

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G22-04

**RESOLUTION OF THE ALASKA INDUSTRIAL
DEVELOPMENT AND EXPORT AUTHORITY
APPROVING AN H1-2022 (JANUARY-JUNE 2022) BUDGET
AND PROJECT PLAN 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 (the “Project”) as a development finance project under AS 44.88.172;

WHEREAS, the Project was faced with severe financial difficulties, which resulted in the Authority carrying out foreclosure proceedings against the relevant leases and other property used by the Project in accordance with its financing agreements;

WHEREAS, on September 16, 2020, the Board passed Resolution G20-26 to permit the Authority to work with other creditors and former working interest owners to settle various outstanding debts and to restructure the Project into a viable enterprise;

WHEREAS, in Resolution No. G21-17, adopted August 12, 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 prepared an H1-2022 (January – June 2022) and updated project plan, which have been provided to the Board;

WHEREAS, the Executive Director and staff of the Authority recommend that the Board approve the annual budget 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 to protect the Authority’s investment is in furtherance of the Authority’s statutory mission and advance the public interest.

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

Section 1. The H1-2022 (January – June 2022) budget as provided to the Board, is approved, and the monetary amounts contained in the 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 annual budget in his discretion to carry out the updated project plan.

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 all other contracts and documents that are necessary or expedient in accordance with the annual budget.

Section 3. 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 27th day of January 2022.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



Secretary


Chair



MEMORANDUM

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

From: Alan Weitzner
Executive Director

Date: January 27, 2022

Subject: Mustang Holding LLC H1-2022 (January – June 2022) Annual Budget
Resolution No. G22-04

AIDEA staff is requesting the Board's approval for the Mustang Holding LLC H1-2022 Budget and Project Plan. 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.

AIDEA STATUTES

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.

The project components (i.e. road and early production facility) of the Mustang development project was originally approved for investment by AIDEA's Board under Resolutions No. G12-08 and G14-09. These resolutions approved the investment under AS 44.88.172, which entitles AIDEA 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.

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 1 (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 an affiliate of Brooks Range Petroleum Corporation (BRPC) and the Authority providing financing to Caracol for its purchase of the membership interests in MRLLC and MOC1. Due to extended negotiations and delays in

fulfillment of Caracol's conditions precedent – specifically the raising of required additional investment capital, this restructuring and refinance of the Project was only finalized in May 2019.

In October 2019, Caracol and BRPC announced achievement of 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 that impeded their ability to fulfill immediate financial obligations and the approved plan of development. Caracol's parent company, Alpha Energy Holdings Ltd. (Alpha), declined to provide additional funding to meet the deficiencies and further develop the field.

Caracol's financial difficulties, brought on by the obligations incurred by BRPC, resulted in the company defaulting on its initial payment and other obligations due to the Authority. Seeing no current plans by management to responsibly manage the field's development and address outstanding vendor obligations, 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 Executive Director to finalize and sign an amended Loan Agreement with Caracol, subject to Alpha providing a minimum of \$60 million of new capital for the Project. This amended agreement, alongside the new capital commitment, was structured to resolve Caracol's outstanding obligations and to pursue a development program on the Southern Miluvecch Unit (SMU).

By March 2020, Caracol and Alpha failed to meet the conditions precedent to the restructured agreement, including the \$60 million financing requirement and provided no other plans to responsibly manage the field and its existing condition. In response, AIDEA commenced non-judicial foreclosure proceedings on SMU related collateral in May of 2020. On September 23, 2020, MHLLC was granted ownership of the asset and took subsequent steps as the named operator to bring the operations into a regulatory compliant cold shut down status. AIDEA's action were a critical and necessary measure to help mitigate further value deterioration and to bring responsible oversight, direction, and regulatory compliance to the project in an effort to maximize value for all creditors and to stop the accrual of liabilities for the state of Alaska.

On August 12, 2021, through Resolution G21-17, AIDEA Staff received approval for an amended 2021 Mustang budget and commenced a competitive bid and sale process to identify a qualified purchaser and operator to fully develop the asset. The full development of this project remains consistent with AIDEA mission as it would generate substantial tax and royalty payments to the State of Alaska while maximizing the comprehensive value for all related creditors. AIDEA Staff remains actively engaged with interested parties and must continue to maintain the Project in its current cold shut down status requiring a new budget for H1-2022.

PROJECT BUDGET AND PLAN

The costs included in the H1-2022 Project Budget and Plan are necessary as a prudent operator to satisfy ongoing and regulatory required expenses of the state of Alaska. These include, but are not limited to, monthly regulatory required surveillance and maintenance of the Projects infrastructure and financial responsibility and liability management through regulatory required bonding. Lastly,

the budget and plan is consistent with the “Southern Miluveach Unit – 9th Plan of Development” approved by DNR on November 9, 2021 and allows AIDEA to finalize all actions and discussions related to the divesture of the asset.

The proposed H1-2022 Budget is estimated to be \$1.28 million, including a 25% contingency, and will be funded directly from the available funds held within MHLLC bank account.

RECOMMENDATION

AIDEA staff recommends approval of the MHLLC H1-2022 capital budget of \$1.28 million from its related bank account in order to carry the Project in cold shutdown status necessary as a prudent operator to satisfy ongoing and regulatory required expenses of the state of Alaska and finalizes all actions and discussion related to the divesture of the asset.

MUSTANG HOLDING LLC H1-2022 (January – June 2022) BUDGET SUMMARY

ESTIMATED MONTHLY MUSTANG HOLDING LLC COLD SHUTDOWN CARRY COSTS (\$USD)

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	H1-22
Infrastructure & General	6,000	6,000	6,000	2,000	72,000	2,000	94,000
Other Services	28,530	28,530	28,530	28,530	31,030	28,530	173,680
General & Administrative	98,880	119,005	91,250	78,630	296,130	329,030	1,012,925
Total Monthly Carry	\$133,410	\$153,535	\$125,780	\$109,160	\$399,160	\$359,560	\$1,280,605
Average Monthly Carry							\$213,434