

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G22-07

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY APPROVING AMENDMENTS TO
LOAN AGREEMENT WITH HEX COOK INLET LLC AND CO-
BORROWERS**

WHEREAS, in Resolution No. G20-07, adopted on March 4, 2020, the Alaska Industrial Development and Export Authority (the “Authority”) approved a loan not to exceed \$7.5 million to HEX Cook Inlet LLC (“HEX”) and its affiliates under the Authority’s development finance program (AS 44.88.172); the limited liability companies (Cornucopia Oil & Gas Company, LLC and Corsair Oil & Gas, LLC) that own the natural gas leases and the natural gas production infrastructure of the Kitchen Lights Unit located in Cook Inlet, Alaska;

WHEREAS, in Resolution No. G20-16, adopted on April 15, 2020, the Alaska Industrial Development and Export Authority (the “Authority”) the Authority, approved a finance plan for the loan to HEX under AS 44.88.172 to be revised to allow for the debtor-in-possession loan;

WHEREAS, on June 30, 2020, the Authority, as Lender, entered into a Loan Agreement with HEX Cook Inlet LLC, as Borrower, and Furie Operating Alaska, LLC (Furie) and Cornucopia Oil & Gas Company as Co-Borrowers (Borrower and Co-Borrowers, “Borrowers”), under which the Authority agreed to provide a loan of up to \$7.5 million to finance the acquisition of an off-shore natural gas production platform, a 15-mile subsea pipeline and associated equipment and a camp facility out of bankruptcy (the “Loan”);

WHEREAS, the Authority fully disbursed the \$7.5 million loan, and the Borrowers used the loan proceeds to acquire the assets from the bankruptcy court;

WHEREAS, the Loan is current and the Borrowers are meeting or exceeding the Loan covenants;

WHEREAS, as outlined in the board memorandum, staff of the Authority has recommended amending the Loan Agreement to allow if certain performance and liquidity metrics are being met for 1) a waiver of a mandatory prepayment and 2) the conditional approval of payment of Dividends or Distributions for the sole purpose of paying state and federal income taxes on income attributable to the taxable earnings and profits of the Borrowers, and;

WHEREAS, the recommended loan amendments are prudent and reasonable and are in the best interests of the Authority and the State of Alaska.

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

Section 1. The recommended amendments to the Loan Agreement between the Authority, as Lender, HEX Cook Inlet LLC, and Furie Operating Alaska, LLC and Cornucopia Oil & Gas Company, are approved.

Section 2. The Executive Director is authorized to complete the negotiations with the Borrowers regarding the amendments to the loan agreement. The Executive Director is authorized to execute on behalf of the Authority the final amendments to the loan agreement approved in Section 1 above, with any other non-material modifications to loan terms and conditions that the Executive Director determines to be appropriate.

Dated at Anchorage, Alaska, this 29th day of June 2022.



Chair





Secretary



MEMORANDUM

TO: Board Members
Alaska Industrial Development and Export Authority

FROM: Alan Weitzner
Executive Director

DATE: June 29, 2022

RE: HEX Cook Inlet LLC Loan Modification
Resolution No. G22-07

GENERAL

HEX Cook Inlet LLC (“Borrower”)/Furie Operating Alaska, LLC/Cornucopia Oil & Gas Company (collectively HEX) has requested the Alaska Industrial Development Authority (“AIDEA” or “Authority”) to extend the modification of its Loan Agreement (Loan) allowing for:

- 1) waiver of Mandatory Prepayment if certain performance and liquidity metrics are being met, and
- 2) the conditional approval amending the payment of Dividends or Distributions for the sole purpose of paying state and federal income taxes on income attributable to the taxable earnings and profits of the Borrower.

PROJECT BACKGROUND

AIDEA, through the Board’s approval of Resolution G20-07, provided development project financing to HEX under AS 44.88.172 to assist in funding the acquisition out of bankruptcy of Furie Alaska Operating ("Furie") stock, the Kitchen Lights Unit ("KLU") leases in the Cook Inlet, the producing and non-producing wells and all real and personal property of the company (the “Project”).

