



MEMORANDUM

Date: March 1, 2018

To: Board Members
Alaska Industrial Development & Export Authority

From: John Springsteen *JS*
CEO / Executive Director

Re: Mustang Road LLC - Resolution No. G18-02
Operating Agreement, Budget, and Line of Credit

RECOMMENDATIONS

The following actions are recommended relating to the Mustang Road LLC (MRLLC):

- Approve a new revised **operating agreement** to replace the existing one;
- Approve a **budget** for the remainder of FY2018;
- Approve provisions for a \$300,000 **line of credit**.

BACKGROUND

As of December 14, 2017, AIDEA acquired all of the membership interests in Mustang Road LLC (MRLLC or the Company) held by the other parties, thereby making AIDEA the owner of 100% of the Mustang Road limited liability company. MRLLC's assets include a gravel road and pad that were constructed by an AIDEA investment to serve the oil and gas development activities in the vicinity of the Southern Miluveach Unit (SMU).

The acquisition included transfer of existing DNR Division of Oil and Gas (DOG) easement and access rights from BRPC to MRLLC. These transfers have been executed by AIDEA and BRPC, and are pending approval by DNR; approval is anticipated by April, 2018. Note: MRLLC has requested an overlaying surface lease/easement from DNR's Division of Mining Land Water (DMLW), which ultimately will replace the DOG easement and access rights.

AIDEA and BRPC have entered into "Road and Pad Use Agreement" which grants BRPC operational use of the road; allows development on the pad; obligates BRPC to maintain this infrastructure, and requires a usage fee payment of \$50,000 per quarter. The commencement of the term of this Agreement will be when DNR approves MRLLC's acquisition of the DOG easement for this Road and Pad, or when the DMLW lease/easement takes effect, whichever is soonest.

REVISED OPERATING AGREEMENT

The Company began in 2013. Under the original MRLLC Operating Agreement, AIDEA was the preferred member and other SMU working interest owners were the common members. The new business arrangement has AIDEA as the sole member. The revised operating agreement supersedes the previous agreement, and restructures MRLLC to recognize that AIDEA is now the sole member and to have MRLLC comply with AIDEA procedures.

The revised operating agreement establishes a management structure for MRLLC that puts AIDEA's Executive Director in charge of the day to day affairs of the Company.

OPERATING BUDGET

The resolution also approves a budget for the operations of MRLLC for the balance of FY2018, until June 30, 2018, as shown in Exhibit A. Board approval authorizes AIDEA's Executive Director and CFO to approve expenditures or commitments contemplated in the approved budget. In addition, the Executive Director may authorize expenditures or commitments of up to \$300,000 that are not contemplated in the approved budget. The FY2018 Budget includes a draw of \$175,000 on this \$300,000 line of credit (see line of credit discussion below). A FY 2019 Budget will be prepared for Board authorization at the end of FY2018, which may include additional draws on this line of credit.

An item of uncertainty is the \$50,000 fee for DMLW Lease Preservation. These property rights have been requested from DMLW, but acquisition timing and potential fees are to be defined. An insurance line item - an allowance of \$25,000 for a policy, over the operational insurance required by BRPC, was recommended from the Department of Risk Management.

LINE OF CREDIT

Currently, MRLLC has no revenue source and no operating capital. The BRPC "Road and Pad Use Agreement" includes a "Quarterly Usage Charge" of \$50,000 paid by BRPC on the first day of the calendar quarter. This charge will become effective on the date that DNR approves MRLLC's acquisition of the DOG easement for the Road and Pad.

The Company requires funding to operate now and for as long it takes for Mustang Road LLC to generate its own revenue. It is anticipated the quarterly usage fees will commence in the timeframe of April 2018. If this occurs, the estimated funds MRLLC needs is less than \$200,000. However, to provide a contingency for delay, additional available funding is recommended.

The proposed \$300,000 line of credit will provide funds to pay for these on-going operational expenses, and provide a funding source, if required, for a delay in revenue. This line of credit will be established from the Economic Development Account of the Revolving Fund (AS 44.88.172) as an interest bearing debt to be drawn by MRLLC as necessary.

The interest rate, repayment requirements, time limit on line availability, disbursement procedures, and other terms and conditions of the line of credit are to be established by the Executive Director. Nevertheless, funds advanced to MRLLC under the line of credit are expected to be repaid with interest only initially, then may begin principal payments one cycle after the commencement of the BRPC Road and Pad Use Agreement and associated revenue. The interest will be at the commercial loan rate.

AIDEA MISSION SUITABILITY

Continuing to support MRLLC is consistent with AIDEA's mission and also is supportive of the State's interest in independent oil development on the North Slope. The road provides access to the constructed pad, which is intended for the development of the Mustang Operations Center 1 (MOC1). This facility will serve as the processing center for oil from the Mustang Field.

