

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G23-06

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

WHEREAS, in Resolution No. G15-14, adopted on April 30, 2015, the Alaska Industrial Development and Export Authority (the “Authority”) approved a loan of up to \$30 million to BlueCrest Energy, Inc. and its affiliates under the Authority’s development finance program (AS 44.88.172);

WHEREAS, on July 24, 2015, the Authority, as Lender, entered into a Loan Agreement with BlueCrest Alaska Operating LLC, as Borrower, and BlueCrest Alaska Oil & Gas LLC, BlueCrest Cosmopolitan, LLC, and BlueCrest Energy, Inc., as Co-Borrowers, under which the Authority agreed to provide a line of credit of up to \$30 million to finance the acquisition, transportation, set up and commissioning of an on-shore drilling rig, associated equipment and a camp facility;

WHEREAS, the Authority fully disbursed the \$30 million line of credit, and the Borrower and Co-Borrowers used the loan proceeds to acquire the desired drilling rig and camp, both of which have been installed on-site and are in operation;

WHEREAS, in Resolution No. G16-14, adopted December 1, 2016, and in Resolution No. G19-17, adopted June 26, 2019, the Authority approved certain amendments to the Loan Agreement related to the reserve account for the loan;

WHEREAS, in Resolution No. G20-09, adopted March 27, 2020, and in Resolution No. G21-07, adopted March 3, 2021, the Authority approved certain amendments to the Loan Agreement related to the principal and interest payments on the loan;

WHEREAS, in Resolution No. G21-21, adopted August 12, 2021, the Authority approved certain amendments to the Loan Agreement related to the principal and interest payments on the loan;

WHEREAS, in Resolution No. G22-09, adopted September 14, 2022, the Authority approved certain amendments to the Loan Agreement related to the principal and interest payments on the loan;

WHEREAS, the Authority's recommended modification to the Loan is consistent with all requirements for such loan provided in AS 44.88.172 et seq. and the applicable regulations of the Authority related to such loans provided in 3 AAC 99.580;

WHEREAS, the modifications approved hereby would replace the modifications previously approved by the Authority pursuant to Resolution No. G22-09;

WHEREAS, it is in the best interest of the Authority that the Authority make these modifications to the Loan in furtherance of the Project, subject to certain conditions recommended as described in the Memorandum; and

WHEREAS, the recommended loan amendments have been requested by the Borrower and the amendments 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 Authority's modification of the Loan as described in the Memorandum is approved, subject to the conditions recommended as set forth in the Memorandum.

Section 2. The Executive Director is authorized to complete the negotiations with the Borrower 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 1st day of March, 2023.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



A handwritten signature in black ink, appearing to be "Ann G. R.", written over a horizontal line.

Secretary

A handwritten signature in black ink, appearing to be "D. S.", written over a horizontal line.

Chair



MEMORANDUM

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

From: Randy Ruaro
Executive Director

Date: March 1, 2023

Subject: BlueCrest Energy request for one additional year of interest only payments.
Resolution No. G23-06

REQUEST

BlueCrest has requested AIDEA to implement an extension to the modification of its loan agreement with AIDEA. Under Resolution No. G22-09, the Board approved a 6-month modification for the period September 1, 2022 through to March 1, 2023.

BACKGROUND

Information as of February 6, 2022

With the passing of Resolution No. G15-04 in April 2015, AIDEA provided development project financing under AS 44.88.172 to BlueCrest Energy LLC (“BlueCrest”). The financing was in the form of a project loan (not to exceed \$30 million) to assist in funding the acquisition, transport, set up and commissioning of an on-shore drilling rig, with associated equipment and materials, capable of recovering oil and associated gas from the Cosmopolitan unit located in the Cook Inlet through the use of extended-reach oil wells.

The project had a total estimated cost of \$40 million with the Authority providing a maximum of \$30 million, initially as a 15-month Line of Credit, converting into a 7-year term loan on October 24, 2016. The loan structure required that BlueCrest fund a Reserve Account established with State of Alaska tax credits to provide additional collateral security. The anticipated economic development benefits supporting the resolution included:

- An estimated \$20 million of new property taxes over a ten-year period to the Kenai Peninsula Borough, helping support local schools and borough government operations.
- Over \$200 million of new oil taxes and royalties from production over a ten-year period to the State of Alaska.
- The anticipated drilling program will provide more than 150 jobs. The construction of the production facility will provide more than 150 jobs, and the on-going operations of the facility will provide more than 30 jobs on-site and 10-15 jobs for administrative staff.

Delays related to the completion of the drilling rig in 2015 led to delays in the production of oil from the Cosmopolitan leases. Subsequently, the State's suspension of the tax credit program significantly affected their budgeted capital funding forcing the Company to deviate from their original development plan. The Authority passed Resolution G16-14, which delayed the conversion of the LOC to a Term Loan from October 24, 2016 to December 10, 2016 and allowed for monthly interest-only payments for the period from January 1, 2017 to November 1, 2017.

