



MEMORANDUM

TO: Board Members
Alaska Industrial Development and Export Authority

FROM: John Springsteen
CEO/Executive Director

DATE: September 19, 2018

SUBJECT: Alpha Energy Holdings Limited Stock Options

Resolution No. G18-12 authorizes the Alaska Industrial Development and Export Authority (“Authority”) to enter into an Options Agreement and retain stock options received as part of the sale of the Authority’s ownership interest in Mustang Road LLC (MRLLC) and Mustang Operations Center 1 LLC (MOC1).

BACKGROUND

MOC1 is a limited liability company formed to develop and construct an oil processing facility (the “Facility”) in the Southern Miluveach Unit (SMU) on Alaska’s North Slope to produce pipeline quality crude oil for sale through the TransAlaska Pipeline System (TAPS). The members of MOC1 are the Alaska Industrial Development and Export Authority (AIDEA) and CES Oil Services Pte. Ltd., a subsidiary of Charisma Energy Services, LLC, both Singapore companies.

MRLLC is a limited liability company whose purpose is to develop, construct, own and operate roads and a gravel pad that will facilitate the production of crude oil and natural gas from the SMU. AIDEA is the sole member of MRLLC.

AIDEA, BRPC and Caracol Petroleum LLC (Caracol) are in the final stages of negotiating a MOC1 restructure by the sale of AIDEA’s interest in MOC1 and MRLLC to Caracol, with AIDEA providing financing for the purchase. AIDEA Resolution No. G18-05 approved this restructure.

Key conditions of the restructure are:

- AIDEA will sell its membership interests in MOC1 and MRLLC to Caracol for \$64 million.
- The sales price will be seller financed in the form of a loan from AIDEA to Caracol (the “Loan”).

- Loan will mature April 1, 2026, accrue interest at 8% with quarterly payments beginning May 1, 2019.
- AIDEA will receive non-transferable, unlisted share options (options) in Alpha equal to 5% of the outstanding shares at the closing of the sale of AIDEA's ownership interest in MOC1 and MRLLC.

Once the sale transaction closes, Caracol will be the sole Working Interest Owner following a planned recapitalization and reorganization of the SMU. Caracol is a wholly-owned subsidiary of Alpha Energy Holdings Limited (Alpha), a publicly-traded Singapore company with its shares listed on the Singapore stock exchange. This restructuring is expected to enhance the financing options to develop the Mustang field.

The Authority's Resolution No. G01-14D Amended and Restated Resolution of the Alaska Industrial Development and Export Authority Relating to Fixed Income Investment Policies governs fixed-income investments made by the Authority. Investment in options is outside of this policy as the options are not fixed-income investments. Therefore, AIDEA's general investment powers and responsibilities established in AS 37.10.071 will apply to investment in Alpha stock options. Most importantly, AS 37.10.071 requires that AIDEA abide by the prudent investor rule in making its investments.

Staff finds that the investment in the Alpha options is consistent with the responsibilities established in AS 37.10.071 and the prudent investor rule. In 1989, the Alaska Attorney General provided AIDEA with an informal opinion that it was appropriate for AIDEA to invest economic development funds in a limited amount in a venture capital enterprise (which turned out to be the Polaris Fund). (1989 Inf. Op. Att'y Gen. (July 26).) The opinion noted that AS 37.10.071 allows for flexibility and leaves the type of investments to the discretion of AIDEA, with the proviso that it must use the ordinary professional prudence expected of an institutional investor. Investment decisions are to be made based on an assessment of the benefit to the fund being invested and the decision-making may include considerations of increasing the probable rate of return or decreasing potential adverse risk. The opinion concluded that it was consistent with the prudent investor rule for AIDEA to put limited amounts of no more two or three percent of the total amount AIDEA has available for investment into "non-traditional investments."

