

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G23-10

**RESOLUTION OF THE ALASKA
INDUSTRIAL DEVELOPMENT AND EXPORT
AUTHORITY APPROVING THE
TRANSACTION BETWEEN MUSTANG
HOLDING LLC AND FINNEX OPERATING
LLC.**

WHEREAS, the Board of the Alaska Industrial Development and Export Authority (the “Authority”) previously approved participating in the Mustang Oil Field development with Brooks Range Petroleum Corporation (“BRPC”) as a development finance project (the “Project”) under AS 44.88.172, with the Authority’s participation being through Mustang Road LLC (“MRLLC”) and Mustang Operations Center 1 LLC (“MOC1”);

WHEREAS, in Resolution No. G12-08, adopted December 6, 2012, the Board approved the Authority’s investment of a maximum of \$20 million in a limited liability company, MRLLC, related to the construction of (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 Kuparuk River Unit road system; and (5) a main production pad of approximately 19.3 acres;

WHEREAS, in Resolution No. G14-09, adopted April 24, 2014, the Board approved the Authority’s investment of a maximum of \$50 million in a limited liability company, MOC1, along with loans obtained by another MOC1 investor, CES Oil Services

Pte. Ltd., would finance the construction of a 15,000 barrels-per day processing facility for the Mustang Oil Field;

WHEREAS, in Resolution No. G17-06, adopted June 19, 2017, the Board approved the Authority's acquisition of 100% of MRLLC to improve the economics of the Mustang Project and release of capital to be deployed in the overall development of the Mustang Oil Field;

WHEREAS, in Resolution No. G17-08, adopted June 29, 2017, the Board approved a \$2.5 million form of bridge financing from the Economic Development Account of the Revolving Fund to MOC1, either in the form of an equity contribution or as a member loan;

WHEREAS, in Resolution No. G18-02, adopted March 1, 2018, the Board approved a \$0.3 million revolving line of credit out of the Authority's Revolving Fund to MOC1;

WHEREAS, in Resolution No. G18-05, adopted May 31, 2018, the Board approved a restructuring of the Authority's involvement in the Mustang Oil Field project with the Authority selling its working interests in the SMU Leases and its 100% membership interest in MOC1 to Caracol Petroleum LLC ("Caracol") an affiliate of BRPC, and the Authority providing financing to Caracol for its purchase of the working interests and membership interests;

WHEREAS, consistent with Resolution No. G18-05, on May 24, 2019, the Authority closed on the transactions to restructure the Mustang Oil Field project and

entered into a Loan Agreement and other ancillary agreements with Caracol, BRPC, and other parties;

WHEREAS, in Resolution No. G18-11, adopted September 19, 2018, the Board approved an extension of the maturity date on debt Mustang Operations Center 1 owed the Alaska Department of Revenue, authorizing the Authority to provide a guaranty of the debt and authorizing the Authority to increase the loan to Caracol Petroleum LLC related to the sale of the Authority's membership interests in Mustang Operations Center 1 LLC and Mustang Road LLC by an amount not to exceed \$10 million;

WHEREAS, in Resolution No. G20-02, adopted January 15, 2020 the Board approved a modification of the debt Caracol Petroleum LLC owed the Authority and authorizing the Authority to loan an addition funding the Caracol Petroleum LLC subject to Caracol Petroleum LLC raising \$60 million;

WHEREAS, Caracol and BRPC encountered certain operational and cash flow difficulties in proceeding with the development of the Mustang Oil Field, although Caracol and BRPC were successful in achieving first oil production from the field;

WHEREAS, Caracol's difficulties led it to not make the initial payment due the Authority under the Loan Agreement and to not satisfy other obligations owed to the Authority under the loan documents, and the Authority notified Caracol it was in default and the Authority accelerated the indebtedness Caracol owed under the Loan Agreement;

WHEREAS, in Resolution No. G20-26, adopted September 16, 2020, the Board authorized the Executive Director and Authority staff to work with creditors to restructure the Project's debt and financial obligations;

WHEREAS, on or around September 21, 2020, the Authority formed Mustang Holding LLC, a wholly-owned Alaska limited liability company (“MHLLC”);

WHEREAS, on or around October 1, 2020 the Authority assigned to MHLLC certain Deeds of Trust (the “Deeds of Trust”) that were granted by Caracol as security for the obligations of Caracol under the Loan Agreement;

WHEREAS, after delivering required notices, on May 1, 2020, MHLLC conducted non-judicial foreclosure sales of certain real and personal property assets encumbered by the Deeds of Trust (the “Foreclosure”);

WHEREAS, on October 5, 2020 MHLLC recorded a “Corrective-Trustee’s Deed and Assignment” evidencing the transfer of title to Caracol’s collateral for the Loan ;