The loan achieved financial close in June 2020. AIDEA’s collateral for the loan is: 1) membership interests in the Borrower and its subsidiaries; 2) Deed of Trust on Furie/Cornucopia/Corsair working interests in the Project leases; 3) First priority perfected security interest in all present and future personal and real property of the Project and Borrower; and 4) Lien on Borrower’s revenues of the Project.

HEX is the only 100% Alaskan owned oil and gas company operating in Alaska. HEX owns the Kitchen Lights Unit in Upper Cook Inlet, a key resource for natural gas serving the state’s Anchorage and Gulf Coast region.

AIDEA MISSION

AIDEA's purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. Economic development in connection with the extraction, transportation, and production of Alaska's abundant natural resources, including oil and gas resources, is key for the prosperity of all Alaskans.

Under AS 44.88.172(a), AIDEA is entitled to expend money from the economic development account to finance, acquire, manage, and operate development projects that AIDEA 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.

HEX has progressively brought the KLU back into production and seeks to continue to develop the Unit and adjacent acreage as evidenced in their most recent annual Plan of Development to the Department of Natural Resources.

At the time of HEX's acquisition of Furie, the Project had only one Alaskan employee and four Alaskan Contractors out of 22 individuals employed by the companies. Prior to HEX acquiring the companies, all accounting and finance activities were based remotely in Houston, Texas. HEX immediately commenced the process to move those functions to Alaska. Furie has worked diligently to employ Alaskans at its production facility in Nikiski, offshore on the Julius R platform, and at its headquarters in Anchorage, Alaska. Furie now employs 21 Alaskans in support of its operations and only three non-Alaskans. 88% of all wages now remain within Alaskan vs. 23% at the time of the bankruptcy purchase.

Furie has produced 8.7 Bcf of natural gas for the local Alaska Utility and industrial customers since July 2020. With local Alaskan ownership and expertise, Furie has returned the KLU A- 4 well to production. \ Furie's natural gas production has increased with the return of the well to production. HEX has paid the State of Alaska over \$7.5 million in royalties since July 2020 in addition to approximately \$1.6 million per year shared by the state and Kenai Peninsula Borough from property taxes.

Furie was the largest lease purchaser in the Cook Inlet in 2021. Furie was the only purchaser of leases at the recent 2022 Cook Inlet lease sale. Furie has spent over \$1.8 million to secure permits and install water-handling equipment on the Julius R platform to allow it to test the Sterling Formation. The previous owner attempted to flow the Sterling formations in 2018, producing significant amounts of water and subsequently froze the sub-sea gathering line in January 2019. Since May 2022, Furie has commenced testing the Sterling formation to validate the potential to produce the associated natural gas.

PROPOSAL

Amend the existing loan agreement to change the cash sweep rudiments and provide conditional approval, subject to the Second Lien Lender's approval, to the payment of Dividends or Distributions related to the payment of taxes.

Since entering into the Loan agreement of \$7.5 million HEX has made through April 30, 2022 Principal and Interest Payments of \$5.1 million. As of March 30, 2022, the ending balance of the Loan was \$2.4 million and another quarterly principal and interest payment of \$0.3 million is scheduled for June 30, 2022. HEX has been in compliance with the covenants and loan documents, exceeding the financial covenant ratios with room to spare. HEX has maintained significant financial reserves and liquidity as a prudently managed company.

RECOMMENDATION

In keeping with our mission AIDEA staff recommends approval. To date, HEX has been more than diligent in its payment obligations to AIDEA. HEX remains bullish on Alaska and Cook Inlet as an energy and resource rich environment. HEX is actively working with the State to develop additional opportunities. The proposed amendments will facilitate HEX's ability to move those opportunities forward and potentially develop the critically needed energy projects for our fellow Alaskans.



