



MEMORANDUM

TO: Board Members
Alaska Industrial Development & Export Authority

FROM: John Springsteen
Chief Executive Officer / Executive Director

DATE: September 19, 2018

RE: Revised Finance Plan – Mustang Field

BACKGROUND & PROJECT STATUS

The AIDEA Board approved the initial investment in Mustang Operations Center 1 LLC (MOC1LLC) April 2014 with Resolution No. G14-09. After the price of oil declined precipitously in 2015, and anticipated resources from a bank loan and tax credits were not available, AIDEA entered into a “workout” of the MOC1LLC financing.

In the years following the original investment, global oil market conditions deteriorated, originally committed debt financing did not come through, long term financing for new, independent oil and gas projects became more difficult to obtain and other factors relevant to AIDEA’s investment have changed.

In October 2015, MOC1LLC sought financing to “monetize” the approximately \$20M it had earned under the State’s tax credit program. After discussions with both a private lender and the Department of Revenue (DOR), MOC1LLC approved and entered into a Tax Credit Note with DOR which anticipated repayment from future tax credit proceeds.

In February of 2016, AIDEA, BRPC and the Other Working Interest Owners approved a “warm standby” plan for the MOC1 project, subsequent to which AIDEA’s financing team worked with BRPC in efforts to secure additional financing for the completion of MOC1 and for necessary development drilling in the SMU. Although the contractual warm standby period expired on November 30, 2016, BRPC and AIDEA continued to pursue financing, while BRPC developed an improved plan for drilling. Nearby successes continued to support and reinforced the Mustang Field’s development potential. However, discussions with potential financing partners made it clear that long-term third-party financing will only be available for MOC1 and the SMU with a definitive demonstration of the capacity/capability of the Mustang Field.

BRPC, working with Governor Walker’s Administration, and with a new integrated project team of Alaskan oilfield vendors and contractors, developed a plan to achieve production status, through the completion of a certified well in the Mustang Field. In order to support this plan, the

AIDEA Board approved an additional investment of \$2.5 million into MOC1LLC with Resolution No. G17-08 on June 29, 2017. This investment provided the resources for MOC1LLC to preserve the now completed equipment and other collateral, to secure the original investment, and to provide critical surface infrastructure directly in support of the Mustang Field well completion.

BRPC's project team completed the North Tarn 1A well flow test successfully in late November 2017, with test flows at 2-3 times the threshold minimum for a commercially supportable well.

BRPC's successful certified well ensured that the project was ready for full field development – enabled by a full recapitalization of the working interest ownership in the Southern Miluveach Unit. With that foundation, AIDEA and the Southern Miluveach Unit parties (BRPC and its WIOs) entered into negotiations to restructure and recapitalize the project – reaching agreement on a term sheet early in Q2 2018.

In order to facilitate that development and to preserve the value of AIDEA's investment and collateral, it was determined that AIDEA should convert its interest from ownership to a loan. Through Resolution No. G18-05, The Authority was authorized to sell its membership interests in MOC1, and associated company Mustang Road LLC, to Caracol, and to provide financing by a loan of \$64M for the purchase of these membership interests (Loan).

The entire financial restructuring of the program and particularly the recapitalization of Caracol through a public stock issuance by its parent company, Alpha Energy Holdings LTD, was premised on securing an extension of the DOR tax credit Note to MOC1LLC. None of the new financing can be accomplished with a potential (or actual) default on the Note overhanging the transactions. Consequently, AIDEA entered into discussions with DOR regarding a maturity date extension or other resolution of the MOC1LLC Note.

AIDEA's project finance team worked with DOR to structure a plan responsive to DOR's credit requirements and sufficient to enable the Alpha financing, and the overall recapitalization program, to proceed. In order to keep the MOC1LLC tax credit loan within DOR's credit standards, AIDEA will provide a commitment to fund payoff of the DOR loan at maturity – after applying all tax credit receipts and other available revenues. The revised maturity date for the loan will be the earlier of availability of funds under the HB331 tax credit bonding program or December 31, 2020. If AIDEA does fund payoff to DOR, up to \$10.0M of any payoff will be added to the principal on the Caracol loan and repaid to AIDEA on the same amortization schedule as the original \$64M loan.

Based on AIDEA's guaranty, the interest rate on the MOC1LLC tax credit note will drop from 7.00% to 3.0%..

RISKS IF THE RESTRUCTURING / REFINANCING PROGRAM IS NOT COMPLETED

The restructuring program can only be implemented if ALL of the transactions are successfully completed: the Alpha financing, the AIDEA-Caracol purchase/sale and financing, and the

AIDEA-DOR-MOC1LLC agreements. AIDEA and Alpha have completed the core documents and could sign the Purchase and Sale Agreement and Option Agreement as soon as the DOR-MOC1-AIDEA agreements are completed. Alpha's investment bankers are prepared to take the new stock issue to market immediately, in a process that takes about three weeks, during which shareholder approval would be secured, the merger of other WIO interests into Caracol (in exchange for Alpha stock), AIDEA's Alpha stock options and other financing elements would be completed.