WHEREAS, MHLLC was recognized as the named operator of the Southern Miluveach Unit (“SMU”) and the Project on December 4, 2020;

WHEREAS, in Resolution No. G21-04, adopted February 10, 2021, the Board approved an annual budget and updated Project plan for calendar year 2021;

WHEREAS, in Resolution No. G21-17, adopted August 12, 2021, the Board approved the monetization and / or divestiture of assets of, or the equity interests in Mustang Holding LLC and an annual budget and updated Project plan for calendar year 2021;

WHEREAS, in Resolution No. G22-04, adopted January 27, 2022, the Board approved an annual budget and updated Project plan for January to June 2022;

WHEREAS, since the Foreclosure, MHLLC and the Authority have worked diligently with other stakeholders to stabilize the Project and determine the best path forward for the Project including the disposal of assets, as provided by AS 44.88.080(8), all while keeping the Board advised of its efforts;

WHEREAS, an “as is where is” sale of the entity MHLLC as outlined herein is in furtherance of the Authority’s statutory mission and advances the public interest.

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

Section 1. The Board concludes that the disposition of the entity Mustang Holding LLC and its assets to Finnex Operating LLC is in the best interest of the Authority, and it is most likely to result in furthering the Authority’s mission and statutory purposes.

Section 2. The Board authorizes the Executive Director and Authority staff to enter into definitive transaction agreements with Finnex Operating LLC as the Executive Director deems appropriate. Such a transaction should maximize return and/or minimize loss to AIDEA, further AIDEA’s mission and statutory purposes, and recognize the severe financial difficulties the Project faces.

Section 3. The Board authorizes the Executive Director to sign all documents and instruments, and to take such other actions, as may be necessary or convenient in implementing this Resolution.

Dated at Anchorage, Alaska this 21 day of September 2023

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

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Chair



Secretary

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MEMORANDUM

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

From: Randy Ruaro
Executive Director

Date: September 21, 2023

Subject: Resolution No. G23-10 - Mustang Holding LLC and Finnex Operating LLC Transaction

The AIDEA Board has previously approved participating in the Mustang Oil Field Development (the Project) as a development finance project under AS 44.88.172.

AIDEA STATUTES

AIDEA's purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. The opening of new areas for natural resource development is important in supporting economic development in connection with the extraction, transportation, and production of Alaska's abundant natural resources, including oil and gas resources.

The Project components (i.e. road, pad and early production facility) of the Mustang development Project was originally approved for investment by AIDEA's Board under Resolutions No. G12-08 and G14-09. These resolutions approved the investment under AS 44.88.172, which entitles AIDEA to expend money from the economic development account to finance, acquire, manage, and operate development projects that the Authority intends to own and operate or to provide development project financing, all for projects defined under AS 44.88.900(13)(A), including oil and gas development.

BACKGROUND

AIDEA initially provided \$20 million of financing for the development of the Mustang Road and Pad (MRLLC) via Resolution G12-08 which was followed by an additional \$50 million directed towards the Mustang Operations Center 1 (MOC1) processing facility via Resolution G14-09 and a \$2.5 million bridge loan to preserve equipment and other collateral via Resolution G17-08.

As a result of the oil price crash in late 2014 and early 2015, the failure to pay tax credits due and other issues, the Project went into partial shutdown. Subsequently in 2018, Caracol Petroleum LLC (Caracol) agreed to buy MRLLC, MOC1 and the operator Southern Miluveach Unit (SMU) operator Brooks Range Petroleum Corporation (BRPC), and consolidate the development of the

Mustang Field & the SMU. Through Board approved Resolutions G18-04 and G18-05, AIDEA's investment was restructured into a loan to finance the Caracol purchase. Concurrent with this restructuring, and as required by the Department of Revenue (DOR), AIDEA acquired the DOR direct loan to MOC1 secured by associated oil and gas tax credit, AS 43.55, collateral (Board Approved Resolutions G18-11 and G18-11A).

More specifically, the May 2018 G18-05 Resolution approved a restructuring of AIDEA's involvement in the Project with the Authority selling its working interests in the SMU Leases and its membership interest in MOC1 to Caracol, an affiliate of BRPC, and the Authority providing financing to Caracol for its purchase of the working interests and membership interests. Due to extended negotiations and delays in fulfillment of Caracol's conditions precedent – specifically the raising of required additional investment capital, this restructuring and refinance of the Project was only finalized in May 2019.

In late-October 2019, Caracol and BRPC announced achievement of first oil production from the field having produced approximately 11,000 barrels of oil over a 27-day period. Failure to have a gas injection equipment on site and AOGCC permits, Caracol and BRPC significantly exceeded their operating and capital budget, creating material cash flow deficiencies that impaired their ability to fulfill immediate financial obligations and the approved plan of development. Caracol's parent company, Alpha Energy Holdings Ltd. (Alpha), declined to provide additional funding to meet the deficiencies and further develop the field.