HEX Cook Inlet LLC and Subsidiaries

AIDEA



Alaska's Only Locally Owned and Operated
Independent Gas Producer

6/29/22

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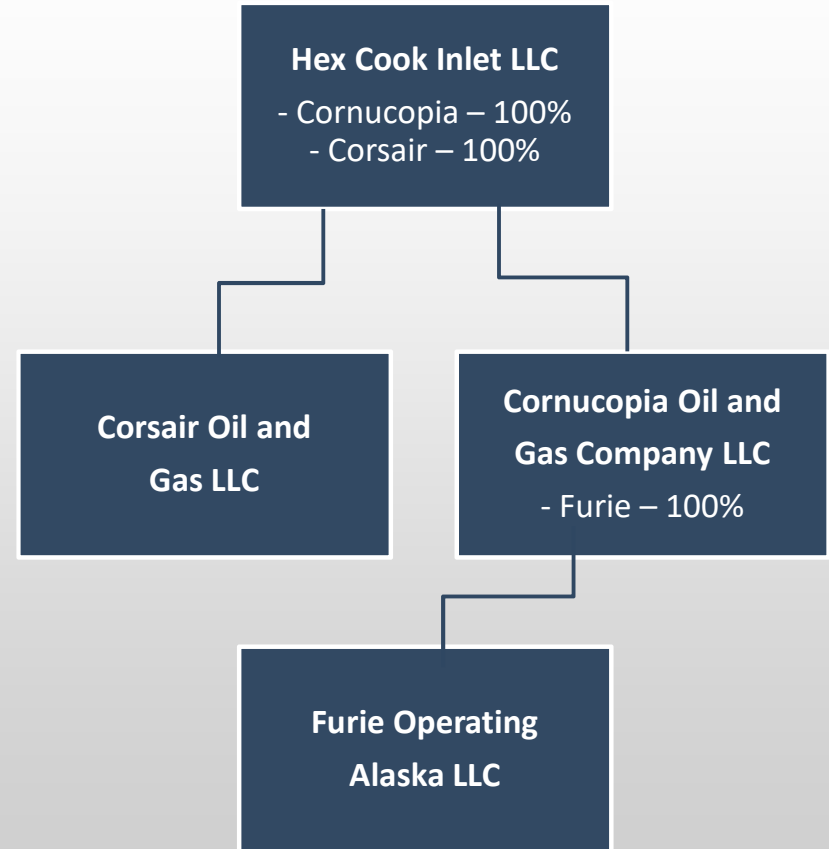
Forward Looking Statements

This presentation makes statements and assumptions about the future and presents pro forma financial statements and forecasts (Forward Looking Statements). The forward looking statements, assumptions and pro forma financial statements are just that. Actual outcomes could differ from expectations represented herein and present facts and circumstances as of the date of this presentation could differ materially in the future. The assumptions reflected in the pro forma financial statements and forecasts are made in good faith.