If, for some reason, the Mustang Field restructuring is not accomplished, there's a high probability that the entire enterprise will fail, with negative impacts on all parties:

- The roughly \$1.3B of estimated oil production revenues from the Mustang Field would be at a minimum delayed by two or more years or, as likely, lost indefinitely. State royalties and production taxes from the Mustang Field would, of course, suffer the same fate.
- BRPC and related companies in Alaska would likely be forced into bankruptcy
- There is a high potential of litigation being initiated by certain Caracol parties against AIDEA and the State of Alaska
- MOC1LLC (and its related entity MRLLC) would cease to be "going concerns" and would be liquidated - through bankruptcy or otherwise
- DOR would be forced to litigate to seek payment from MOC1LLC, with the only security interest being the tax credit certificates, and an unsecured interest in any recovery of other MOC1LLC assets. Since AIDEA does have a secured interest in all of the other MOC1LLC assets, and the liquidation would occur at "fire sale" values, it's unlikely that DOR would recover anything beyond the certificates from MOC1LLC.
- AIDEA would initiate processes to liquidate its collateral in all BRPC-related North Slope holdings, but the value of those holdings would be substantially diminished from what they would be if the Mustang Field were producing oil.
- DNR would likely initiate procedures to cancel or otherwise invalidate all of the leases and other holdings related to the SMU, MOC1LLC and MRLLC, including the existing road and pad.
- AIDEA would be required to recognize an impairment loss in the FY18 financial statements for the 1% working interest we received thru our 100% ownership interest in MRLLC. The loss could very likely be approximately \$10 million. The value of the 1% working interest if there was not a plan of development for the field would be difficult to support.
- AIDEA would likely also be required to recognize an impairment loss in the FY18 financial statements related to our investment in MOC1. The loss could be \$52.5 million (our investment) if we cannot provide solid evidence of value in our collateral. As with MRLLC, without a plan for developing the field, substantiating any value of field assets would be difficult. Although MOC1 has equipment we do not have a current value of the equipment that we could use to support our investment. A formal report would need to be done.

- With the change in AIDEA’s dividend statute approved by the legislature, impairment losses related to our investment in the Mustang field would be a reduction of statutory net income. This could result in no dividend to the State in FY20.

In summary, failure to complete and close these transactions in the next 30 days will likely result in significant losses to the WIOs, AIDEA, DOR and the State – and kick off a protracted period of litigation – with hundreds of millions of dollars of opportunity cost for the Alaskan economy.

REVISED MUSTANG FIELD FINANCE PLAN

With the modifications noted above, the Revised Mustang Field Finance Plan incorporates the following key elements:

- AIDEA sells MRLCC and MOC1LLC interests to Caracol, with “seller financing”
 - AIDEA’s interest converts from LLC membership interests to a secured loan – no additional AIDEA cash invested
- Mustang project sponsors re-organize / increase funding capacity
 - WIOs transition to stock in publicly traded company – Alpha Energy Holdings Limited
 - Creates single WIO – Caracol Petroleum LLC – Alaska LLC 100% owned by Alpha
 - Enables funding through Alpha stock sales on Singapore Stock Exchange – with funding through Phase 1 drilling committed to Caracol
 - Reserve-based lending and additional equity support full field development
- Mustang Field enters production phase in Q1 2019
 - Accelerates production through use of Early Production Facility, trucking then pipeline connection
 - Peak production achieved by 2020 with major drilling programs in 2019 and 2020
- AIDEA MRLCC and MOC1LLC ownership interests sold to Caracol
 - \$64.0mm
 - \$52.5M MOC1
 - \$ 8.5M MR
 - \$ 3.0M AIDEA accrued dividends, transaction costs, etc.
- AIDEA Term Loan to Caracol finances MRLCC + MOC1LLC acquisition
 - \$64.0M + capitalized interest (est. \$3.3M)
 - Final maturity August 1, 2026
 - Scheduled debt service – 29 level quarterly payments
 - Interest rate initially 8.0%, then the greater of 8.0% or Caracol’s reserve-based lenders’ rate + 3.00%
 - Caracol funds reserve equal to one quarter’s schedule debt service by 9/30/19
 - AIDEA collateral equal to currently held security:
 - All Caracol North Slope assets
 - All MOC1 and MR assets
- Alpha Option Grant / Funding Obligations
 - Alpha grants options to AIDEA equal to 5.0% of Alpha outstanding shares at Closing

