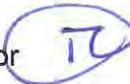




## MEMORANDUM

**TO:** Board Members  
Alaska Industrial Development and Export Authority

**FROM:** Ted Leonard   
Executive Director

**DATE:** December 6, 2012

**SUBJECT:** Resolution No. G12-08  
Authorizing Funding for Brooks Range Petroleum Corporation  
Mustang Road and Pad Project

This memo and the attached report provide background for the Alaska Industrial Development and Export Authority ("AIDEA" or the "Authority") Board Members on AIDEA's proposed participation in the Mustang Road Project. The memo provides an update for AIDEA's board on activities since the last Board action on October 30, 2012 and provides a summary and recommendation from AIDEA management. The report also serves as the Finance Plan, required by AS 44.88.173, for Mustang Road LLC. (see "AIDEA Schedule and Process" below).

### Summary and Recommendation

AIDEA management recommends that AIDEA proceed, subject to certain conditions precedent, with full funding, under the Development Finance Program, of \$20 million for the purpose of owning an 80% share (100% preferred ownership) in Mustang Road, LLC ("MR LLC"). MR LLC will then fund the construction of an access road and pad to the Mustang Field development.

AIDEA Resolution No. G12-08 authorizes the Executive Director to execute all necessary agreements with Brooks Range Petroleum Company ("BRPC"), including the creation of Mustang Road, LLC, the operating agreement with BRPC, and perfecting all necessary side agreements related to the carried working interest and associated tax credits. This work and all other conditions precedent, as shown below, will be completed and executed prior to funding \$20 million for the development of the road and pad.

AIDEA Statute, AS 44.88.900(3) & (9), allows the Authority to own infrastructure related to the development of natural resources in the State. This potential project satisfies the definition of a "project" and "development project" and allows the Authority to develop the project through the Economic Development Account (AS 44.88.172).

This project fulfills AIDEA's mission of economic development and job growth by 1) new construction jobs for the road; 2) new jobs related to future field development and oil and gas production; 3) additional revenues to the State from royalty and severance taxes on fields that would be developed; and 4) furtherance of Governor Parnell's goal of getting more oil into the Trans-Alaska Pipeline and recommends moving forward with due diligence analysis.

The 4.4-mile road and production pad on the North Slope connects the existing Tarn road to the proposed Mustang Development field. This road will provide access to the Brooks Range Petroleum Company (BRPC) Mustang Field (Southern Miluveach Unit) as well as adjacent company holdings, other working interest party holdings and service contractor access.

The scope of the Mustang Road Development Project consists of five elements:

1. Ice Road – Supports mine development and road/pad construction.
2. Gravel Mine – Supplies gravel for roads, production pad, other facilities.
3. Mine Access Road – 0.7 mile road between mine and production pad.
4. Site Access Road – 4.4 mile road between Mustang and KRU road system.
5. Main Production Pad – 19.3-acre gravel production facility pad.

On October 30, 2012, Resolution No. G12-06 was approved with the directive to report back to the Board on the results of the due diligence and with recommendations for a finance plan. The form of the due diligence was to consider the following areas:

- An understanding of incentives and tax credits available to the project.
- Develop a limited liability company ("LLC") agreement with Brooks Range Petroleum Company ("BRPC") for the LLC that will own the project.
- Determine the ownership structure for the LLC.
- Prepare a finance plan for the Board to consider in connection with the project.
- Evaluate security for the repayment of any investment by the Authority in the project.
- Assess the interest of other parties to use the Mustang Road to access other nearby oil fields.

The purpose of this memo is to update and report to the Board the results of the Due Diligence and make the recommendation to authorize for full funding for the Project.

### **Incentives and Tax Credits**

Dan Dickenson, a CPA considered an expert in the area of State oil and gas credits, was engaged by BRPC to determine if AIDEA and BRPC, as the owners of an LLC for the purpose of building and owning a road and pad for oil and gas production, would be eligible for various tax credits. Specifically, credits equal to 46% of the capital cost would be available to the LLC in two payments. The terms of AIDEA's draft agreement with BRPC are that these two payments would be made directly to "pay down" AIDEA's capital contribution.

### **Interest of other parties to use the Mustang Road**

Meetings were held with both ASRC and Repsol, owners of leases adjacent to the BRPC leases. Both parties indicated an interest in the project and stated that the existence of a road as well as the future production facility on the pad would have a major positive impact on their development plans. The road would provide a staging point for their development and they were also interested in being able to access an open production facility.

AIDEA, BRPC and Ezion Holdings Corporation are currently in discussions on an agreement to finance and own a production facility to be located on the pad that is part of the Mustang Road project. Deputy Director Hemsath and representatives of BRPC met with Ezion Holdings senior management in Singapore in November to develop a model for how AIDEA and Ezion could jointly own the facility.

### Finance Plan

Finance plan and payment structure is shown in the table below as well as in the term sheet in the attached Finance Report. As mentioned above, upon receipt of the qualified capital expenditure credits and loss credits (estimated at 46%) equaling \$11.5 million in two payments, those payments will be used to immediately buy down AIDEA'S account balance prior to the first scheduled payment in December 2014. This will have the effect of reducing our exposure by 50% within the first year of funding and subsequently reduce all future required payments. The following two tables specify those required payments to the LLC. It is important to note that the LLC, as a 1% Working Interest party, will receive 1% of the net production revenues (less state royalties, etc.), and it is anticipated that these revenues will cover all payments.

Year	AIDEA Capital Account Balance	Dividend Rate	Preferred Owner Dividend Payments	Preferred Owner Repurchase Payments*	Total Annual Preferred Owner Payments
2013	\$ 20,000,000	n.a.	\$ -	\$ 11,500,000	\$ 11,500,000
2014	8,500,000	8.00%	680,000	566,667	1,246,667
2015	7,933,333	8.00%	634,667	566,667	1,201,333
2016	7,366,667	8.00%	589,333	566,667	1,156,000
2017	6,800,000	8.00%	544,000	566,667	1,110,667
2018	6,233,333	8.00%	498,667	566,667	1,065,333
2019	5,666,667	8.00%	453,333	566,667	1,020,000
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2026	1,700,000	8.00%	136,000	566,667	702,667
2027	1,133,333	8.00%	90,667	566,667	657,333
2028	566,667	8.00%	45,333	566,667	612,000
		<b>Total</b>	<b>\$ 5,440,000</b>	<b>\$ 20,000,000</b>	<b>\$ 25,440,000</b>

\*ACES rebates in 2013/2014 total \$11.5 mm reduce AIDEA balance

### LLC Agreement and Organization

- The agreed-upon term sheet, attached, details the essential components of the LLC agreement, AIDEA's preferred owner rights and the financial organization.
- AIDEA and BRPC will own the LLC with AIDEA contributing 80% (\$20 million) and BRPC contributing 20% (\$5 million). BRPC will be responsible for any additional cash calls required to complete the road and pad.
- BRPC's parent organizations - Alaska Venture Capital Group ("AVCG") and Ramshorn (a subsidiary of Nabors) will guarantee all payments.
- BRPC will be the operator of the road, responsible for construction, operation and maintenance.
- The road will be considered open access.

### **Other**

AIDEA regulations require approval by the local governing entity for where a project will be located. The Alaska Department of Transportation has been working with the North Slope Borough to develop an appropriate resolution. That resolution is on the agenda for the December 4, 2012 North Slope Borough Assembly meeting. A copy of the draft resolution and draft planning committee analysis are attached.

### **Conditions Precedent**

1. Approval by appropriate local government units for AIDEA participation in the project.
2. Execution of the MR LLC operating agreement ("OA") and formation of MR LLC.
3. Demonstration, to the satisfaction of AIDEA, that BRPC has the financial resources necessary to fulfill all its obligations under the MR LLC OA.
4. Acquisition by BRPC of all permits, authorizations, regulatory approvals for the Mustang Road.
5. Execution of a Project Operating Agreement between MR LLC and BRPC, on terms and conditions acceptable to AIDEA.
6. Provision of a guarantees and security interests by BRPC in support of its obligations under the MR LLC OA.
7. Provision of the Working Interest contribution necessary for Mustang Road LLC to qualify as a "Producer or Explorer" and earn ACES tax credits on the construction expenditures.
8. Execution of a commitment by BRPC to exclusively use the Mustang Road facilities for all BRPC activities related to the Mustang Field and other South Miluveach Unit holdings.
9. Execution in a form acceptable to AIDEA, of BRPC parent company guarantees of MR LLC Preferred Member Obligations to AIDEA.
10. Execution of a commitment by BRPC to continue development activities in the South Miluveach Unit until all Preferred Member Obligations are met.
11. BRPC shall purchase a comprehensive insurance package, with appropriate coverage limits and with AIDEA as a named additional party, sufficient, in AIDEA's sole determination, to cover all risks.

### **Recommendation to Board**

AIDEA management recommends approval of Resolution No. G12-08 directing AIDEA to execute all necessary agreements with Brooks Range Petroleum Company, including the creation of Mustang Road, LLC, the operating agreement with BRPC, and perfecting all necessary side agreements related to the carried working interest and associated tax credits.

### **Attachments**

1. Mustang Road LLC Term Sheet
2. Mustang Road LLC Finance Plan
3. Draft - North Slope Borough Draft Resolution
4. AIDEA Resolution No. G12-08

**Mustang Road, LLC Term Sheet**  
**Brooks Range Petroleum Corporation/AIDEA**  
**November 2012**

<b>Item</b>	<b>Proposed Terms</b>
<b>Project Description</b>	<p>A 4.4 mile road and production facility pad providing access to the Mustang oil field facilities.</p> <p>The Mustang Road Project consists of five elements:</p> <ol style="list-style-type: none"> <li>1. Ice Road – Supports mine development and road / pad construction;</li> <li>2. Gravel Mine – Supplies gravel for roads, production pad, other facilities;</li> <li>3. Mine Access Road – 0.7 mile road between mine and production pad;</li> <li>4. Site Access Road – 4.4 mile road between Mustang and KRU road system;</li> <li>5. Main Production Pad – 19.3-acre gravel production facility pad.</li> </ol>
<b>Parties</b>	<p>Existing Parties:</p> <ul style="list-style-type: none"> <li>• Brooks Range Petroleum Company (“BRPC”), a Delaware corporation, as Operator.</li> <li>• AVCG LLC, a Kansas LLC, as working interest owner.</li> <li>• Ramshorn Investments, a corporation, as working interest owner.</li> <li>• Alaska Industrial Development &amp; Export Authority (“AIDEA”), an Alaska public corporation.</li> </ul> <p>Parties to be Created:</p> <ul style="list-style-type: none"> <li>• Mustang Road LLC (“MR LLC”), an Alaska limited liability company formed to finance, own, design, permit, construct, operate and maintain the Mustang Road and own working interest in the reservoir.</li> </ul>
<b>Structure of Transaction</b>	<p>Mustang Road LLC Operating Agreement (“MR LLC OA”)</p> <ul style="list-style-type: none"> <li>• AIDEA invests \$20,000,000 in membership</li> <li>• BRPC <ul style="list-style-type: none"> <li>○ Invests, in membership, all additional capital required for completion of the Project (estimated to total approximately \$5,000,000)</li> <li>○ Commits a 1% Carried Working Interest (“WI”) in its Southern Miluveach Unit (“SMU”) leases to MR LLC</li> <li>○ Ownership is locked at AIDEA (80%) and BPRC (20%) until such time as AIDEA ownership is 100% bought out</li> </ul> </li> </ul> <p>Collateral, security and other agreements as required</p>
<b>Roles</b>	<p>Signatories of LLC Operating Agreement (and members of LLC):</p> <ul style="list-style-type: none"> <li>• AIDEA – Preferred Member <ul style="list-style-type: none"> <li>○ Rights to approve certain major company decisions</li> <li>○ Rights to certain guaranteed payments (“Preferred Member Obligations”) <ul style="list-style-type: none"> <li>▪ Preferred Member Repurchase Amount</li> <li>▪ Preferred Member Repurchase Premiums</li> </ul> </li> </ul> </li> <li>• BRPC – Common Member</li> </ul>