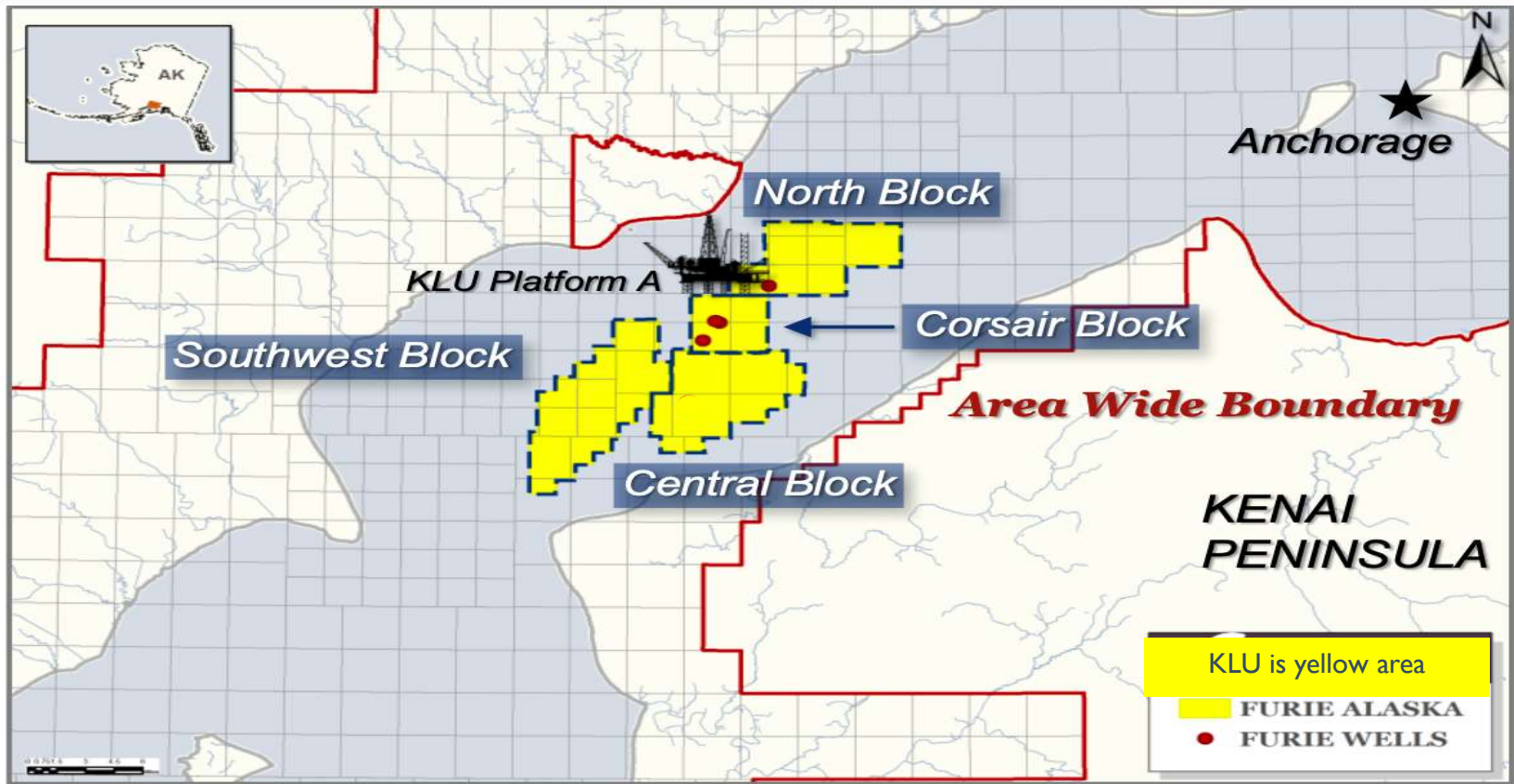


HEX Corporate Structure

- HEX Cook Inlet acquired subsidiaries Cornucopia, Corsair and Furie on June 30, 2020
- Upstream gas producer in Upper Cook Inlet, Alaska
- Furie is the operating company that runs the offshore platform, pipeline and onshore facility
- Customers are stable and reliable Electric and Gas Utilities in Southcentral Alaska



