MEMORANDUM

To: Board Members
Alaska Industrial Development & Export Authority

From: John Springsteen
Chief Executive Officer / Executive Director

Date: May 31, 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. Mustang Operations Center 1 (MOC1) was designed to serve as the processing center for oil from the Southern Miluveach Unit (SMU), initially the Mustang Field, being developed by Brooks Range Petroleum Corporation (BRPC) and potentially for oil from other adjacent developments.

Subsequent to 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 February of 2016, AIDEA management and BRPC approved a "warm standby" plan for the MOC1 project, subsequent to which AIDEA's financing team has 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 Chief Oil and Gas Advisor 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.

REVISED MUSTANG FULL FIELD DEVELOPMENT PROGRAM

In parallel with planning for the North Tarn 1A well test, BRPC has developed a modified Mustang Full Field Development Program. The new program leverages existing completed wells and elements of the MOC1 facility to enable production and revenues in Q1 2019, using an Early Production Facility ("EPF"). BRPC will drill laterals off of three wells (NT-1A, M-01 and M-02) during 2018, with production flows through the EPF and the MOC1 LACT skid. With the results on the NT-1A flow test as a basis, the estimated flow by Q1 2019 would be ~2,000 barrels of oil per day (BOPD) and by Q4 2019 would be ~5,000 BOPD.

The EPF, which will be a "turnkey" facility provided by a third-party vendor, will be "chartered" with a day rate.

REVISED MUSTANG FIELD FINANCE PLAN

The new Mustang Full Field Development Program is projected to generate production revenues starting in 2019 and achieves "proven/developed/producing" status, supporting a revised Mustang Field Finance Plan. On December 20, 2017, the Department of Natural Resources (DNR) approved North Tarn 1A as a "certified well" and BRPC's 2018 SMU Plan of Development for 2018, removing uncertainty about – and raising the value of – the collateral supporting current and future MOC1 / Mustang Field financing.

The reduced need for immediate production facility capital investment promotes a shift in AIDEA's Mustang Field role from owner to lender.

Discussions with BRPC and Working Interest Owners (including Caracol and its parent entity, Alpha Energy Holdings Limited), resulted in a Revised Mustang Field Finance Plan incorporating the following key elements:

- AIDEA sells its current MOC1LLC membership interests to Caracol for $52.5mm, plus an amount to recover AIDEA investment costs.
- AIDEA sells its current MR LLC membership interests to Caracol for $8.5mm, plus an amount to recover AIDEA investment costs.
- AIDEA provides financing to Caracol for their purchase of the MOC1LLC and MR LLC interests ($64.0mm)
- The combined AIDEA loans, totaling $64.0mm (plus any amount of AIDEA incurred interim costs plus interest), would be amortized over the production period.
- In addition to repayment of interest and principal, AIDEA would receive options in Caracol's parent company, Alpha Energy Holdings Limited.

- As collateral for the loans, AIDEA maintains its security interest in all BRPC North Slope assets and in the MOC1LLC assets.
- Alpha Energy Holdings Limited secures the capital required for Mustang Field drilling.

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 $15 million injection of funds by Q1 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 could also flow through MOC1) represent the only prospect for additional oil flow into TAPS from the independent holdings west of Kuparuk until larger projects by Armstrong and Caelus 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.

IDENTIFY METHOD OF FINANCING THAT MINIMIZES COST TO THE STATE

The revised Mustang Full Field Development Plan and the Mustang Field 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. G18-05

RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING THE SALE OF MEMBERSHIP INTERESTS IN MUSTANG OPERATIONS CENTER 1 LLC AND MUSTANG ROAD LLC TO CARACOL PETROLEUM LLC AND PROVIDING FINANCING FOR THE SAME

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, the Executive Director, with the assistance of advisors, has negotiated with BRPC and the other working interest owners involved in the Mustang Oil Field development to facilitate additional investments being made in the field to bring it into sustained production;

WHEREAS, the parties have developed a non-binding term sheet (the "Term Sheet") for restructuring the Authority's involvement in the Mustang Oil Field development project and a copy of the Term Sheet has been provided to the Board;

WHEREAS, the Term Sheet contemplates consolidating approximately 90% of the working interests in the Mustang field in Caracol Petroleum LLC ("Caracol"), with Caracol then being expected to raise the capital necessary to proceed with the further development of the Mustang field;

WHEREAS, having the Authority sell its existing membership interests in MRLLC and MOC1 to Caracol will facilitate Caracol's consolidation of the working interests in the Mustang field and enable Caracol to seek the needed financing for further development;

WHEREAS, the sale price of the Authority's membership interests in MOC1 and MRLLC would be $64 million;

WHEREAS, the Term Sheet contemplates that the Authority will finance Caracol's purchase of the Authority's membership interests in MRLLC and MOC1 under terms specified in the Term Sheet, which terms include an initial interest rate of 8%, payments of a specified amount of interest until 30 days after first oil production, and quarterly debt service payments thereafter until a final maturity date of April 1, 2026;

WHEREAS, Caracol's payment of the financing that the Authority provides will be secured by substantially the same assets that previously secured the payments the Authority was to receive through its membership interests in MRLLC and MOC1;

WHEREAS, the Mustang project is under the Authority's development finance program authorized by AS 44.88.172, and having the Authority finance Caracol's purchase of the membership interests in MRLLC and MOC1 will qualify as "development project financing" allowed for under the statute; and

WHEREAS, completing the transactions contemplated in the Term Sheet will promote economic development and increase job opportunities on the North Slope and is in the best interests of the Authority.

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

Section 1. The Authority is authorized to sell its membership interests in MRLLC and MOC1 to Caracol, and the Authority is authorized to provide financing for Caracol's purchase of the membership interests in MRLLC and MOC1, all as contemplated in the Term Sheet. The financing shall be through the Authority's economic development account. The Authority's existing finance plan for the Mustang project is hereby amended to incorporate the financing to Caracol that is contemplated under the Term Sheet.

Section 2. The Executive Director, any other officer of the Authority to whom the Executive Director delegates, is authorized to negotiate, finalize, execute and deliver a purchase and sale agreement, a loan agreement, and all other contracts and documents that are necessary or expedient in completing the transactions contemplated by the Term Sheet. The contracts shall be on the same terms as are set out in the Term Sheet, or with any modifications to those terms the Executive Director determines to be appropriate.

Section 3. Once the contracts contemplated in the Term Sheet are fully executed and delivered and all conditions established in them are satisfied, the Executive Director, and any other officer of the Authority to whom the Executive Director delegates, is authorized to cause the Authority to take all actions necessary or convenient to having the Authority perform its obligations under the contracts.

Dated at Anchorage, Alaska, this 31st day of May 2018.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
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ATTEST
[SEAL]

Chair

Secretary