Item	Proposed Terms																
	<ul style="list-style-type: none"> <li>○ Votes on matters not subject to Preferred approval</li> <li>○ Rights to free cash (as controlled by the MR LLC OA)</li> <li>○ Manager and operator of the project</li> </ul>																
<b>Sources &amp; Uses of Funds for Project Capital</b>	<p>At the establishment of MR LLC, the Project will be funded by:</p> <table border="1" data-bbox="472 415 1224 768" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">MUSTANG ROAD PROGRAM FUNDING</th> </tr> </thead> <tbody> <tr> <td colspan="2"><b>USES OF FUNDS</b></td> </tr> <tr> <td style="padding-left: 20px;">Mustang Road</td> <td style="text-align: right;">\$ 23,889,327</td> </tr> <tr> <td style="text-align: right;"><b>TOTAL - USES OF FUNDS</b></td> <td style="text-align: right;"><b>\$ 23,889,327</b></td> </tr> <tr> <td colspan="2"><b>SOURCES OF FUNDS</b></td> </tr> <tr> <td style="padding-left: 20px;">BRPC Equity</td> <td style="text-align: right;">\$ 3,889,327</td> </tr> <tr> <td style="padding-left: 20px;">AIDEA - Mustang Road LLC</td> <td style="text-align: right;">20,000,000</td> </tr> <tr> <td style="text-align: right;"><b>TOTAL - SOURCES OF FUNDS</b></td> <td style="text-align: right;"><b>\$ 23,889,327</b></td> </tr> </tbody> </table> <p>Prior to funding under the MR LLC OA, BRPC and AIDEA will each be responsible for its own transaction costs except as provided under the Reimbursement Agreement(s) between BRPC and AIDEA. AIDEA transaction costs (as defined by the MR LLC OA) will be reimbursed through Project revenues.</p>	MUSTANG ROAD PROGRAM FUNDING		<b>USES OF FUNDS</b>		Mustang Road	\$ 23,889,327	<b>TOTAL - USES OF FUNDS</b>	<b>\$ 23,889,327</b>	<b>SOURCES OF FUNDS</b>		BRPC Equity	\$ 3,889,327	AIDEA - Mustang Road LLC	20,000,000	<b>TOTAL - SOURCES OF FUNDS</b>	<b>\$ 23,889,327</b>
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<b>Mustang Road LLC Business and Revenues</b>	<p>Mustang Road LLC will offer open access to any responsible party for exploration or production drilling in the South Miluveach Unit and will recover its costs of capital and operations thru production from its interest in the reservoir, user fees or tolls for use of the Mustang Road.</p> <p>Initially, BRPC is expected to be the only user of the Project, and BRPC will be responsible for guaranteed payments sufficient to cover all capital and operating costs of MR LLC, including Preferred Member Obligations.</p> <p>To the extent that other parties use the Mustang Road, and pay user fees or tolls, BRPC's payments to MR LLC may be reduced as long as all Preferred Member Obligations are paid.</p> <p>MR LLC will also receive revenues from:</p> <ul style="list-style-type: none"> <li>• ACES tax credits</li> <li>• 1% working interest production payments</li> <li>•</li> </ul>																
<b>Release of Proceeds / Drawdowns</b>	<p>Proceeds from AIDEA's investment in MR LLC will be drawn down only for authorized purposes and pro-rata with BRPC investment. If MR LLC activities are ceased for any reason prior to completing the Mustang Road, any remaining proceeds of AIDEA investment will be returned to AIDEA to partially offset BRPC obligations to AIDEA.</p>																
<b>Ownership of Mustang Road LLC</b>	<p>Ownership percentages for MR LLC will be based on paid-in cash, adjusted over time by Repurchase of AIDEA membership interests.</p> <p>Initial MR LLC Ownership:  AIDEA: 80.0%  BRPC: 20.0%</p>																

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<b>Project Capital</b>	AIDEA will not be subject to capital calls under the MR LLC OA. Any shortfalls in capital necessary to fund MR LLC capital and operating requirements will be met by BRPC.																																																																																																														
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<b>MR LLC Preferred Member Obligations</b>	<p>MR LLC will make payments to AIDEA in the form of:</p> <ol style="list-style-type: none"> <li>1. Reimbursement of AIDEA transactions cost defined in the MR LLC OA</li> <li>2. Preferred Member Repurchase Payments</li> <li>3. Preferred Member Dividends (calculated at 8.00% of the balance of AIDEA's capital account at the end of the previous year.</li> <li>4. Preferred Member payments will become due starting on December 31 of the following year in which Mustang Road construction begins, currently expect to be 2014. In any event, payments will become due starting no later than December 31, 2015.</li> </ol> <p>The table below summarizes the planned Preferred Owner payments:</p> <table border="1" data-bbox="469 827 1312 1423"> <thead> <tr> <th rowspan="2">Year</th> <th rowspan="2">AIDEA Capital Account Balance</th> <th rowspan="2">Dividend Rate</th> <th colspan="2">Preferred Owner</th> <th rowspan="2">Total Annual Preferred Owner Payments</th> </tr> <tr> <th>Dividend Payments</th> <th>Repurchase Payments*</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>\$ 20,000,000</td> <td>n.a.</td> <td>\$ -</td> <td>\$ 11,500,000</td> <td>\$ 11,500,000</td> </tr> <tr> <td>2014</td> <td>8,500,000</td> <td>8.00%</td> <td>680,000</td> <td>566,667</td> <td>1,246,667</td> </tr> <tr> <td>2015</td> <td>7,933,333</td> <td>8.00%</td> <td>634,667</td> <td>566,667</td> <td>1,201,333</td> </tr> <tr> <td>2016</td> <td>7,366,667</td> <td>8.00%</td> <td>589,333</td> <td>566,667</td> <td>1,156,000</td> </tr> <tr> <td>2017</td> <td>6,800,000</td> <td>8.00%</td> <td>544,000</td> <td>566,667</td> <td>1,110,667</td> </tr> <tr> <td>2018</td> <td>6,233,333</td> <td>8.00%</td> <td>498,667</td> <td>566,667</td> <td>1,065,333</td> </tr> <tr> <td>2019</td> <td>5,666,667</td> <td>8.00%</td> <td>453,333</td> <td>566,667</td> <td>1,020,000</td> </tr> <tr> <td>2020</td> <td>5,100,000</td> <td>8.00%</td> <td>408,000</td> <td>566,667</td> <td>974,667</td> </tr> <tr> <td>2021</td> <td>4,533,333</td> <td>8.00%</td> <td>362,667</td> <td>566,667</td> <td>929,333</td> </tr> <tr> <td>2022</td> <td>3,966,667</td> <td>8.00%</td> <td>317,333</td> <td>566,667</td> <td>884,000</td> </tr> <tr> <td>2023</td> <td>3,400,000</td> <td>8.00%</td> <td>272,000</td> <td>566,667</td> <td>838,667</td> </tr> <tr> <td>2024</td> <td>2,833,333</td> <td>8.00%</td> <td>226,667</td> <td>566,667</td> <td>793,333</td> </tr> <tr> <td>2025</td> <td>2,266,667</td> <td>8.00%</td> <td>181,333</td> <td>566,667</td> <td>748,000</td> </tr> <tr> <td>2026</td> <td>1,700,000</td> <td>8.00%</td> <td>136,000</td> <td>566,667</td> <td>702,667</td> </tr> <tr> <td>2027</td> <td>1,133,333</td> <td>8.00%</td> <td>90,667</td> <td>566,667</td> <td>657,333</td> </tr> <tr> <td>2028</td> <td>566,667</td> <td>8.00%</td> <td>45,333</td> <td>566,667</td> <td>612,000</td> </tr> <tr> <td colspan="3"><b>Total</b></td> <td><b>\$ 5,440,000</b></td> <td><b>\$ 20,000,000</b></td> <td><b>\$ 25,440,000</b></td> </tr> </tbody> </table> <p><i>*ACES rebates in 2013/2014 total \$11.5 mm reduce AIDEA balance</i></p>	Year	AIDEA Capital Account Balance	Dividend Rate	Preferred Owner		Total Annual Preferred Owner Payments	Dividend Payments	Repurchase Payments*	2013	\$ 20,000,000	n.a.	\$ -	\$ 11,500,000	\$ 11,500,000	2014	8,500,000	8.00%	680,000	566,667	1,246,667	2015	7,933,333	8.00%	634,667	566,667	1,201,333	2016	7,366,667	8.00%	589,333	566,667	1,156,000	2017	6,800,000	8.00%	544,000	566,667	1,110,667	2018	6,233,333	8.00%	498,667	566,667	1,065,333	2019	5,666,667	8.00%	453,333	566,667	1,020,000	2020	5,100,000	8.00%	408,000	566,667	974,667	2021	4,533,333	8.00%	362,667	566,667	929,333	2022	3,966,667	8.00%	317,333	566,667	884,000	2023	3,400,000	8.00%	272,000	566,667	838,667	2024	2,833,333	8.00%	226,667	566,667	793,333	2025	2,266,667	8.00%	181,333	566,667	748,000	2026	1,700,000	8.00%	136,000	566,667	702,667	2027	1,133,333	8.00%	90,667	566,667	657,333	2028	566,667	8.00%	45,333	566,667	612,000	<b>Total</b>			<b>\$ 5,440,000</b>	<b>\$ 20,000,000</b>	<b>\$ 25,440,000</b>
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<b>Voluntary Prepayment of Preferred Member Obligations</b>	<p>BRPC may prepay Preferred Member Obligations to AIDEA at any yearly payment date.</p> <p>Any and all ACES credits will be applied directly to AIDEA principal, at which time the financing will be re-amortized over the remaining period.</p>																																																																																																														
<b>Mandatory Prepayment of Preferred Member Obligations</b>	<p>BRPC will be obligated to prepay Preferred Member Obligations in the event of:</p> <ol style="list-style-type: none"> <li>1. Receipt of ACES credits for the Project.</li> <li>2. Any uncured Default.</li> <li>3. Destruction or abandonment of the Project.</li> <li>4. Cessation of operation of the Project.</li> <li>5. Change of control of BRPC unless previously approved by AIDEA.</li> </ol>																																																																																																														