- Alpha funds Mustang Phase 1 (2019 drilling) development - \$15M
- BRPC / Caracol Performance Obligations
 - Phase 1 Drilling program (2019)
 - Crude oil production of at least 961 BOPD by 9/1/19 with a target of 2,000 BOPD
 - Phase 2 Drilling program (2020)
 - Crude oil production of at least 1,462 BOPB by 6/1/2020 with a target of 5,000 BOPD
- DOR/MOC1/AIDEA/Caracol Tax Credit Loan Structure
 - DOR / MOC1 Note modified
 - Maturity date will be the earlier of:
 - 1) the date proceeds from bonds issued under HB 331 are available,
 - (2) the date a decision adverse to the State of Alaska in the HB 331 litigation by a judgment, decree, or order becomes final and not subject to further appeal; or
 - (3) December 31, 2020
 - (2) above will not apply in the event that there is an adverse decision in the HB 331 litigation and the State of Alaska chooses not to appeal the adverse decision.*
 - Interest rate on the Note reduced to 3.0%
 - Modifications to allow certain transfers of MOC1 assets
 - Other modifications to ensure default provisions are not triggered prior to Maturity
 - AIDEA Guaranty Agreement
 - Payoff of DOR/MOC1 note “gap” after tax credit proceeds are applied
 - If the “gap” exceeds \$10M, AIDEA will be responsible for paying DOR in full and the excess over \$10M will not be added to the Caracol loan. AIDEA will bear the excess amount to the extent such excess is not later recovered from any still outstanding MOC1 tax credit certificates.
 - Caracol additional loan capacity to repay AIDEA Guaranty Agreement payments to DOR
 - Up to a \$10M added to Caracol Term Loan
 - Amortized in same manner as original \$64M

If major additional capital is required to complete a modified MOC1 facility – based on the updated production facility planning process – it is likely that financing would be secured by BRPC/SMU WIOs through long-term project financing with private investors providing either debt or equity. AIDEA is not be committed to lead or participate in such a financing.

AIDEA MISSION SUITABILITY

Continuing to support the Mustang Field project is consistent with AIDEA’s mission and also is supportive of the State’s interest in independent oil development on the North Slope. If approved, the next phase of the project would represent a roughly \$50 million injection of funds in late 2018 and early 2019 into Alaska’s economy and the oil sector that has been particularly hard hit by global market forces and State government fiscal challenges. The spending may result in up to 100 oil sector jobs associated with the proposed activities (EPF/MOC1 facility integration and operations plus drilling).

From an intermediate term perspective, we understand that the Mustang Field and MOC1 (and the adjacent ASRC Placer field – which may also flow through MOC1) represent the only prospect for additional oil flow into TAPS from the independent holdings west of Kuparuk until the larger projects by Oil Search, ENI and others are developed. The revised Mustang Field Full Development Program is projected to generate \$230 million of State of Alaska royalties over the 20 year program period. Total program expenditures (drilling, facility capex, opex) are projected be greater than \$750 million.

AIDEA FUNDING CAPACITY

The proposed \$10 million loan capacity commitment to fund the DOR Guaranty Agreement represents less than 1% of AIDEA’s Revolving Fund balance sheet, and sufficient liquid resources are expected to be available to make this investment (to the degree necessary) between now and December 31, 2020.

FINANCE PLAN ELEMENTS (AS 44.88.173. Finance plan. (a) and (b))

The most recent modifications to the original April 2014 Finance Plan are summarized in this portion of the memo. Consistent with the original plan, AIDEA’s Mustang Field investment is expected to be repaid by debt service payments by Caracol. However, AIDEA’s Mustang Field investment will convert from MOC1LLC and MRLLC Preferred Equity to a Caracol Loan.

Total Cost of the Project

Description of the Sources of Funding for Total Project Cost

The revised plan closes off AIDEA’s investment in MOC1LLC and MRLLC with the restructuring / recapitalization, as summarized in the table below:

Mustang Field Project Costs & Sources of Funds (\$mm)	Current	Finance Plan Revisions	Total
MOC1 + MR project costs	\$64.0	\$0.0	\$64.0
AIDEA MOC1LLC + MRLLC Membership	\$ 64.0	\$ (64.0)	\$ -
AIDEA - Caracol Loan	-	64.0	64.0
Total Sources of Funds	\$ 64.0	\$ -	\$ 64.0

Estimate of Operational Costs of the Completed Project

Description of the Sources of Money for Operational Costs

The current estimate of cost for project operations is approximately \$11.0mm per year. Operational costs will be paid from BRPC Mustang Field oil sales revenues, estimated to be \$42.0mm in the first year.

