October 18, 2021

Board of Directors - Conflict Committee
Blueknight Energy Partners G.P., L.L.C.
6060 American Plaza, Suite 600
Oklahoma City, Oklahoma 74135
Attn: Duke R. Ligon, Chairman

On Ergon, Inc.'s Offer to Acquire Common and Preferred Units of Blueknight Energy Partners, L.P.

Dear Mr. Ligon,

I and certain of my clients own Blueknight Energy's common equity units (BKEP).

The transaction proposed by Ergon materially undervalues Blueknight on an Enterprise Value basis. It also improperly shifts equity value that rightfully belongs to the common unitholders to the preferred unitholders. This value shifting creates a transparent benefit to Ergon in its take-private offer (as will be documented later in this letter). The conjunction of these two issues mean that Ergon's proposal as presently configured, "rips off" Blueknight Energy's common unitholders.

Shockingly, this attempt to rip value from the common unitholders comes just after a time period over which Blueknight's management team has promoted the refocused business to the investing public - a plan that on its merits justifies a substantially higher common unit price.

I am a strong believer in the management's plan. Indeed, I believe that with Blueknight's high quality asset base and the strategy as presently outlined, Blueknight common units have the potential to become one of the greatest infrastructure investment securities of all time.

Unfortunately, Ergon's proposal seeks to rob unitholders of this value - a value that was presented to the public as recently as the September 22nd investor conference.

As a result of the current proposal, many of the new unitholders who believed the company's own presentations would be forced to sell their common unit security position at a loss.

Recent distribution and repurchase decisions (knowingly or unknowingly), set up this "rip-off" attempt

The decision to increase the distribution coverage ratio was explained as a future benefit to common unitholders. The retained capital was to be invested for future value creation, which the common equity holders are perfectly positioned to benefit from given our leveraged position in the capital structure:

> "*...based on how we plan to allocate capital, we updated our long-term coverage target to be 1.3 times or greater on all distributions and maintain a long-term leverage target of 3.5 times. We believe these targets appropriately balanced the risk and return profile for Blueknight and lead to sustainable value creation in the future.*"
>
> *- CEO Andrew Woodward, Q4 2020 Earnings Call*

Management suggested that patience was a critical part of the strategy:

> *"We are well positioned for growth, and focused on a discipline to capital allocation strategy that prioritizes both organic and strategic investments. We're evaluating opportunities with varying ranges of required capital. And as Andy mentioned, many of which are in the early stages. But we believe <u>if we can remain patient in redeploying capital,</u> and emphasize maximizing risk adjusted returns, we will be successful in creating long-term value for our unit holders."*
>
> *- CFO Matthew Lewis, Q2 2021 Earnings Call*

Why did the board allow management to promote the stock to the investing public with this strategy - in investor calls and at investor conferences - **<u>if Ergon itself was not willing to be patient?</u>**

This, in my view, suggests an enormous conflict of interest, at a minimum, and brings into question if Ergon is acting in good faith.

An easily affordable, increased distribution would have supported BKEP's unit price

Given Blueknight's low leverage, stable cash flows and limited capex needs, a 1.20X coverage ratio is more than adequate. Using full-year 2021 estimates for DCF, this would have allowed for a common unit distribution of ~$.06/quarter or $.24/year. This distribution level would have left substantial dry powder for growth opportunities while maintaining a large margin of safety given the low leverage.

MLP securities are mostly invested in by yield-oriented investors. As such, <u>a 50% jump in the distribution would have supported BKEP's unit price at a much higher level - particularly given the firm's very moderate leverage</u> and the <u>stable underlying cash flows</u> and <u>growth prospects</u>.

At a 5.1% yield (approximately equal to BKEP's yield at the $3.16 reference price sited by Ergon) BKEP would trade at $4.74/unit. <u>This higher unit price that would have prevented this absurd, low ball-offer from Ergon for the common units.</u>

While the BKEP unit price was suppressed by the distribution policy, BKEPP's unit price was actively supported by share repurchases. These repurchases put a "floor" in the thinly traded preferred units - they hardly traded lower once this trade was announced.

As Ergon owns +60% of BKEPP's units and only 7% of BKEP's units, this shift in value between the two securities set up completely unjustified "base line" valuations that just happen to minimize Ergon's cash outlay in the proposed deal - in other words (and regardless of intent), Blueknight's own capital allocation policies aided in setting up Ergon's <u>value transfer between the preferred and common units.</u>

By my estimates (holding the enterprise value of the deal constant) Ergon saves approximately $36M in cash outflows by shifting value from BKEP to BKEPP. I would be happy to share my calculations if the conflict committee is interested.

Ergon's lack of patience brings their motives into question. Did they ever intend to allow the new strategy to mature and benefit unitholders? Why was the strategy given the green light if they were not willing to see through the transition period? Such inconsistency represents an enormous potential misrepresentation to the public investors who believed we were "being patient" waiting for the brighter future proposed by management.

The proposed Enterprise Value of the transaction is far too low

Blueknight Energy is one of the most unique publicly traded infrastructure assets - substantially higher in quality than (for example) the more volatile Cushing Terminal assets that were recently sold.

While the company's unique investment merits can be found in the recent investor presentation, I will highlight a few key elements:

- Opportunistic timing with the infrastructure bill - this will increase fundamental value and investor interest, which will increase BKEP's trading multiple.
- High quality, 95% contracted, highly cash generative business that "sailed through" covid - other assets that performed similarly during the crisis have seen their valuations explode upwards - BKEP units would be much higher already if the distribution had been appropriately raised after the Cushing sale..
- Inflation protected contracts and low maintenance capital expenditures - both desirable in an inflationary environment, increasing the business's desirability
- Unique, scaled, institutional-sized platform
- Low financing rates - in conjunction with stable cash flows makes Blueknight a compelling private equity target. The math for substantial returns even from a substantially higher enterprise value is very simple.
- Growth platform - Management has stated that internal investment opportunities at 6X - 8X EBITDA are possible - if successful, this will create enormous value for common equity holders in coming years, expand the trading multiple and allow for accretive acquisitions of large scale assets down the road

All of the above factors support a more premium valuation multiple vs. the proposed transaction

Is Ergon playing "Tax Patsy' with common unitholders?

Finally, the conflicts committee must consider if the Cushing/pipeline sale generated a pass through tax obligation to common unitholders. If this is true and the current proposal is allowed to stand, common unitholders will be stuck with a tax bill, yet will receive no benefit from the asset sales and business repositioning. Any transaction valuation should account for this potential transfer of wealth from the common unitholders to Ergon.

Conclusion

Ergon's proposal undervalues Blueknight on an enterprise value basis. It improperly shifts value from the common unitholder to the preferred unitholders - to Ergon's benefit. The transaction is entirely at odds with recent statements by the management team to the investing public, suggesting a lack of candor or potentially even bad faith on the part of board members.

The proposal must be renegotiated to ensure that Blueknight common unitholders receive fair value. If no such agreement cannot be made, changes to the capital allocation policy can accelerate Blueknight's common units towards a more appropriate and fair valuation - which will bolster the enterprise value and lower the cost of equity.

Once past this crisis point (from the point of view of common unitholders) other accretive actions are possible. We hope that any such actions move forward on a win/win basis.

Regards,

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