Item	Proposed Terms
<b>Operating Flow of Funds</b>	<p>The flow of funds for MR LLC during the operating period of the Project will be as follows:</p> <ol style="list-style-type: none"> <li>1. Operating costs of MR LLC (as detailed and limited by the MR LLC OA).</li> <li>2. Costs of the Manager (as detailed and limited by the MR LLC OA).</li> <li>3. All Preferred Member Obligations to AIDEA.</li> <li>4. A reserve of 100% of annual free cash (up to the next two years' Preferred Member Obligations) is established and escrowed to provide for Preferred Obligations to AIDEA in the event Project revenues are insufficient to meet the repurchase schedule, or, alternatively, BRPC may prepay one year's Preferred Member Obligations to AIDEA.</li> <li>5. Distributions to the Common Member.</li> </ol>
<b>AIDEA Security, Collateral and Liens</b>	<ol style="list-style-type: none"> <li>1. AIDEA will have a priority lien on all assets of MR LLC.</li> <li>2. BRPC will provide AIDEA a perfected contingent interest in BRPC's assets as defined in #3 below.</li> <li>3. BRPC will provide MR LLC with a 1% working interest as described below: The 1% WI will obligate its revenue stream to a production payment that can be used to insure payback of AIDEA-provided funding. The production payment would be 75% of the 1% working interest gross revenue stream after royalty and transportation deductions, only, for the first 10 years; after that the production payment would become 50% of the 1% working interest gross revenue stream after the same deductions. In other words, normally the 1% WI would be obligated to pay its share of all costs including production facilities, development drilling, etc. BRPC is agreeing to pay all the non-road costs on the LLC's behalf until sustained oil production begins. The carried WI and its pledged production payment becomes very similar to an ORRI.</li> <li>4. BRPC's parent companies (AVCG and Ramshorn) will commit to make up any shortfall in MR LLC Preferred Member Obligations to AIDEA.</li> </ol>
<b>BRPC Financial and Business Covenants</b>	<ul style="list-style-type: none"> <li>• BRPC will commit to exclusive use of the Mustang Road for all of its activities in the South Miluveach Unit.</li> <li>• BRPC will commit to open access to the Mustang Road for all qualified parties.</li> <li>• BRPC will commit to fund its share of MR LLC OA capital costs, and to the repayment of AIDEA Preferred Member obligations regardless of AIDEA participation in Mustang Production Facility.</li> <li>• BRPC will commit to continued Mustang Field development until all Preferred Member Obligations are paid.</li> </ul>
<b>Default</b>	<ol style="list-style-type: none"> <li>1. The MR LLC OA will include customary default conditions as well as provision for the treatment and effect of cross-defaults under any other relevant agreements.</li> <li>2. Failure to complete or secure Conditions Precedent or Conditions Subsequent shall constitute events of default.</li> <li>3. In the event of an uncured default by BRPC under the MR LLC OA, all payments due to AIDEA under the MR LLC OA will be immediately accelerated.</li> <li>4. In the event of default and liquidation of the Project, BRPC will convey to AIDEA sufficient interests (as described above in "AIDEA Security, Collateral and Liens") in BRPC's assets to cover MR LLC's outstanding Preferred Member Obligations to AIDEA.</li> </ol>

Item	Proposed Terms
<b>Conditions Precedent</b>	<ol style="list-style-type: none"> <li>1. Approval by appropriate local government units for AIDEA participation in the project.</li> <li>2. Execution of the MR LLC OA and formation of MR LLC.</li> <li>3. Demonstration, to the satisfaction of AIDEA, that BRPC has the financial resources necessary to fulfill all its obligations under the MR LLC OA.</li> <li>4. Acquisition by BRPC of all permits, authorizations, regulatory approvals for the Mustang Road.</li> <li>5. Execution of a Project Operating Agreement between MR LLC and BRPC, on terms and conditions acceptable to AIDEA.</li> <li>6. Provision of a guarantees and security interests by BRPC in support of its obligations under the MR LLC OA.</li> <li>7. Provision of the Working Interest contribution necessary for Mustang Road LLC to qualify as a "Producer or Explorer" and earn ACES tax credits on the construction expenditures.</li> <li>8. Execution of a commitment by BRPC to exclusively use the Mustang Road facilities for all BRPC activities related to the Mustang Field and other South Miluveach Unit holdings.</li> <li>9. Execution in a form acceptable to AIDEA, of BRPC parent company guarantees of MR LLC Preferred Member Obligations to AIDEA.</li> <li>10. Execution of a commitment by BRPC to continue development activities in the South Miluveach Unit until all Preferred Member Obligations are met.</li> <li>11. BRPC shall purchase a comprehensive insurance package, with appropriate coverage limits and with AIDEA as a named additional party, sufficient, in AIDEA's sole determination, to cover all risks.</li> </ol>
<b>Conditions Subsequent</b>	<ol style="list-style-type: none"> <li>1. Execution of appropriate and required contracts for engineering, development and construction of the Project, on terms and conditions acceptable to AIDEA;</li> <li>2. Securing Producer or Explorer status for MR LLC to earn ACES credits. Completion of all construction of the Project to the satisfaction of AIDEA.</li> </ol>
<b>Transfer restrictions</b>	BRPC may not transfer its interests in MR LLC without prior approval from AIDEA.
<b>Laws &amp; Jurisdiction</b>	The MR LLC OA and all other relevant agreements will be governed by Alaska law, and jurisdiction for all disputes under the agreements will be the Third Judicial District of Alaska.

# Finance Plan

Proposed Project - Mustang Road, LLC

December 6, 2012



# Investing in Alaskans

## Alaska Industrial Development and Export Authority

### Project Development Investment Committee

Project: Mustang Road LLC	Date: 11/26/12
Cost: \$20 million (AIDEA)	Source: AIDEA Revolving Fund (Cash and investments)
Phase: Board Approval for Project Funding	
Action Requested: Approval to recommend to Board for Full Funding	
<p>Summary: AIDEA will invest in an LLC for the purpose of owning a 4.5-mile road and production pad on the North Slope connecting the existing Tarn road to the proposed Mustang Development field. This road will provide access to the Brooks Range Petroleum Company (BRPC) Mustang Field (Southern Miluveach Unit) as well as adjacent company holdings, other working interest party holdings and service contractor access. Total project cost is estimated to be \$25 million. The LLC will be jointly owned by AIDEA (80%) and BRPC (20%).</p> <p>It will enable the connection of the Brooks Range holdings and nearby fields to the Alpine pipeline and TAPS and the market. It will support the immediate development of the BRPC production facility that will be capable of producing 15,000 barrels of crude oil per day (“bopd”)</p> <p>The project meets AIDEA’s mission requirements of economic development and growth through 280 construction jobs and 25 full time operation jobs on the North Slope. It will provide additional revenue through royalties and taxes the State as well as increasing the tax base for the North Slope Borough.</p> <p>AIDEA will be compensated through tolling and/or an annual fixed fee, notionally based on a 15-year amortization period at 8% interest. BRPC will assign a 1% working interest of the Mustang Unit to Mustang Road LLC in order to guarantee payments as well as making the LLC eligible for ACES credits. ACES credits are expected to be 46% of the total capital cost.</p> <p>Board approval for full funding and authorization to execute all appropriate organizational and contract documents to establish Mustang Road, LLC for the purpose of constructing the access road and pad at the December 6, 2012 board meeting. Schedule requires the mine to be developed and road to be built in the 2012/2013 winter season.</p>	

Investment Committee Approval:	Date: 11/26/12
Ted Leonard - Executive Director	
Chris Anderson - Deputy Director	
Valorie Walker - Deputy Director	
Submitted By:	
James Hemsath – Deputy Director, PDAM	

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## A. FINANCE PLAN – CAPITAL INVESTMENT SUMMARY

### Overall Plan of Finance

AIDEA and BRPC have developed an initial plan of finance for the Mustang Development Program, the foundation for which is BRPC's current and planned investment in the production wells that will feed the Mustang Production Facility and utilize the Mustang Road.

AIDEA will participate initially in financing the majority of the Mustang Road Project as a means of providing momentum for the overall program. If the AIDEA Board and the Legislature authorize a larger financing, AIDEA would also participate in the approximately \$180 million financing for the Mustang Road Production Facility.

The table below summarizes sources and uses of funds for the overall Mustang Development Program

OVERALL MUSTANG DEVELOPMENT PROGRAM FUNDING	Mustang Road	Mustang Production Facility	BRPC Drilling	Total
<b>USES OF FUNDS</b>				
BRPC Exploration (pre-2013)	\$ -	\$ -	\$ 45,700,000	\$ 45,700,000
Mustang Road	23,889,327	-	-	23,889,327
Mustang Production Facility	-	178,605,367	-	178,605,367
BRPC Prod. Drilling Program	-	-	200,000,000	200,000,000
<b>TOTAL - USES OF FUNDS</b>	<b>\$ 23,889,327</b>	<b>\$ 178,605,367</b>	<b>\$ 245,700,000</b>	<b>\$ 448,194,694</b>
<b>SOURCES OF FUNDS</b>				
BRPC Equity (pre-2013)	\$ 3,889,327	\$ -	\$ 45,700,000	\$ 49,589,327
BRPC Equity (2013-on)	-	-	200,000,000	200,000,000
AIDEA - Mustang Road LLC	20,000,000	-	-	20,000,000
AIDEA* + 3rd Party Investors	-	178,605,367	-	178,605,367
<b>TOTAL - SOURCES OF FUNDS</b>	<b>\$ 23,889,327</b>	<b>\$ 178,605,367</b>	<b>\$ 245,700,000</b>	<b>\$ 448,194,694</b>

*\* Subject to AIDEA & Legislative approval - otherwise all MPF funding will be 3rd Party*

### AIDEA Portfolio Plan

AIDEA's plan of finance will provide that the Mustang Road project will be financed from cash and investments of the AIDEA Revolving Fund (as opposed to external funding).

The Mustang Road project has characteristics similar to the DeLong Mountain Transportation System, in that it is infrastructure related to resource development in a remote area of the state, with considerable risk, but also with potential for a significant long-term return to AIDEA's Revolving Fund.