Identify method of financing that minimizes cost to the state

The revised Mustang Full Field Development Plan and the revised MOC1LLC Finance Plan have the effect of minimizing the cost to the state because the project will be funded by revenues from private industry users of the project.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G18-11

RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING AN EXTENSION OF THE MATURITY DATE ON A DEBT MUSTANG OPERATIONS CENTER 1 LLC OWES THE ALASKA DEPARTMENT OF REVENUE, AUTHORIZING THE AUTHORITY TO PROVIDE A GUARANTY OF THE DEBT, AND AUTHORIZING THE AUTHORITY TO INCREASE THE LOAN TO CARACOL PETROLEUM LLC RELATED TO THE SALE OF THE AUTHORITY'S MEMBERSHIP INTERESTS IN MUSTANG OPERATIONS CENTER 1 LLC AND MUSTANG ROAD LLC BY AN AMOUNT NOT TO EXCEED \$10 MILLION, ALL IN SUPPORT OF THE MUSTANG OIL FIELD DEVELOPMENT PROJECT

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”) through two development finance projects under AS 44.88.172, with one project being the construction of the Mustang road and pad through Mustang Road LLC (“MRLLC”), and the other project being the development of an oil processing facility through Mustang Operations Center 1 LLC (“MOC1”);

WHEREAS, in Resolution No. G18-05, adopted May 31, 2018, the Board approved of a restructuring of the Mustang projects with the Authority selling its membership interests in MRLLC and MOC1 to Caracol Petroleum LLC (“Caracol”) 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, the Executive Director on behalf of the Authority negotiated and executed a membership interest purchase and sale agreement with Caracol and negotiated a loan agreement with Caracol that will be executed at the closing of the transaction when all of the conditions to closing have been satisfied or waived;

WHEREAS, one of the conditions to closing the transactions is addressing a pre-existing debt MOC1 owes to the State of Alaska Department of Revenue (“DOR”);

WHEREAS, obtaining an extension of the current maturity date for MOC1’s debt to DOR will satisfy a condition to closing the Authority’s transactions with Caracol;

WHEREAS, if the Authority provides a guaranty of MOC1’s debt, DOR will extend the maturity date on the MOC1 debt to the earlier of: (1) the date proceeds from bonds issued under Chapter 33 of the 2018 Session Laws of Alaska (“HB 331”) are available for payment to MOC1 to satisfy tax credit certificates issued by the State of Alaska; (2) the date a decision adverse to the State of Alaska in the HB 331 litigation by a judgment, decree, or order becomes final and not subject to further appeal; or (3) December 31, 2020; provided, however, that subsection (2) above will not apply in the event that there is an adverse decision in the HB 331 litigation and the State of Alaska chooses not to appeal the adverse decision;

WHEREAS, the Board has reviewed a draft of the Guaranty Agreement that the Authority would provide to DOR in order to secure the extension of the maturity date on the MOC1 debt;

WHEREAS, the Authority has the statutory authority to provide the guaranty that DOR is requesting as a part of “development project financing” under AS 44.88.172 and AS 44.88.900(7) since the guaranty would be for a development project the Authority no longer intends to own and operate;

WHEREAS, the Authority can recover from Caracol any amounts it must pay to DOR on the guaranty, up to a maximum amount of \$10 million, by adding the same to the principal of the loan that the Authority is providing to Caracol for its purchase of the membership interests in MRLLC and MOC1;

WHEREAS, pursuant to AS 44.88.173, the staff of the Authority has provided the Board with a revised finance plan for the Mustang project that now incorporates the guaranty to DOR and the additional loan amount to Caracol to recover a payment made on the guaranty; and

WHEREAS, providing the guaranty to DOR will allow the Authority's transactions with Caracol to close, thereby facilitating the restructuring of the Mustang project and the production of oil from the Mustang Oil Field, which in turn will promote economic development and increased job opportunities on the North Slope.

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

Section 1. The revised finance plan for the Mustang project as presented to the Board is approved.

Section 2. The Executive Director, on behalf of the Authority as a member of MOC1, is authorized to approve having MOC1 extend the maturity date on its pre-existing debt owed to DOR.

Section 3. The Authority shall provide a guaranty of the MOC1 debt owed to DOR. The Executive Director is authorized to sign and deliver on the behalf of the Authority the Guaranty Agreement in the form presented to the Board, or with such revisions as the Executive Director determines to be necessary or appropriate. If payment under the finalized Guaranty Agreement is required, the Executive Director is further authorized to pay the amount the Authority owes to DOR under the finalized Guaranty Agreement out of the Economic Development Account of the Revolving Fund.

Section 4. The Executive Director is authorized to execute and deliver any loan documents necessary for the Authority to recover from Caracol any payment the Authority makes to DOR on the guaranty, up to a maximum amount of \$10 million.

Section 5. The Executive Director is authorized and directed to sign all other documents and instruments, and to take such other actions, as may be necessary or convenient in implementing this resolution.

Dated at Anchorage, Alaska this 19th day of September 2018.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



Chair

Secretary