The road also provides the opportunity for access to development to the West and North. It provides a starting point for continued expansion to future development in adjacent areas such as Placer, Tofkat and Nuna.

EXHIBIT A - Operating Budget

Mustang Road LLC Operation Budget 2018		Dec 14, 2017- June 30, 2018 FY18 Half Year
Revenue		
AIDEA Funds (from Line of Credit)		\$175,000
Other Funds		\$0
BRPC User Payments* (*assumes DNR approval of MRLLC acquisition of DOG Easement by 3/31/18)		\$50,000
Property Tax Payments (By BRPC)		\$953,369
Total Revenue		\$1,178,369
Expenses		
Lease Preservation Payments		\$55,000
Lease Preservation DOG		\$5,000
Lease Preservation DMLW (estimate)		\$50,000
Taxes		\$953,369
2018 State property tax (Assume none)		\$50,000
2018 Local Property Tax (BRPC)		\$450,000
Past due property tax		\$443,369
Property tax fees and interest		\$10,000
Administration/ Support (AIDEA)		\$67,750
Financing structuring/dev		\$15,000
Accounting, Legal		\$15,000
AIDEA Admin Cost		\$17,750
Consultant (Inc. Survey, valuation)		\$20,000
O&M		\$26,750
O&M		BRPC
Insurance (Operating)		BRPC
Insurance (General Liability)		\$25,000
Utilities		BRPC
Interest Expenses (Assume: 4% Start April 1, 2018, interest only for one quarter)		\$1,750
Other Fees		\$22,500
License/Fees/Misc.		\$10,000
Travel		\$2,500
Contingency		\$10,000
Total Expenses* (*does not include Depreciation Expense)		\$1,125,369
Net Operations		-
Net Revenue Before Depreciation		<u>\$53,000</u>

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G18-02

**RESOLUTION OF THE ALASKA INDUSTRIAL
DEVELOPMENT AND EXPORT AUTHORITY RELATING TO
THE OPERATING AGREEMENT, BUDGET, AND
REVOLVING LINE OF CREDIT FOR MUSTANG ROAD LLC**

WHEREAS, the Alaska Industrial Development and Export Authority (the “Authority”) is 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 and the other project being the development of an oil processing facility;

WHEREAS, the Mustang road and pad was constructed through Mustang Road LLC, an Alaska limited liability company, in which the Authority and other parties were the members;

WHEREAS, in Resolution No. G17-06, adopted on June 19, 2017, the Board authorized the Authority to acquire 100% of the membership interests in Mustang Road LLC;

WHEREAS, effective as of December 14, 2017, the Authority acquired all of the membership interests in Mustang Road LLC held by the other parties, thereby making the Authority the owner of 100% of the limited liability company;

WHEREAS, the operating agreement that deals with the internal management of Mustang Road LLC needs to be revised to reflect that the Authority is now the sole member;

WHEREAS, the staff of the Authority has provided the Board with a proposed Revised Operating Agreement for Mustang Road LLC and the proposed Revised Operating Agreement

contains, among other things, specific provisions that delegate the day-to-day management of Mustang Road LLC to the Executive Director or other staff members;

WHEREAS, under the proposed Revised Operating Agreement for Mustang Road LLC, the Board retains the authority and the obligation to set an annual budget for the company;

WHEREAS, the staff of the Authority has provided a proposed budget for Mustang Road LLC for the period of December 14, 2017 through the end of fiscal year 2018 (June 30, 2018);

WHEREAS, Mustang Road LLC requires a source of funds to pay for its on-going expenses, as it will take time for Mustang Road LLC to generate its own revenues and its own revenues may be sporadic; and

WHEREAS, having the Authority provide a revolving line of credit to Mustang Road LLC in the maximum amount of \$300,000 will afford the limited liability company a means of meeting its on-going expenses.

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

Section 1. The Revised Operating Agreement for Mustang Road LLC in the form presented to the Board is approved. The Executive Director is authorized to sign the Revised Operating Agreement on behalf of the Authority.

Section 2. The budget presented to the Board for Mustang Road LLC from the time period of December 14, 2017 through June 30, 2018 is approved.

Section 3. The Authority is authorized to provide a revolving line of credit to Mustang Road LLC in the maximum amount of \$300,000. The source of the funds for the revolving line

of credit is the Revolving Fund. The revolving line of credit shall be on terms and conditions the Executive Director determines to be appropriate.

Section 4. The Executive Director is authorized to sign all documents and take all actions necessary or expedient in fulfilling the purposes of this Resolution.

Dated at Anchorage, Alaska, this 1st day of March 2018.




Chair


Secretary