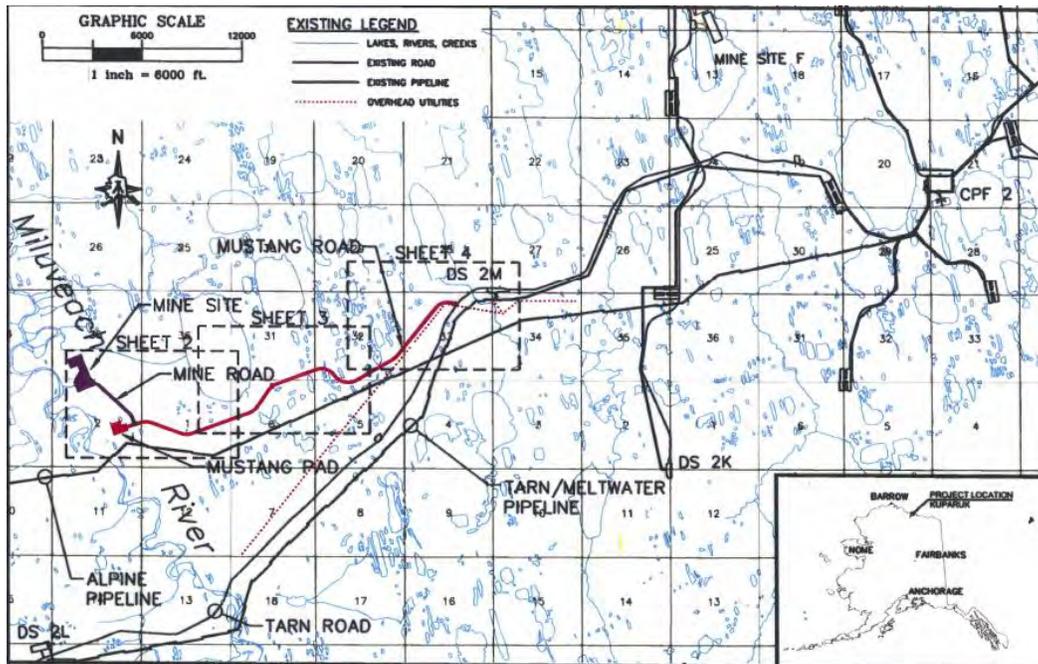
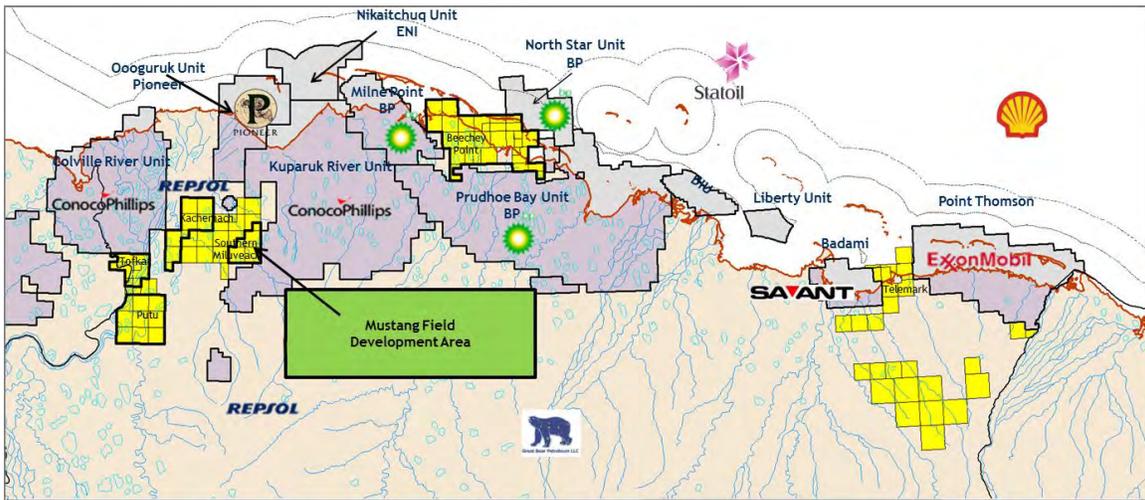
It is possible, but by no means assumed, that the Mustang Road project financing could also be incorporated into a larger, legislatively-authorized funding by AIDEA, with the potential to return the \$20 million capacity to the Revolving Fund for future projects and loans.

## Project Description

The Mustang Road LLC Project is a 4.5 mile gravel road that provides access from the Tarn Road to a potential production facility serving oil fields in the Southern Miluveach Unit to the west of Prudhoe Bay. To achieve construction efficiencies and lower cost, the project also includes the “pad” for the potential production facility.

The road enables development of a series of independently-owned oil prospects, a collecting and production facility, and a connection to the Alpine Pipeline and, through that pipeline, to TAPS.

## Project Location



## Project Cost Summary & Development Plan

The Mustang Road Project consists of five elements:

- Ice Road - Supports mine development and road/pad construction.
- Gravel Mine - Supplies gravel for roads, production pad, other facilities.
- Mine Access Road - 0.7 mile road between mine and production pad.
- Site Access Road - 4.4 mile road between Mustang and KRU road system.
- Main Production Pad - 19.3-acre gravel production facility pad.

The Mustang Road Project is only the first phase of a larger development effort to bring newly-discovered Mustang Oil Field reserves to market by 2<sup>nd</sup> quarter 2014. In a separate part of the overall development project, BRPC will install modular processing facilities, non-process camps and infrastructure, and a pipeline to deliver sales-quality crude to the Trans-Alaska Pipeline System via the Alpine Transportation Company pipeline.

The table below summarizes the proposed sources and uses of funds for Mustang Road LLC.

<b>MUSTANG ROAD PROGRAM FUNDING</b>	
<b>USES OF FUNDS</b>	
Mustang Road	\$ 23,889,327
<b>TOTAL - USES OF FUNDS</b>	<b>\$ 23,889,327</b>
<b>SOURCES OF FUNDS</b>	
BRPC Equity	\$ 3,889,327
AIDEA - Mustang Road LLC	20,000,000
<b>TOTAL - SOURCES OF FUNDS</b>	<b>\$ 23,889,327</b>

Completion of the Mustang Road Project, including mine, roads and pad is estimated at a total cost of approximately \$23-24 million inclusive of mining, stockpiling, building, and conditioning. The permitting process has been initiated with submission of the necessary permit documents to the US Army Corp of Engineers and approval is anticipated by 4<sup>th</sup> quarter 2012. The civil portion of the Mustang Road Project is scheduled to begin with field work commencing 1<sup>st</sup> quarter 2013 and all gravel filed work will be completed by 3<sup>rd</sup> quarter 2013.

The Mustang Oilfield Development Program would be the first high profile oil and gas project to bring on new North Slope production since the start-up in 2010 of the Eni Nikaitchuq development.

To construct the gravel road, an ice road will be built alongside the proposed route of the gravel road. A 3-acre ice pad will be constructed approximately 1 mile from the mine site adjacent to the ice road for staging and maintenance of equipment. Additional equipment will be brought in to commence mining operations. The organics and

overburden will be mechanically stripped and stockpiled. The organics will be stored on an ice pad within the boundaries of the second phase of the mine site.

Operations will be conducted around the clock. BRPC will have management and health, safety, and environmental (HSE) oversight onsite and will have a designated point of contact. Office and housing locations have not yet been established.

Gravel quantities excavated will be measured by signed, daily load-count logs. BRPC will enter into a Material Sales Contract with the State of Alaska and will pay the required royalty directly to the State. At the conclusion of mining operations, BRPC will rehabilitate the mine site in accordance with the Mining and Rehabilitation Plan to ensure that the mine site is left in a suitable state.

The Mustang Oilfield Development Project is subject to federal, state and local approvals. Development permitting is ongoing and submittals for the two longer-term permit applications and processes, the 404 Wetlands Permit and the air permit, are in progress. Brooks Range expects to receive the 404 permit by mid-December 2012 permitting mining and placement of gravel in 1<sup>st</sup> and 2<sup>nd</sup> quarter 2013 as planned. Applications for the other long-term permit, the C-Plan, will begin soon. All other permits applications will be submitted as dictated by the project schedule and permit lead times.

### **Project Schedule**

Engineering in 2012 has been focused on supporting permit activities, procuring long-lead engineered equipment, supporting gravel installation activities to occur in early 2013, and supporting detailed engineering commencing in early 2013.

Module fabrication will begin 2<sup>nd</sup> quarter 2013 and continue through year-end 2013.

The first significant North Slope construction activities associated with Mustang will be in 1<sup>st</sup> quarter 2013 with development of the gravel mine and with the building of gravel roads and the production pad. Throughout the summer of 2013, gravel-conditioning operations will continue. Installation of facility modules and equipment and all associated piping/electrical/instrumentation interconnect work will begin 4<sup>th</sup> quarter 2013 and will continue through 2<sup>nd</sup> quarter 2014. Functional checkout and commissioning operations are planned for 1<sup>st</sup> and 2<sup>nd</sup> quarters 2014. Development drilling of the initial 23 wells will begin 1<sup>st</sup> quarter 2014. First oil is targeted for the 2<sup>nd</sup> quarter 2014.

## B. FINANCE PLAN - BUSINESS STRUCTURE AND FINANCIAL SUMMARY

AIDEA and BRPC have evaluated alternative financing structures for the Mustang Road and propose to proceed on substantially the following terms:

Item	Proposed Terms
<b>Project Description</b>	<p>A 4.4 mile road and production facility pad providing access to the Mustang oil field facilities.</p> <p>The Mustang Road Project consists of five elements:</p> <ol style="list-style-type: none"> <li>1. Ice Road – Supports mine development and road/pad construction.</li> <li>2. Gravel Mine – Supplies gravel for roads, production pad, other facilities.</li> <li>3. Mine Access Road – 0.7 mile road between mine and production pad.</li> <li>4. Site Access Road – 4.4 mile road between Mustang and KRU road system.</li> <li>5. Main Production Pad – 19.3-acre gravel production facility pad.</li> </ol>
<b>Parties</b>	<p>Existing Parties:</p> <ul style="list-style-type: none"> <li>• Brooks Range Petroleum Company (“BRPC”), a Delaware corporation, as Operator.</li> <li>• AVCG LLC, a Kansas LLC, as working interest owner.</li> <li>• Ramshorn Investments, a corporation, as working interest owner</li> <li>• Alaska Industrial Development &amp; Export Authority (“AIDEA”), an Alaska public corporation.</li> </ul> <p>Parties to be Created:</p> <ul style="list-style-type: none"> <li>• Mustang Road LLC (“MR LLC”), an Alaska limited liability company formed to finance, own, design, permit, construct, operate and maintain the Mustang Road and own working interest in the reservoir.</li> </ul>
<b>Structure of Transaction</b>	<p>Mustang Road LLC Operating Agreement (“MR LLC OA”)</p> <ul style="list-style-type: none"> <li>• AIDEA invests \$20,000,000 in membership</li> <li>• BRPC <ul style="list-style-type: none"> <li>○ Invests, in membership, all additional capital required for completion of the Project (estimated to total approximately \$5,000,000)</li> <li>○ Commits a 1% Carried Working Interest (“WI”) in its Southern Miluveach Unit (“SMU”) leases to MR LLC</li> <li>○ Ownership is locked at AIDEA (80%) and BPRC (20%) until such time as AIDEA ownership is 100% bought out</li> </ul> </li> </ul> <p>Collateral, security and other agreements as required</p>
<b>Roles</b>	<p>Signatories of LLC Operating Agreement (and members of LLC):</p> <ul style="list-style-type: none"> <li>• AIDEA – Preferred Member <ul style="list-style-type: none"> <li>○ Rights to approve certain major company decisions</li> <li>○ Rights to certain guaranteed payments (“Preferred Member Obligations”) <ul style="list-style-type: none"> <li>▪ Preferred Member Repurchase Amount</li> </ul> </li> </ul> </li> </ul>