Delays in the field development and commencement of principal payments also affected the terms for the required reserve account. On June 20, 2019, the AIDEA Board passed Resolution G19-17, which authorized an agreement for the release of the Reserve Account to AIDEA in order to pay down the loan. With the prepayment, the lower outstanding principal balance will be amortized through the remaining term of the loan resulting in a lower quarterly amortization payment for BlueCrest.

Due to collapse in oil prices, exacerbated by the economic downturn from the COVID-19 pandemic, BlueCrest delayed further field development. As resolved by the AIDEA Board on March 27, 2020, through Resolution No. G20-09, the loan was modified to allow for a one-year period of interest-only payments and to extend the amortization period of the loan and maturity date for one year. With Resolution No. G21-21, BlueCrest again requested the loan be modified to allow for an additional one-year period of interest-only payments and to extend the amortization period of the loan and maturity date to January 1, 2025.

Lastly, as resolved by the AIDEA Board on September 14, 2022, through Resolution G22-09 the BlueCrest loan was modified for a 6-month period with Staff recommending the requirement for any additional reporting and documentation from BlueCrest that AIDEA deems necessary through the maturity date of the term loan.

ECONOMIC DEVELOPMENT BENEFITS

BlueCrest has achieved development success as evidenced in their annual 8th Plan of Development (POD) submission to the Department of Natural Resources having maintained production, conducted hot oil treatments in order to maintain rates, and continued planning for potential gas development(s). In their approved 9th POD BlueCrest has stated that pending receipt of new investment funding, BlueCrest plans to restart our onshore oil and gas drilling program in the 2023 calendar year. Our current plan is to start drilling with the H10 Trident Fishbone Well; [and] depending on oil prices and project funding, the plan is to continue the program to drill the onshore oil and gas wells:

- From 2017 through end 2022, BlueCrest has produced a cumulative of 6,698,947 mcf of natural gas and 1,867,660 barrels of oil. This has generated \$16.7 million of oil & gas royalty revenue for the state of Alaska¹.

¹ <https://dog.dnr.alaska.gov/Information/Data>

- In 2012, the total assessed value of oil and gas properties for the Kenai Peninsula Borough was \$699 million. However, large development investments, like the one BlueCrest made in 2016, has helped drive the assessed value for oil and gas properties to \$1.5 billion in FY2022 providing significant growth in property tax income for the Borough².

AIDEA MISSION SUITABILITY

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 the Authority intends to own and operate or to provide development project financing, all for projects defined under AS 44.88.900(13)(A), including oil and gas development.

Therefore, the financing provided to BlueCrest is consistent with its mission to create and maintain jobs and facilitate economic development in Alaskan communities. As BlueCrest resumes their development program, they will need to reinstate critical Alaskan field operations and office personnel to facilitate the execution of their development plan and growth in production.

AIDEA's COLLATERAL

The collateral for the loan includes a perfected UCC filing, valid until March 2026, on the 2015 3000 HP x 1,500,000 lbs. Hook Load Heavy Duty Drilling Rig (BlueCrest Rig #1), a 50-person man camp, and associated pipe, equipment and tools.

PROPOSAL

AIDEA staff is recommending a 6-month loan modification whereby BlueCrest will make modest principal payments in addition to interest payments for the period commencing March 1, 2023 through to and including August 1, 2023. Full principal and interest payments will commence September 1, 2023. Staff also recommends including in the modification the requirement for any additional reporting and documentation from BlueCrest that AIDEA deems necessary through the maturity date of the term loan. The term of the loan is to remain unchanged with the maturity date remaining January 1, 2025.

RECOMMENDATION

To date, BlueCrest has been diligent in its payment obligations with the loan identified as being "current" as of February 1, 2023.

² <https://www.kpb.us/finance-dept/about-finance>

In keeping with the Authority's mission and given the improved landscape of the commodity environment, it is in AIDEA's best interest to provide the short-term flexibility that can allow the Company an opportunity to redeploy a comprehensive development program with a focus on incremental cash flow generation. Staff also recommends including in the modification the following requirements:

1. Any additional reporting and documentation from BlueCrest, as would commonly be required by a lender in an oil and gas financing or repeated loan modification that AIDEA deems necessary through the maturity date of the term loan.
2. BlueCrest would also be required to certify that the AIDEA collateral is operational, including having the top-drive replaced and reinstalled back onto the rig.
3. 6 months of principal payments of \$25,000 corresponding interest payments commencing March 1, 2023. Fully principal and interest payments will commence September 1, 2023. The maturity date of the loan, January 1, 2025 will not change.

Staff recommends the approval of modifying the loan and extending the modest principal and interest payment period through and including the August 1, 2023 payment with both principal and interest payments reinstated on September 1, 2023 and leaving the maturing date unchanged at January 1, 2025.