Staff believes the investment in the Alpha options is consistent with the prudent investor rule because the investment represents only a very small portion of the total amount in the Revolving Fund that AIDEA has available for investment. While a valuation of the Alpha options has not been prepared and the number of options AIDEA will receive has not been provided, staff anticipates the options themselves will be valued at a level below two or three percent of the total amount AIDEA has available for investment. It is permissible for AIDEA to put a small amount of its investible funds at risk in a non-traditional investment to seek a greater return than traditional institutional investments would provide.

Moreover, AIDEA will recover the full amount it put into MRLLC and MOC1 through the purchase price that Caracol will pay through the loan AIDEA is providing. AIDEA is making a nominal payment to acquire the Alpha options. The Alpha options were purposefully designed to provide AIDEA with an incentive to restructure the Mustang project by providing AIDEA with an upside potential in the event the Mustang project proves to be successful. AIDEA will only exercise the options if the Alpha share price rises in the market to make it profitable to acquire (and then sell) the actual Alpha shares. If the Mustang project is not successful and the Alpha share price does not rise, AIDEA will leave the options unexercised.

Based on staffs' understandings the Alpha options will be marked to market for financial reporting with unrealized gains or losses reported in the Revolving Fund, consistent with the Authorities other investments. Financial impacts of this investment may also include the impacts of annual foreign currency fluctuations and potential realized gains if the options are exercised and sold in the future.

RECOMMENDATION

Staff recommends adoption of Resolution No. G18-12 authorizing the Authority to enter into the Option Agreement and hold options for Alpha as part of the sale of AIDEA's membership interest in MRLLC and MOC1. This investment is not part of the current investment policy and board approval is necessary for the Authority to continue holding these assets.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G18-12

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY AUTHORIZING RECEIVING AND
RETAINING STOCK OPTIONS IN ALPHA ENERGY HOLDINGS
LIMITED**

WHEREAS, the Board of the Alaska Industrial Development and Export Authority (the “Authority”) previously approved the Authority participating in the Mustang Oil Field development with Brooks Range Petroleum Corporation (“BRPC”) through two development finance projects, 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 authorized the Authority to sell its membership interests in MRLLC and MOC1 to Caracol Petroleum, LLC, a wholly owned subsidiary of Alpha Energy Holdings Limited (“Alpha”), and to provide financing for the purchase of these membership interests;

WHEREAS, the parties developed transaction documents for the sale the Authority’s membership interests in MRLLC and MOC1 and the financing of Caracol’s purchase of those membership interests, which transaction documents included the Authority receiving stock options in Alpha (the “Alpha Options”) as part of the restructuring package;

WHEREAS, Alpha is a Singapore company, publicly traded on the Singapore stock exchange;

WHEREAS, the Authority wishes to retain the Alpha Options as an investment of the Revolving Fund; and

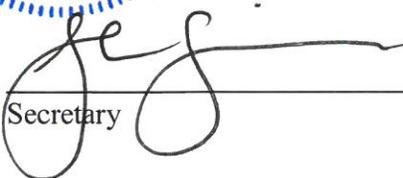
WHEREAS, the Authority may invest funds of the Revolving Fund subject to the requirements of AS 37.10.071, including the prudent investor rule.

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

Section 1. The Board finds that having the Authority acquire and hold the Alpha Options as an investment of the Revolving Fund complies with the prudent investor rule. The investment represents only a small portion of the total Revolving Fund and it is appropriate for the Authority to take a measured amount of greater risk in seeking the greater return the Alpha Options may provide. The Board also notes that the Authority is making a nominal payment to acquire the Alpha Options separate from the sale of the MRLLC and MOC1 membership interests and that the Authority will not make any payment to exercise the Alpha Options unless it is profitable to do so.

Section 2. The Executive Director is authorized to sign all documents and take all other actions necessary for the Authority to acquire the Alpha Options. Once acquired, the Authority is authorized to retain the Alpha Options as an investment of the Revolving Fund.




Secretary


Chair