Item	Proposed Terms																
	<ul style="list-style-type: none"> <li>▪ Preferred Member Repurchase Premiums</li> <li>• BRPC – Common Member <ul style="list-style-type: none"> <li>○ Votes on matters not subject to Preferred approval</li> <li>○ Rights to free cash (as controlled by the MR LLC OA)</li> <li>○ Manager and operator of the project</li> </ul> </li> </ul>																
<b>Sources and Uses of Funds for Project Capital</b>	<p>At the establishment of MR LLC, the Project will be funded by:</p> <table border="1" data-bbox="472 478 1224 831" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">MUSTANG ROAD PROGRAM FUNDING</th> </tr> </thead> <tbody> <tr> <td colspan="2"><b>USES OF FUNDS</b></td> </tr> <tr> <td style="padding-left: 20px;">Mustang Road</td> <td style="text-align: right;">\$ 23,889,327</td> </tr> <tr> <td style="text-align: right;"><b>TOTAL - USES OF FUNDS</b></td> <td style="text-align: right;"><b>\$ 23,889,327</b></td> </tr> <tr> <td colspan="2"><b>SOURCES OF FUNDS</b></td> </tr> <tr> <td style="padding-left: 20px;">BRPC Equity</td> <td style="text-align: right;">\$ 3,889,327</td> </tr> <tr> <td style="padding-left: 20px;">AIDEA - Mustang Road LLC</td> <td style="text-align: right;">20,000,000</td> </tr> <tr> <td style="text-align: right;"><b>TOTAL - SOURCES OF FUNDS</b></td> <td style="text-align: right;"><b>\$ 23,889,327</b></td> </tr> </tbody> </table> <p>Prior to funding under the MR LLC OA, BRPC and AIDEA will each be responsible for its own transaction costs except as provided under the Reimbursement Agreement(s) between BRPC and AIDEA. AIDEA transaction costs (as defined by the MR LLC OA) will be reimbursed through Project revenues.</p>	MUSTANG ROAD PROGRAM FUNDING		<b>USES OF FUNDS</b>		Mustang Road	\$ 23,889,327	<b>TOTAL - USES OF FUNDS</b>	<b>\$ 23,889,327</b>	<b>SOURCES OF FUNDS</b>		BRPC Equity	\$ 3,889,327	AIDEA - Mustang Road LLC	20,000,000	<b>TOTAL - SOURCES OF FUNDS</b>	<b>\$ 23,889,327</b>
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<b>Mustang Road LLC Business and Revenues</b>	<p>Mustang Road LLC will offer open access to any responsible party for exploration or production drilling in the South Miluveach Unit and will recover its costs of capital and operations thru production from its interest in the reservoir, user fees or tolls for use of the Mustang Road.</p> <p>Initially, BRPC is expected to be the only user of the Project, and BRPC will be responsible for guaranteed payments sufficient to cover all capital and operating costs of MR LLC, including Preferred Member Obligations.</p> <p>To the extent that other parties use the Mustang Road, and pay user fees or tolls, BRPC's payments to MR LLC may be reduced as long as all Preferred Member Obligations are paid.</p> <p>MR LLC will also receive revenues from:</p> <ul style="list-style-type: none"> <li>• ACES tax credits</li> <li>• 1% working interest production payments</li> </ul>																
<b>Release of Proceeds/ Drawdowns</b>	<p>Proceeds from AIDEA's investment in MR LLC will be drawn down only for authorized purposes and pro-rata with BRPC investment. If MR LLC activities are ceased for any reason prior to completing the Mustang Road, any remaining proceeds of AIDEA investment will be returned to AIDEA to partially offset BRPC obligations to AIDEA.</p>																

Item	Proposed Terms																																																																																																														
<b>Ownership of Mustang Road LLC</b>	<p>Ownership percentages for MR LLC will be based on paid-in cash, adjusted over time by Repurchase of AIDEA membership interests.</p> <p>Initial MR LLC Ownership:  AIDEA: 80.0%  BRPC: 20.0%</p>																																																																																																														
<b>Project Capital</b>	AIDEA will not be subject to capital calls under the MR LLC OA. Any shortfalls in capital necessary to fund MR LLC capital and operating requirements will be met by BRPC.																																																																																																														
<b>Project Operations</b>	BRPC will be responsible for all Project operations, governed by the appropriate provisions of the MR LLC OA.																																																																																																														
<b>MR LLC Preferred Member Obligations</b>	<p>MR LLC will make payments to AIDEA in the form of:</p> <ol style="list-style-type: none"> <li>1. Reimbursement of AIDEA transactions cost defined in the MR LLC OA</li> <li>2. Preferred Member Repurchase Payments</li> <li>3. Preferred Member Dividends (calculated at 8.00% of the balance of AIDEA's capital account at the end of the previous year.</li> <li>4. Preferred Member payments will become due starting on December 31 of the following year in which Mustang Road construction begins, currently expect to be 2014. In any event, payments will become due starting no later than December 31, 2015.</li> </ol> <p>The table below summarizes the planned Preferred Owner payments:</p> <table border="1" data-bbox="467 1050 1312 1648"> <thead> <tr> <th rowspan="2">Year</th> <th rowspan="2">AIDEA Capital Account Balance</th> <th rowspan="2">Dividend Rate</th> <th colspan="2">Preferred Owner</th> <th rowspan="2">Total Annual Preferred Owner Payments</th> </tr> <tr> <th>Dividend Payments</th> <th>Repurchase Payments*</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>\$ 20,000,000</td> <td>n.a.</td> <td>\$ -</td> <td>\$ 11,500,000</td> <td>\$ 11,500,000</td> </tr> <tr> <td>2014</td> <td>8,500,000</td> <td>8.00%</td> <td>680,000</td> <td>566,667</td> <td>1,246,667</td> </tr> <tr> <td>2015</td> <td>7,933,333</td> <td>8.00%</td> <td>634,667</td> <td>566,667</td> <td>1,201,333</td> </tr> <tr> <td>2016</td> <td>7,366,667</td> <td>8.00%</td> <td>589,333</td> <td>566,667</td> <td>1,156,000</td> </tr> <tr> <td>2017</td> <td>6,800,000</td> <td>8.00%</td> <td>544,000</td> <td>566,667</td> <td>1,110,667</td> </tr> <tr> <td>2018</td> <td>6,233,333</td> <td>8.00%</td> <td>498,667</td> <td>566,667</td> <td>1,065,333</td> </tr> <tr> <td>2019</td> <td>5,666,667</td> <td>8.00%</td> <td>453,333</td> <td>566,667</td> <td>1,020,000</td> </tr> <tr> <td>2020</td> <td>5,100,000</td> <td>8.00%</td> <td>408,000</td> <td>566,667</td> <td>974,667</td> </tr> <tr> <td>2021</td> <td>4,533,333</td> <td>8.00%</td> <td>362,667</td> <td>566,667</td> <td>929,333</td> </tr> <tr> <td>2022</td> <td>3,966,667</td> <td>8.00%</td> <td>317,333</td> <td>566,667</td> <td>884,000</td> </tr> <tr> <td>2023</td> <td>3,400,000</td> <td>8.00%</td> <td>272,000</td> <td>566,667</td> <td>838,667</td> </tr> <tr> <td>2024</td> <td>2,833,333</td> <td>8.00%</td> <td>226,667</td> <td>566,667</td> <td>793,333</td> </tr> <tr> <td>2025</td> <td>2,266,667</td> <td>8.00%</td> <td>181,333</td> <td>566,667</td> <td>748,000</td> </tr> <tr> <td>2026</td> <td>1,700,000</td> <td>8.00%</td> <td>136,000</td> <td>566,667</td> <td>702,667</td> </tr> <tr> <td>2027</td> <td>1,133,333</td> <td>8.00%</td> <td>90,667</td> <td>566,667</td> <td>657,333</td> </tr> <tr> <td>2028</td> <td>566,667</td> <td>8.00%</td> <td>45,333</td> <td>566,667</td> <td>612,000</td> </tr> <tr> <td></td> <td></td> <td></td> <td><b>Total \$ 5,440,000</b></td> <td><b>\$ 20,000,000</b></td> <td><b>\$ 25,440,000</b></td> </tr> </tbody> </table> <p><i>*ACES rebates in 2013/2014 total \$11.5 mm reduce AIDEA balance</i></p>	Year	AIDEA Capital Account Balance	Dividend Rate	Preferred Owner		Total Annual Preferred Owner Payments	Dividend Payments	Repurchase Payments*	2013	\$ 20,000,000	n.a.	\$ -	\$ 11,500,000	\$ 11,500,000	2014	8,500,000	8.00%	680,000	566,667	1,246,667	2015	7,933,333	8.00%	634,667	566,667	1,201,333	2016	7,366,667	8.00%	589,333	566,667	1,156,000	2017	6,800,000	8.00%	544,000	566,667	1,110,667	2018	6,233,333	8.00%	498,667	566,667	1,065,333	2019	5,666,667	8.00%	453,333	566,667	1,020,000	2020	5,100,000	8.00%	408,000	566,667	974,667	2021	4,533,333	8.00%	362,667	566,667	929,333	2022	3,966,667	8.00%	317,333	566,667	884,000	2023	3,400,000	8.00%	272,000	566,667	838,667	2024	2,833,333	8.00%	226,667	566,667	793,333	2025	2,266,667	8.00%	181,333	566,667	748,000	2026	1,700,000	8.00%	136,000	566,667	702,667	2027	1,133,333	8.00%	90,667	566,667	657,333	2028	566,667	8.00%	45,333	566,667	612,000				<b>Total \$ 5,440,000</b>	<b>\$ 20,000,000</b>	<b>\$ 25,440,000</b>
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Item	Proposed Terms
<b>Voluntary Prepayment of Preferred Member Obligations</b>	<p>BRPC may prepay Preferred Member Obligations to AIDEA at any yearly payment date.</p> <p>Any and all ACES credits will be applied directly to AIDEA principal, at which time the financing will be re-amortized over the remaining period.</p>
<b>Mandatory Prepayment of Preferred Member Obligations</b>	<p>BRPC will be obligated to prepay Preferred Member Obligations in the event of:</p> <ol style="list-style-type: none"> <li>1. Receipt of ACES credits for the Project</li> <li>2. Any uncured Default</li> <li>3. Destruction or abandonment of the Project</li> <li>4. Cessation of operation of the Project</li> <li>5. Change of control of BRPC unless previously approved by AIDEA</li> </ol>
<b>Operating Flow of Funds</b>	<p>The flow of funds for MR LLC during the operating period of the Project will be as follows:</p> <ol style="list-style-type: none"> <li>1. Operating costs of MR LLC (as detailed and limited by the MR LLC OA).</li> <li>2. Costs of the Manager (as detailed and limited by the MR LLC OA).</li> <li>3. All Preferred Member Obligations to AIDEA.</li> <li>4. A reserve of 100% of annual free cash (up to the next two years' Preferred Member Obligations) is established and escrowed to provide for Preferred Obligations to AIDEA in the event Project revenues are insufficient to meet the repurchase schedule, or, alternatively, BRPC may prepay one year's Preferred Member Obligations to AIDEA.</li> <li>5. Distributions to the Common Member.</li> </ol>
<b>AIDEA Security, Collateral and Liens</b>	<ol style="list-style-type: none"> <li>1. AIDEA will have a priority lien on all assets of MR LLC.</li> <li>2. BRPC will provide AIDEA a perfected contingent interest in BRPC's assets as defined in #3 below.</li> <li>3. BRPC will provide MR LLC with a 1% working interest as described below: The 1% WI will obligate its revenue stream to a production payment that can be used to insure payback of AIDEA-provided funding. The production payment would be 75% of the 1% working interest gross revenue stream after royalty and transportation deductions, only, for the first 10 years; after that the production payment would become 50% of the 1% working interest gross revenue stream after the same deductions. In other words, normally the 1% WI would be obligated to pay its share of all costs including production facilities, development drilling, etc. BRPC is agreeing to pay all the non-road costs on the LLC's behalf until sustained oil production begins. The carried WI and its pledged production payment becomes very similar to an ORRI</li> <li>4. BRPC's parent companies (AVCG and Ramshorn) will commit to make up any shortfall in MR LLC Preferred Member Obligations to AIDEA.</li> </ol>
<b>BRPC Financial and Business Covenants</b>	<ul style="list-style-type: none"> <li>• BRPC will commit to exclusive use of the Mustang Road for all of its activities in the South Miluveach Unit.</li> <li>• BRPC will commit to open access to the Mustang Road for all qualified parties.</li> <li>• BRPC will commit to fund its share of MR LLC OA capital costs, and to the repayment of AIDEA Preferred Member obligations regardless of AIDEA participation in Mustang Production Facility.</li> <li>• BRPC will commit to continued Mustang Field development until all Preferred Member Obligations are paid.</li> </ul>

