol, this restructuring and refinance of the field development was only finalized in May 2019.

In October 2019, Caracol and BRPC achieved first oil production from the field having produced approximately 11,000 barrels of oil over a 27-day period. In doing so, Caracol and BRPC significantly exceeded its operating and capital budget creating material cash flow deficiencies to meet their ongoing financial obligations and plan of development. Caracol's parent company, Alpha Energy Holdings, declined to provide additional funding to meet the deficiencies.

Caracol's financial difficulties, brought on by the obligations incurred by BRPC, resulted in the company defaulting on its initial payment due to the Authority under the Loan Agreement and to not satisfy other obligations to the Authority under the loan documents. The Authority subsequently took action to accelerate the indebtedness Caracol owed under the Loan Agreement.

AIDEA's efforts to resolve Caracol's funding requirements continued in January 2020 with AIDEA Board passing Resolution G20-02 authorizing the Authority to finalize and sign an amended Loan Agreement with Caracol, subject to Alpha Energy Holdings Ltd. providing new capital in the minimum amount of \$60 million as proposed by Alpha Energy Holdings to AIDEA. This amended agreement was structured to resolve Caracol's outstanding obligations to all creditors and to pursue a development drilling program on the Southern Miluveach Unit (SMU).

By March 2020, Caracol and Alpha Energy Holdings failed to meet the conditions precedent to the restructured agreement, including the \$60 million financing requirement. As a result, the Authority began non-judicial foreclosure proceedings in May 2020 against the relevant real and personal property used by the Project in accordance with the financing agreements. The foreclosure was concluded on September 23, 2020 with all foreclosed assets transferred to Mustang Holding LLC.

PROJECT BUDGET AND PLAN

The Mustang Holding LLC and Project revised calendar year 2021 budget considers actions and costs that a prudent North Slope of Alaska Oil & Gas project operator must take. These additional costs are consistent with the "Southern Miluveach Unit – 8th Plan of Development, Disapproval with Proposed Modifications" dated December 4, 2020. DNR, in its decision, wrote "...the SMU

must be maintained by Mustang Holding or its successor operator in its current cold shutdown status...”.

These cold shutdown costs include but are not limited to the storage of the MOC1 facility, the ongoing and mandatory Project monthly surveillance, site and infrastructure preservations as well as the regulatory required mandatory bonding a North Slope Operator must establish.

The revision allows for those activities, noted above, and for anticipated professional fees regarding commencement of negotiations concerning the divestiture Mustang Holding LLC pursuant to AS 44.88.080(8) which are expected to conclude on or before the end of calendar year 2021. Specifically, the statute states:

“In furtherance of its corporate purposes, the authority has the following powers in addition to its other powers: (8) to sell, by installment sale or otherwise, exchange, donate, convey, or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, including a project, when, in the judgment of the authority, the action is in furtherance of its corporate purposes;”

The revised 2021 Budget is a \$0.5 million increase to the previously approved \$1.59 million budget in Resolution G21-04. The revised budget at \$2.1 million includes unforeseen pad remediation work, property taxes owed and owing by MHLLC and for anticipated professional fees regarding the competitive sale process pursuant to AS 44.88.080(8) and Resolution G21-17. In order to ensure that the Project is responsibly managing its cold-shutdown status, funding has been provided by AIDEA via proceeds received from the sale of certain equipment and assets per Resolution G20-02.

RECOMMENDATION

In order to achieve the economic development benefits to the state from the Mustang Field Development, AIDEA staff recommends approval of Resolution No. G21-17 to commence negotiations concerning the sale of the foreclosed assets and/or divestiture of Mustang Holding LLC pursuant to AS 44.88.430.

Additionally, AIDEA staff recommends approval of the revised Mustang Holding LLC 2021 capital budget at \$2.1 million and approval for the transfer of additional funds in the amount of \$0.85 million for the Project from the Revolving Fund in order to responsibly carry the Project in cold-shutdown status through calendar year 2021.

REVISED MUSTANG HOLDING LLC 2021 BUDGET SUMMARY

Estimated Monthly Carry Costs (\$)	Description	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	2021	
	Infrastructure & General	9,000	6,000	6,000	1,500	1,500	1,500	2,000	150,000	2,000	2,000	3,000	3,000	187,500	
	Storage / Preservation Contracts	49,230	39,987	27,702	28,937	28,137	31,397	30,397	28,397	28,397	28,397	27,797	27,797	376,572	
	General & Administrative	23,265	42,562	9,870	39,673	335,073	457,270	277,293	119,741	61,692	57,842	54,039	54,039	1,532,359	
TOTAL Monthly Carry		\$ 81,495	\$ 88,549	\$ 43,572	\$ 70,110	\$ 364,710	\$ 490,167	\$ 309,690	\$ 298,138	\$ 92,089	\$ 88,239	\$ 84,836	\$ 84,836	\$ 2,096,431	
Average Monthly Carry															\$ 174,703