Caracol's financial difficulties, brought on by the obligations incurred by BRPC, resulted in the company defaulting on its initial payment and other obligations due to the Authority. Seeing no current plans by management to responsibly manage the field's development and address outstanding vendor obligations, the Authority subsequently took action to declare a default and accelerate the indebtedness Caracol owed under the Loan Agreement and related documents.

AIDEA's efforts to resolve Caracol's funding requirements continued in January 2020 with AIDEA Board passing Resolution G20-02 authorizing the Executive Director to finalize and sign an amended Loan Agreement with Caracol, subject to Alpha providing a minimum of \$60 million of new capital for the Project. This amended agreement, together with the new capital commitment, was structured to resolve Caracol's outstanding obligations and to pursue a development program for the SMU.

By March 2020, Caracol and Alpha failed to meet the conditions precedent to the restructured agreement, including the \$60 million new capital financing requirement, and provided no other plans to responsibly manage the field and its existing condition. In response, AIDEA commenced non-judicial foreclosure proceedings in May of 2020 on the SMU Leases and related collateral.

In support of the non-judicial foreclosure the AIDEA Board, via Resolution G20-26, authorized the execution of a Debt Settlement and Restructuring Agreement (DSRA) amongst the signatories to a Standstill Agreement and transfer of the Mustang assets to a Thyssen Petroleum owned special purpose entity, Finnex LLC, which was expected to occur immediately following the non-judicial foreclosure.

On September 23, 2020, AIDEA completed the non-judicial foreclosure and Mustang Holding LLC (MHLLC), a wholly owned subsidiary of AIDEA, was vested with a 70.1% working interest ownership of the SMU, 100% of the membership interests in MOC1 LLC (which in turn owns a 20% working interest in the SMU), and related assets. MHLLC took subsequent steps as the named operator to bring the operations into a regulatory compliant cold shut down status as the DSRA was never fully consummated.

AIDEA's action were a critical and necessary measure to help mitigate further value deterioration and to bring responsible oversight, direction, and regulatory compliance to the project in an effort to maximize value for all creditors and to stop the accrual of liabilities for the state of Alaska.

In December 2020 the Alaska Department of Natural Resources (DNR) denied but modified 8th POD submitted by BRPC with MHLLC taking over operatorship of the SMU. DNR stated, in its decision, that the SMU must be maintained by Mustang Holding or its successor operator in its current "cold shutdown" status – providing for the protection of all surface equipment, wellbores, pipelines, roadways, well pads, and any and all related equipment and infrastructure. MHLLC has continued to preserve the Unit and infrastructure in a manner consistent with this decision as a prudent operator.

In the first quarter of 2021 former BRPC owners, the Singapore based Alpha Energy Holdings (now Alpha DX Group), off loaded JK North Slope Group Inc Srl, JK North Slope LLC, Brooks Range Petroleum Corporation, TP North Slope Development LLC and Caracol Petroleum LLC which collectively comprised approximately \$96 million of debt to a special purpose vehicle entity called Clover Infinity Pty for \$1.

In August 2021 the AIDEA Board concluded that the monetization and/or divestiture of the foreclosed Project collateral or MHLLC is in the best interest of the Authority, and it is most likely to result in furthering the Authority's mission and statutory purpose. The Board granted the Executive Director Authority staff to enter into negotiations with such parties as the Executive Director deems appropriate with the intent of developing a term sheet for subsequent approval by the Board to monetize the foreclosed collateral or otherwise divest AIDEA of its interest in MHLLC via Resolution G21-17.

Pursuant to the sale process approved by G21-17, in 2022 MHLLC executed a non-binding term sheet with Finnex for the future operation and development of the SMU.¹ While efforts to reach agreement under that term sheet terminated in fall 2022, throughout 2023 MHLLC has been engaged with Finnex in ongoing efforts to reach satisfactory commercial terms concerning the future ownership and development of the SMU and the Mustang Project.

In March 2023, MHLLC, at the request of the Alpine Transportation Company (ATC), physically disconnected the Mustang Pipeline (aka the Brooks Range Pipeline) from the Alpine Pipeline and as the effective 90.1% WIO and in its capacity as operator of the SMU, provided a written declaration to the Department of Transportation that the Mustang Pipeline has effectively been abandoned.

¹AIDEA Executive Director comments can be found here: [7_B_MHLLC_Director_Comments_Memo_08032022_Final.pdf \(aidea.org\)](#)

RECOMMENDATION

Staff supports the decision of the AIDEA Board and will execute those actions resolved by the Board to pursuant to Resolution G23-10.