Item	Proposed Terms
<b>Default</b>	<ol style="list-style-type: none"> <li>1. The MR LLC OA will include customary default conditions as well as provision for the treatment and effect of cross-defaults under any other relevant agreements.</li> <li>2. Failure to complete or secure Conditions Precedent or Conditions Subsequent shall constitute events of default.</li> <li>3. In the event of an uncured default by BRPC under the MR LLC OA, all payments due to AIDEA under the MR LLC OA will be immediately accelerated.</li> <li>4. In the event of default and liquidation of the Project, BRPC will convey to AIDEA sufficient interests (as described above in "AIDEA Security, Collateral and Liens") in BRPC's assets to cover MR LLC's outstanding Preferred Member Obligations to AIDEA.</li> </ol>
<b>Conditions Precedent</b>	<ol style="list-style-type: none"> <li>1. Approval by appropriate local government units for AIDEA participation in the project.</li> <li>2. Execution of the MR LLC OA and formation of MR LLC.</li> <li>3. Demonstration, to the satisfaction of AIDEA, that BRPC has the financial resources necessary to fulfill all its obligations under the MR LLC OA.</li> <li>4. Acquisition by BRPC of all permits, authorizations, regulatory approvals for the Mustang Road.</li> <li>5. Execution of a Project Operating Agreement between MR LLC and BRPC, on terms and conditions acceptable to AIDEA.</li> <li>6. Provision of a guarantees and security interests by BRPC in support of its obligations under the MR LLC OA.</li> <li>7. Provision of the Working Interest contribution necessary for Mustang Road LLC to qualify as a "Producer or Explorer" and earn ACES tax credits on the construction expenditures.</li> <li>8. Execution of a commitment by BRPC to exclusively use the Mustang Road facilities for all BRPC activities related to the Mustang Field and other South Miluveach Unit holdings.</li> <li>9. Execution in a form acceptable to AIDEA, of BRPC parent company guarantees of MR LLC Preferred Member Obligations to AIDEA.</li> <li>10. Execution of a commitment by BRPC to continue development activities in the South Miluveach Unit until all Preferred Member Obligations are met.</li> <li>11. BRPC shall purchase a comprehensive insurance package, with appropriate coverage limits and with AIDEA as a named additional party, sufficient, in AIDEA's sole determination, to cover all risks.</li> </ol>
<b>Conditions Subsequent</b>	<ol style="list-style-type: none"> <li>1. Execution of appropriate and required contracts for engineering, development and construction of the Project, on terms and conditions acceptable to AIDEA.</li> <li>2. Securing Producer or Explorer status for MR LLC to earn ACES credits. Completion of all construction of the Project to the satisfaction of AIDEA.</li> </ol>
<b>Transfer restrictions</b>	BRPC may not transfer its interests in MR LLC without prior approval from AIDEA.
<b>Laws and Jurisdiction</b>	The MR LLC OA and all other relevant agreements will be governed by Alaska law, and jurisdiction for all disputes under the agreements will be the Third Judicial District of Alaska.

## Preliminary Pro Forma Financials

Based on the more conservative D&M estimates of reserves, and the notional structure for the Mustang Road and Mustang Production Facility financings, AIDEA's projections indicated a robust level of net cash flow coverage above the planned payments to AIDEA, and substantial accumulation of cash reserves in the early years of the program. During the due diligence and deal structuring phase AIDEA's team will evaluate alternative scenarios in order to guide final structure of security and protection against down-side risk.

all numbers (except \$/bbl) in millions	2012	2013	2014	2015	2016	2017	2018
Net Oil & Cond. Production (bbl)	-	-	-	3.12	4.29	3.61	2.24
Oil & Cond Prices (\$/bbl)	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
Future Revenue After Royalty	\$ -	\$ -	\$ 311.57	\$ 429.31	\$ 360.56	\$ 224.02	\$ 123.36
Production & AV Taxes	\$ -	\$ (8.80)	\$ (65.04)	\$ 27.87	\$ 78.02	\$ 40.90	\$ 2.57
Transportation & Gathering Expenses	\$ -	\$ -	\$ 28.31	\$ 39.01	\$ 32.77	\$ 20.36	\$ 11.21
Lease Expenses	\$ -	\$ -	\$ 7.20	\$ 7.24	\$ 7.24	\$ 7.24	\$ 7.24
Lifting Expenses	\$ -	\$ -	\$ 3.89	\$ 5.47	\$ 5.54	\$ 5.49	\$ 5.48
Capital Costs	\$ 23.95	\$ 144.54	\$ 218.55	\$ 75.00	\$ -	\$ -	\$ -
Total Expenditures	\$ 23.95	\$ 135.74	\$ 192.91	\$ 154.59	\$ 123.57	\$ 73.98	\$ 26.50
Other sources	\$ 24.00	\$ 196.00	\$ -	\$ -	\$ -	\$ -	\$ -
Net	\$ 0.05	\$ 60.26	\$ 118.66	\$ 274.71	\$ 236.99	\$ 150.04	\$ 96.86
Cumulative Net	\$ 0.05	\$ 60.31	\$ 178.97	\$ 453.68	\$ 690.67	\$ 840.71	\$ 937.57
	2012	2013	2014	2015	2016	2017	2018
Mustang Road LLC Financing	\$ 20.00	n.a.	\$ 1.25	\$ 1.20	\$ 1.16	\$ 1.11	\$ 1.07
Mustang Production Facility LLC Financing	\$ 180.00	n.a.	\$ 33.17	\$ 33.17	\$ 33.17	\$ 33.17	\$ 33.17
Total - DS / Preferred Owner Payments		n.a.	\$ 34.42	\$ 34.37	\$ 34.33	\$ 34.28	\$ 34.24
DS / Preferred Owner Coverage		n.a.	3.45	7.99	6.90	4.38	2.83
Net After Financing	\$ 0	\$ 60.26	\$ 84.24	\$ 240.34	\$ 202.66	\$ 115.76	\$ 62.62
Cumulative Net After Financing	\$ 0	\$ 60.31	\$ 144.55	\$ 384.89	\$ 587.55	\$ 703.30	\$ 765.93

## C. FINANCE PLAN – ECONOMIC, MARKET AND BUSINESS FEASIBILITY

### Economic Base and Business Model

The Mustang Road Project economic base is BRPC's Mustang Oil Field and the other, 3<sup>rd</sup> party, prospects in the vicinity. Based on the results from discovery wells, an independent auditor of BRPC's geotechnical data developed estimates of the economic value of the program for the industry standard tiers of reserve estimates at current prices. AIDEA and BRPC financial plans are based on the lowest, highest probability – "Proved" reserves (P1) – that the table below shows have an estimated net present value of approximately \$538 million.

	<u>Proved (M\$)</u>	<u>Proved plus Probable (M\$)</u>	<u>Proved plus Probable plus Possible (M\$)</u>
Future Gross Revenue, M\$	1,978,559	3,488,898	4,082,996
Production and Ad Valorem Taxes, M\$	106,544	462,322	649,030
Transportation Expenses, M\$	179,802	317,053	371,042
Operating Expenses, M\$	260,089	360,066	422,686
Capital Costs, M\$	457,634	532,634	532,634
Future Net Revenue, M\$	974,490	1,816,823	2,107,604
Present Worth at 10 Percent, M\$	538,656	823,856	893,526

*Estimates by independent auditor DeGolyer & MacNaughton*

BRPC's discovery wells are less than one mile from the Alpine Pipeline, which carries sales quality crude from the Colville River Unit to Pump Station 1 and TAPS. BRPC plans to install truckable modular facilities on site to process the produced oil and then build a short feeder line to connect to the Alpine Pipeline.

BRPC is proposing to develop the Mustang Oil Field within the Southern Miluveach Unit [SMU]. The area is adjacent to the western boundary of the Kuparuk River Unit [KRU] approximately 4.5 miles west of existing KRU Drill Site 2M. The field will include on a single gravel production pad the following: a central processing facility, wells/drillsite equipment, operations camp/support center, and temporary construction infrastructure. First oil is planned for 2<sup>nd</sup> quarter 2014. Civil work associate with this project is a significant project element and includes development of a gravel mine, building of two road segments, and building of the gravel production facility pad.

The Mustang Oil Field will be a development of the Kuparuk "C" sand, the same reservoir as produced in the Kuparuk River Field. Maximum predicted oil rate is 15,000 bopd and total probable expected recovery is 43.6 million barrels oil over an expected field life of 20 years. Power for process facilities and non-process infrastructure will be generated onsite with dual-fuel turbine generators. All produced gas volumes not used for onsite fuel gas needs will be re-injected into the reservoir.

The central processing facility will be a standalone facility capable of producing sales-quality crude oil. The separation process will be a 3-phase separation process. The sales-quality crude will be shipped via pipeline to the Alpine Transportation Company [ATC] common-carrier pipeline located approximately 1,000 feet away.

Drillsite design will include tie-ins for up to 38 wells on 15-foot well centers. The wells will be housed in standard unheated, lighted well shelters. Surface safety valves (SSV) and the associated hydraulic control panels will be located in the well house. All production and gas injection wells will also have sub-surface safety valves (SSSV) actuated from the same hydraulic control panel as the SSV. Allocation of producer well volumes will be accomplished using a test separator for testing of individual wells in accordance with state regulations.

The Mustang Development will also include operations and construction infrastructure, such as an operations camp for staff housing, an operations support center with warehousing, maintenance, offices, and control room. During construction phase, the site plan includes provision for a construction camp and construction support complex.

Life cycle capital costs for the development include \$203 million for surface facilities (Mustang Road and Mustang Production Facility) and \$345 million for 23 wells at \$15MM per well average.

### **AIDEA 3<sup>rd</sup> Party Review of Economic Base**

AIDEA contracted with Alaskan oil geotechnical expert David Hite to review all available information and provide expert analysis of the economic capacity of the Mustang Development Program.

Mr. Hite's analysis confirmed the estimates of the economic capacity of the Mustang Field, and in fact, estimated higher capacity than the DeGolyer & MacNaughton (D&M) analysis provided by BRPC.