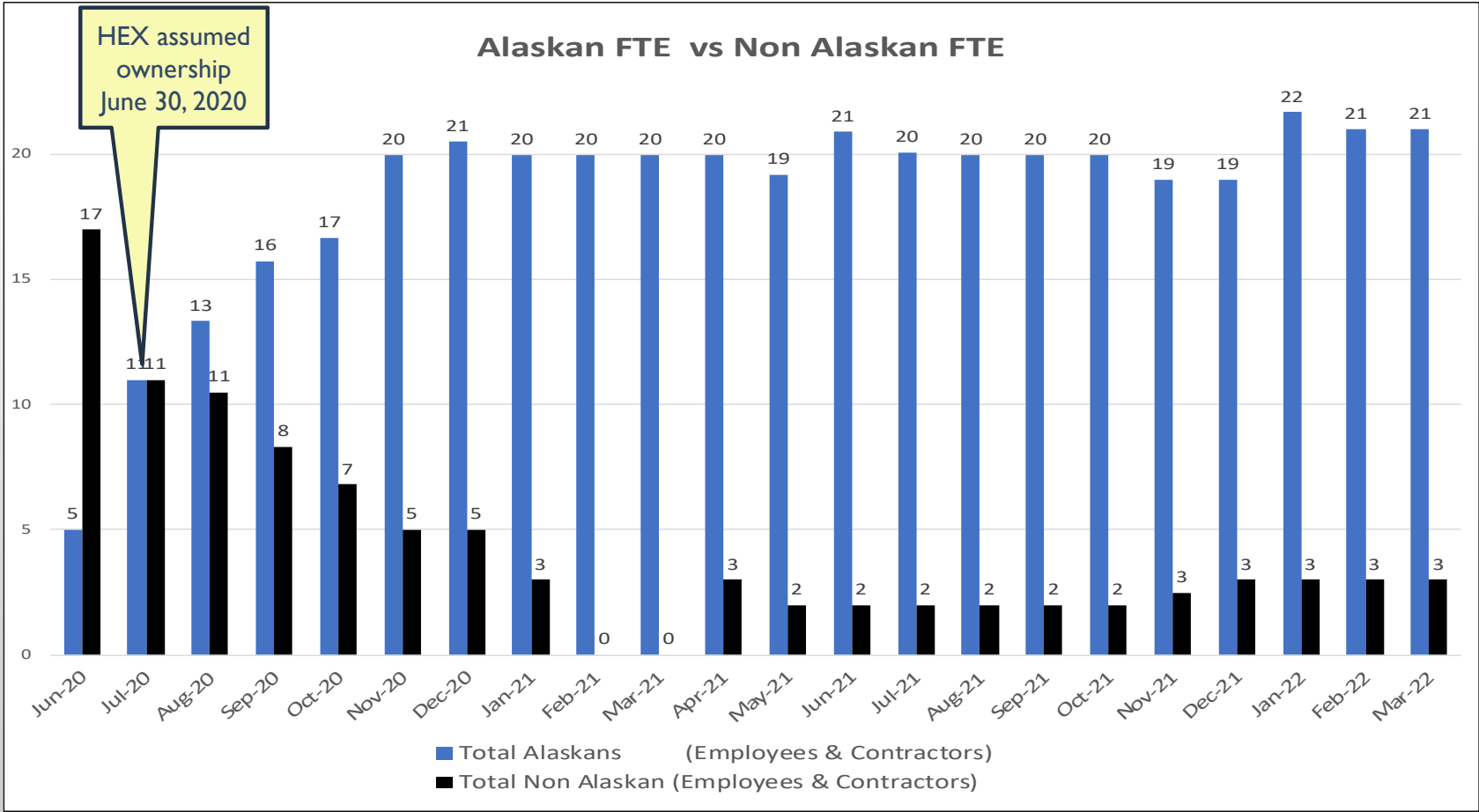
Furie is the Operator of the Kitchen Lights Unit ("KLU") (Natural Gas Production Only)



Alaska Benefits From HEX Ownership

- Alaska based local ownership, management and senior management team
 - HEX team invested in success of Alaska – we live here too!
 - Acquisition was facilitated with AIDEA as the lender
 - Earnings stay in and are reinvested in the State
- Companies saved from bankruptcy continue to contribute to Alaskan economy and people
 - Supports local jobs and economic growth
 - Produced gas heating Alaskan homes and business and powering the electrical grid to keep us all safe, warm and the lights on
 - Competition and diversity added to Cook Inlet basin gas production
- State of Alaska benefits from
 - Royalties at 12.5%
 - Property taxes at 20 mills
 - DR&R sinking fund and other environmental commitments

Providing Alaskan Jobs to Alaskans



Supplying Natural Gas to Alaskans

Customer Contract	Customer Type	Customer Location	Contract Type
ENSTAR Natural Gas Co.	Gas Utility	Mat-Su Borough, Anchorage Municipality, Kenai Peninsula Borough	Firm & Non Firm
Chugach Electric Association	Electric Utility	Anchorage Municipality	Non Firm
Homer Electric Association	Electric Utility	Kenai Peninsula Borough	Non Firm
Matanuska Electric Association	Electric Utility	Mat-Su Borough	Non Firm
Marathon Petroleum	Refinery	Kenai Peninsula Borough	Non Firm
Interior Natural Gas Utility	Gas Utility	Fairbanks North Star Borough	Non Firm

Sales to CEA, HEA & MEA allow those utilities to generate electricity for the benefit of GVEA (Economy Energy Sales)

Summary

- Company acquired 6/30/20 and revitalized by HEX
- Alaska ownership and management invested in the success of the State
- **Only company to participate in 2022 Cook Inlet Lease Sale**
- Benefits for Alaskans – jobs, economy, gas for heat and power
- Contributing \$\$ to State and local government
- Environmental stewardship and operational excellence/safety
- Financially healthy and fiscally prudent operator
- Charitable giving and sponsorships within our local community
- Competition and diversity of gas supply in Upper Cook Inlet basin
- Opportunities for additional jobs, production, and economic growth

Hex Cook Inlet LLC -- Julius-R Platform



Alaska's Only Locally Owned and Operated Independent Gas Producer

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