Hite's analysis of reserves involved several discrete steps. The first step was the determination of the appropriate reservoir parameters. The second element was the calculation of the productive areas for the various cases, and this was accomplished by mechanically planimetrying the mapped limits of the productive limits. The third, and most important component, is the actual calculation of the in-place oil and then the recoverable portion, which constitute the reserves. This involves the following mathematical steps:

1. prospective area (acres) x net pay (feet) = acre-feet reservoir
2. acre-feet reservoir x porosity (%) = acre-feet porosity
3. acre-feet porosity x 1-water saturation (%) = acre-feet oil-in-place
4. acre-feet oil-in-place x 7,758 barrels/acre-foot = barrels of oil-in-place
5. barrels of oil-in-place ÷ FVF (dimensionless) = stock tank barrels in-place
6. stock tank barrels oil-in-place x recovery factor (%) = reserves

The reserve calculations as determined by the various analyses are summarized in the table below:

<b>RESERVES CALCULATED BY</b>	<b>RESERVE CASE (1P, 2P OR 3P)</b>	<b>RESERVES (MMbo)</b>
BROOKS RANGE PETROLEUM CORPORATION	1P	27.024
DEGOLYER AND MACNAUGHTON	1P	24.732
	2P	43.611
	3P	51.037
STRICKLAND GROUP	1P(?)	39.1
<b>David Hite Analysis</b>	<b>1P</b>	<b>30.723</b>
	<b>2P</b>	<b>42.992</b>
	<b>3P</b>	<b>48.366</b>

1P = Proved

2P = Proved + Probable

3P = Proved + Probable + Possible

Mr. Hite's conclusions are extracted in relevant part below:

- *The conclusions developed from this analysis of the geology of the Mustang area and the nature and character of the reservoir(s) are presented below as a series of bullet points.*
- *The principal reservoir in the Mustang field is the Kuparuk "C" sandstone, and based on the regional geology and the proximity to the Palm area, it is most probably the "C-4" interval. This correlation strongly supports the use of the Palm development area as an analog for Mustang.*
- *The structural and stratigraphic relationships between the giant Kuparuk River oil field and the Palm and Mustang areas are virtually identical, including the eastern-boundary sets of down-to-the-east normal faults and the slight over-pressuring believe to be associated with the water flood in the Kuparuk River field. This latter aspect demonstrates pressure but not fluid communication.*
- *Reservoir and oil parameters derived from Palm can be applied to the Mustang field area with a high degree of confidence. The area of greatest concern would be in determining an appropriate N/G sandstone and gross sandstone thickness. The "C" sandstone is not a uniformly thick unit nor is it a simple wedge-shaped unit that thins in one or more directions. Due to the topographic relief developed on the LCU*

*and the potential impacts of syndepositional faulting, changes in thickness are difficult to directly detect and indirect methods such as seismic interpretation are used. The N/G ratio may be locally impacted by siderite cementation. However, in the analysis for AIDEA a relatively small N/G ratio was used and the results were positive.*

- *The regional oil column is nearly 900' with the highest known oil at -5,600' TVD to an oil/water contact at approximately -6,500' TVD. This easily brackets the SMU and the Mustang structure. The shallowest portion of Mustang is at -5,976 and the deepest portion is at -6,265' with the LKO at -6,108' in the L2-03 well. Thus there is little doubt that the entire area contains oil. In the reserve calculations, the LKO value was not used to define limits of the field, as it is interpreted to be define a **minimum** area not an expected area of the accumulation.*
- *The Kuparuk "A" sandstone was not considered in any reserve calculations but due to its local presence in the southeastern corner of the unit, it may contribute modestly to the EUR.*
- *The reserve calculations performed by D&M and BRPC are reasonable values and when compared to those prepared as part of this analysis appear to be somewhat conservative, at least in the 1P and 2P cases. The calculations by D&M are the most conservative with 24.732 MMbo in the 1P case while BRPC and this study have values of 27.024 and 30.723 MMbo respectively. BRPC did not prepare 2P and 3P cases. In both the 2P and 3P cases D&M calculated slightly higher reserves than this analysis provided. These differences are all readily explainable considering the inherent uncertainty in some of the values employed in the calculations.*
- *The major conclusion is that the D&M numbers are the most conservative in the 1P case and that case appears to be very economic at anticipated oil prices. The results of this analysis would serve to make the field even more profitable and add additional support to the project.*
- *The final conclusion is that given a post-2031 decline rate and a field shut down at 300 bopd the Mustang field has a life that could extend well beyond 2031 and in the 3P case perhaps beyond 2050.*
- *The Mustang project is geologically on very solid ground and there appears to be no recognizable impediment to its success, given the current and expected economic environment.*

## **D. ECONOMIC DEVELOPMENT IMPACT AND AIDEA SUITABILITY**

### **AIDEA Mission Suitability/Estimated Economic Development Impact**

AIDEA's Suitability Committee reviewed the Mustang Development Program in May of 2012 and determined that the program is suitable for AIDEA's Development Finance program for the following reasons:

- The Mustang Development Program constitutes a major opportunity for economic development in a remote region of Alaska.
- The program prolongs the economic life of the North Slope oil infrastructure and TAPS.
- The Mustang Road Project qualifies as a "road to resources" as prioritized by the State's economic development goals.
- The overall development program has the potential to generate State revenues from royalties, ACES, etc. to a total as high as \$1.2 billion over the life of the fields served by the Mustang Road and Mustang Production Facility.
- The Mustang Road project will create Alaskan jobs (service companies, engineering, construction) and enable additional jobs during the drilling program:
  - 30 Road Construction
  - 250 Production Facility Fabrication and Installation
  - 25 Full time operations (incl. production facility)

### **Community Support**

BRPC has worked closely with local authorities and the State government in the development of the Mustang Development Program, generating positive support based on the economic, environmental and community development plans embodied in the program.

Most of the construction activities will be conducted by North Slope entities, with the encouragement of the North Slope Borough and the Arctic Slope Regional Corporation ("ASRC").

ASRC also holds considerable reserves adjacent to the Mustang Field, and is a potential customer of the Mustang Road and Mustang Production Facility.

The North Slope Borough Assembly is expected to consider a resolution in support of the Mustang Road project at its meeting on December 4, 2012.

## E. PROJECT SPONSOR INFORMATION

The project sponsor for the Mustang Development Program (and the Mustang Road) is Brooks Range Petroleum Corporation (BRPC). Brooks Range Petroleum is a small, independent operator, focused on safely exploring for oil and gas on Alaska's North Slope, which operates a joint venture ("JV") that controls 230,000 acres adjacent to the Prudhoe Bay, Kuparuk, and Point Thomson fields. BRPC is an Alaskan company with headquarters in Anchorage.

Since starting in 2007, BRPC has drilled more exploration wells than Conoco, BP, and Exxon combined in that same time period. To date the JV operated by BRPC has invested over \$160,000,000 looking for new oil. BRPC is bullish on Alaska and has committed to the State to accelerate exploration and drill 12 more wells in the next three years.

Founded by experienced North Slope oil operators, BRPC has a very specific strategy:

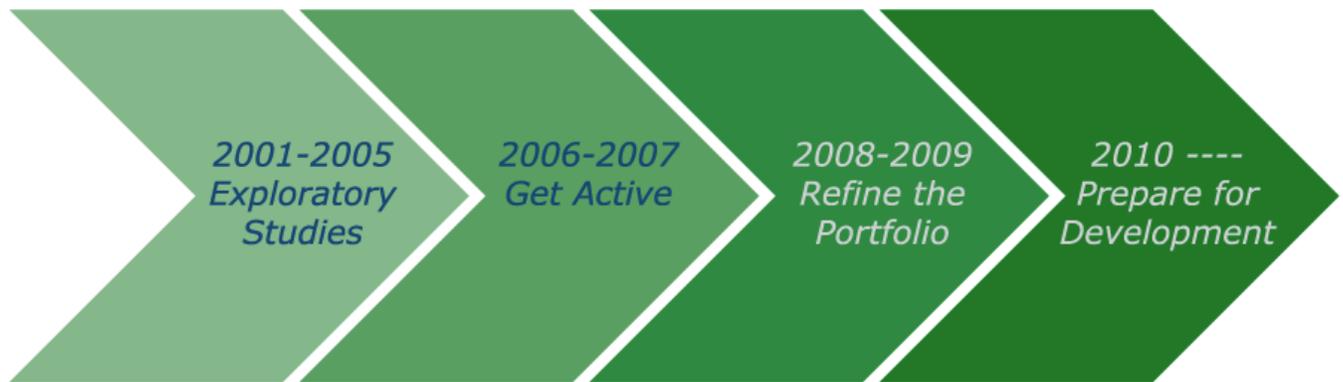
- Stay onshore, on state lands, adjacent to large fields
- Locate near infrastructure, and near known reservoirs
- Focus on high-quality, light petroleum
- Operate with short cycle times
- Use a small team of experienced professionals from Alaskan majors and independents
  - 3 oil finders
  - 4 engineers

Bart Armfield worked on the North Slope for over 10 years and developed a strategy for development of quality reservoirs that were too small for the majors. Along with John J. "Bo" Darrah, Mr. Armfield combined forces with several small mid-continent independents to form the Alaska Venture Capital Group ("AVCG") and began to assemble a strategic acreage position adjacent to the super-giant and giant fields of Prudhoe Bay and Kuparuk. By 2006 the group owned over 269,000 acres, brought former Arco Alaska President Ken Thompson into the group, hired a geosciences team, and formed Brooks Range Petroleum Corporation (BRPC) as a wholly owned subsidiary to work as the operating arm. In the next year, the group formed a Joint Venture with Nabors Industries LTD subsidiary Ramshorn Investments, Inc. and two companies out of Calgary: Bow Valley Energy and TG World Energy.



# Brooks Range Petroleum

## Brooks Range Petroleum Timeline



- One of the first independents to operate on the North Slope
- Attract working interest partners
- Acquire western acreage
- Drill North Tarn #1
- Acquire acreage at lease sales & trades with majors (Beechey Point)
- Drill first two wells (North Shore #1 / Sak River #1)
- Drill Tofkat #1, A & B sidetracks
- Delineate reservoir with North Tarn 1A & Mustang 1
- Establish political, land and service relationships
- Acquire North Shore 3-D
- Shoot Big Island 3-D
- Begin development plans for Mustang
- BRPC Formed
- Unitize Beechey Point
- Unitize acreage with development potential
- High grade portfolio

## F. RISKS AND RISK MITIGATION

### Risk and Mitigation Summary

Potential Risks	Description & Analysis	Mitigation
BRPC financial capacity, ability to finance larger program	BRPC will be financing \$200+ million for the drilling program. If BRPC, for whatever reason, is unable to finance the whole program, the Mustang Road project could be at risk.	<ul style="list-style-type: none"> <li>• AIDEA will have a Lien on BRPC's working interests, with the potential to sell those interests to other parties in the event BRPC is unable to proceed.</li> <li>• AIDEA will have guarantees of AIDEA's interests from BRPC's parent companies.</li> <li>• AIDEA will have the potential to work with other interests in the Mustang area, including ASRC, to continue development of the resources.</li> </ul>
Road Technology/ construction	The Mustang Road is being developed in Arctic conditions and could entail some completion risk.	<ul style="list-style-type: none"> <li>• Considerable up-front analysis, engineering, design and permitting have been completed.</li> <li>• The gravel source for the program has been identified and assessed to have sufficient capacity.</li> <li>• The nature of the civil construction is based on proven designs and will be executed by experienced local contractors</li> <li>• Conditions precedent will require BRPC to have all required permits prior to AIDEA funding release.</li> </ul>
Production technology/fabrication	Completion of the Mustang Production Facility is required for the development of the Mustang Field and adjacent fields.	<ul style="list-style-type: none"> <li>• BRPC and its parent companies will guarantee the MR LLC preferred owner obligations to AIDEA whether or not the Mustang Production facility is completed.</li> <li>• The Mustang Production facility is modular and based on proven equipment, and involves no new technology.</li> <li>• The entire facility (except the pad and related foundations) will be "truckable" and could be relocated to other fields if needed.</li> </ul>

<b>Potential Risks</b>	<b>Description &amp; Analysis</b>	<b>Mitigation</b>
Oil price declines	Current prices (in the \$90-\$100/bbl range) may not prevail over the entire period of the potential Mustang Road and Mustang Production Facility financings.	<ul style="list-style-type: none"> <li>• BRPC estimates that the breakeven point between for the Mustang Field is \$30 - \$40/bbl.</li> <li>• To hedge against possible oil price reductions, AIDEA can structure the financing to require advance repayments from early excess cash, and require continuing restrictions on the distribution of free cash.</li> </ul>

## G. AIDEA SCHEDULE AND PROCESS

### Overall AIDEA Schedule/Process Milestones

Suitability	May 2012
Feasibility/Investment Committee	October 12, 2012
Board Resolution	October 30, 2012
Reimbursement Agreement	November 1, 2012
Board approval	December 2012
Closing/funding	December 2012
Commence Construction	January 2013
Potential Legislative action on Production Facility	June 2013
Production Facility Financing	August 2013
Road and pad completion	Q3 2013
Production facility completion	Q1 2014
Initial road lease revenues from production	Q1 2014

### Finance Plan Statutory Reference

This report constitutes AIDEA's Finance Plan for the Mustang Road LLC Project under:

Sec. 44.88.173. Finance plan.

(a) Before approving a project financed under [AS 44.88.172](#), the authority shall prepare a finance plan. The finance plan must include an estimate of the total cost of the project and a description of the sources of money that will be used to finance the total cost of the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational costs.

(b) The authority shall give preference to a project that does not require financial assistance from the state. If the authority determines that a project requires state financial assistance, and if the authority further determines that it is desirable to finance the project, the authority shall recommend a method of financing that minimizes cost to the state. A finance plan required under (a) of this section must identify the method of financing that minimizes the cost to the state.

(c) The authority shall submit a finance plan prepared under this section to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project. If a project requires financial assistance from the state, the state financial assistance must be available before bonds are issued for the project.

## H. CONCLUSION AND STAFF RECOMMENDATION

Based on the above analysis and term sheet, it is staff's opinion that:

1. The Mustang Road project fulfills AIDEA mission by providing new jobs related to construction of the road, creating necessary and needed infrastructure on the North Slope that will lead to the development of not only the Brooks Range leases, but also to leases owned by ASRC and Repsol. This development will ultimately lead to additional oil and gas production in the region with its associated revenues to the State, but additional throughput in TAPS and royalty revenue for state.
2. The North Slope Borough supports this project as demonstrated in the draft resolution – specifically, “The Borough Assembly finds that allowing AIDEA to assist in the financing and development of the Mustang Development Project is in the best interests of the Borough and, accordingly, AIDEA’s participation in the financing and development of the Mustang Development Project is hereby approved.”
3. A Finance Plan has been developed that allows AIDEA to be repaid with an 8% interest over a 15- year period. These revenues are a mix of ACES credits totaling 46% of qualifying capital costs, approximately \$11.5 million; revenues generated through a 1% carried working interest in the operating field; and guarantees from BRPC and their parent companies.
4. The Mustang Unit has sufficient reserves, 25 – 30 million barrels proven (1P), to support the development of the road and subsequent development of a production facility.
5. The character, experience and qualifications of the personnel at BRPC are appropriate to execute a project of this magnitude and work done to date on the development of their lease provides assurance that the operating field will be developed.

Therefore, Staff recommends the approval of Resolution No. G12-08 directing AIDEA to execute all necessary agreements with Brooks Range Petroleum Company, including the creation of Mustang Road, LLC, the operating agreement with BRPC, and perfecting all necessary side agreements related to the carried working interest and associated tax credits in order to finance and execute the Mustang Road, LLC project.

# *Investing in Alaskans*

**Alaska Industrial Development and Export Authority**

813 West Northern Lights Blvd.  
Anchorage, Alaska 99503

Phone: (907) 771-3000

Fax (907) 771-3044

Toll Free (Alaska Only) 888-300-8534



**NORTH SLOPE BOROUGH  
RESOLUTION SERIAL NO. \_\_\_-2012**

**A RESOLUTION APPROVING THE ALASKA INDUSTRIAL  
DEVELOPMENT AND EXPORT AUTHORITY ASSISTING  
IN THE FINANCING AND DEVELOPMENT OF THE  
MUSTANG DEVELOPMENT PROJECT**

**WHEREAS**, the Alaska Industrial Development and Export Authority (“AIDEA”) is a public corporation of the State of Alaska that has a mission of promoting the development and advancement of the general prosperity and economic welfare of the people of Alaska, relieving problems of unemployment, and creating additional employment by providing means of financing and facilitating the financing of industrial, manufacturing, export, small business, and other business enterprises;

**WHEREAS**, through its development finance program, AIDEA proposes to assist Brooks Range Petroleum Corporation with financing for the Mustang Development Project, an oil field development that will be located within the Southern Miluveach Unit on the North Slope of Alaska and that will consist of roads, a gravel pad, a processing facility, a tank farm and various wells, pipelines and affiliated infrastructure;

**WHEREAS**, Brooks Range Petroleum Corporation has applied to the North Slope Borough’s Planning and Community Services Department for a Conditional Development Permit for the Mustang Development Project (NSB 13-170), and the Planning and Community Services Department is processing the request in accordance with Borough procedures;

**WHEREAS**, under AIDEA’s regulations, 3 AAC 99.520, AIDEA must obtain the approval of the local government where a development project is to be located before AIDEA can enter into an agreement to finance or develop such a project; and

**WHEREAS**, the Mustang Development Project is expected to create new jobs in the Borough and to allow for increased oil production from the North Slope.

**NOW, THEREFORE, BE IT RESOLVED THAT:**

1. The Borough Assembly finds that allowing AIDEA to assist in the financing and development of the Mustang Development Project is in the best interests of the Borough and, accordingly, AIDEA’s participation in the financing and development of the Mustang Development Project is hereby approved.

2. This Resolution only concerns AIDEA’s involvement in the Mustang Development Project. This Resolution does not affect the requirement that a

final Conditional Development Permit for the Mustang Development Project be obtained from the Planning and Community Services Department, or the requirement that the Mustang Development Project comply with all other applicable Borough Code provisions and ordinances.

3. This Resolution shall be effective immediately upon approval by the Borough Assembly.

INTRODUCED: \_\_\_\_\_

ADOPTED: \_\_\_\_\_

\_\_\_\_\_  
Michael Aamodt, President

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Jeannie L. Brower, Borough Clerk

Date: \_\_\_\_\_

\_\_\_\_\_  
Charlotte E. Brower, Mayor

Date: \_\_\_\_\_

**ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**

**RESOLUTION NO. G12-08**

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY APPROVING INVESTMENT IN THE  
MUSTANG OIL FIELD ACCESS ROAD AND PRODUCTION  
PAD PROJECT**

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**WHEREAS**, Brooks Range Petroleum Corporation (“BRPC”), the owner of the Mustang Oil Field on the North Slope of Alaska, has requested that the Alaska Industrial Development and Export Authority (the “Authority”) assist in developing a road that would connect the Mustang Field of the Southern Miluveach Unit to the existing road system of the Prudhoe Bay area;

**WHEREAS**, BRPC’s exploration of the Mustang Field has established that it has proven oil reserves of 25 to 30 million barrels;

**WHEREAS**, the construction of the access road project would involve five main elements (all of which constitute the “Project”): (1) an ice road that would support the construction and development activities; (2) a gravel mine to obtain gravel for construction; (3) a mine access road of 0.7 miles in length, running between the mine and the production pad; (4) a site access road of 4.4 miles in length, running between the Mustang Oil Field and KRU road system; and (5) a main production pad of approximately 19.3 acres for the later construction of a 15,000 barrels-per-day crude oil production facility;

**WHEREAS**, the construction of the Project and the later crude oil production facility will permit BRPC to produce oil from the Mustang Oil Field, process the oil, and put that oil into the Trans-Alaska Pipeline through connecting pipelines, which would be in furtherance of the State of Alaska’s goal of getting more oil into the Trans-Alaska Pipeline;

**WHEREAS**, the construction of the Project and the later construction of a 15,000 barrels-per-day crude oil production facility may enable other nearby oil fields in the area to

begin production and thereby put even more oil into the Trans-Alaska Pipeline, which would also be in furtherance of the goal of getting more oil into the Pipeline;

**WHEREAS**, the Staff of the Authority has conducted a feasibility analysis of the Project and completed further due diligence of the Project, based on the premise that the Authority would invest a maximum of \$20 million in a limited liability company that would own and operate the Project, with the Authority's investment to be paid back through a road toll or annual user fees that would return the Authority's investment plus 8% per year;

**WHEREAS**, the Staff of the Authority has prepared a finance plan for the Project and recommended that the Authority proceed with the Project, subject to the following conditions (the "Conditions"):

(1) the North Slope Borough must approve of the Project and the Authority's participation in it;

(2) the Authority and BRPC must complete negotiations on a limited liability company agreement, guaranty agreements, and other ancillary agreements, the material terms of which are generally outlined on the Term Sheet provided to the Board; and

(3) the necessary permits for the Project must be obtained.

**WHEREAS**, the Project is eligible for financing under the Authority's development finance program (AS 44.88.172) because the Mustang Field access road and gravel pad will qualify as a "development project" under AS 44.88.900(3) in that they will constitute a "plant" or "facility" that will be used in connection with developing or utilizing natural resources of the state; and

**WHEREAS**, the Board finds the Project is a suitable one for the Authority to invest in and is in furtherance of the Authority's statutory purpose of promoting, developing and advancing the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment.

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

Section 1. The Authority shall proceed with the Project, subject to the satisfaction of the Conditions. The finance plan for the Project submitted to the Board is approved.

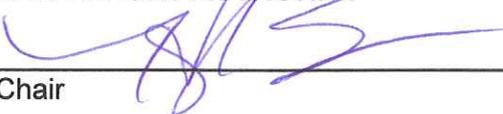
Section 2. The Executive Director of the Authority is authorized to complete the negotiations with Brooks Range Petroleum Corporation on all the agreements that are required for the Project, with those agreements to be on the terms outlined in the Term Sheet or with modifications to those terms as the Executive Director, in his discretion, determines to be appropriate.

Section 3. Upon the satisfaction of the Conditions, the Executive Director is authorized to execute all the agreements relating to the Project, expend funds of the Authority in accordance with the final agreements, and take all other steps that are necessary or desirable to develop and construct the Project and to perform the Authority's obligations under the final agreements.

DATED at Anchorage, Alaska on this 6<sup>th</sup> day of December, 2012.



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

  
Chair

  
Secretary