SECTION 7(i) SETTLEMENT AGREEMENT

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SECTION 7(i) SETTLEMENT AGREEMENT

Terms of the First Amendment to the 7(i) Settlement Agreement (Amending Article III, Section 3), dated October 19, 1990, are indicated as follows:
~~Deletions~~; Additions

Numbers in the left margin indicate the page number of the original Agreement on which the corresponding text appears.

ARTICLE I — PARTIES AND DEFINITIONS

1 Section 1. Parties. The parties to this Agreement are those Alaska Native Regional Corporations formed pursuant to the Alaska Native Claims Settlement Act, 43 U.S.C. §§ 1601-31 ("ANCSA"), which have ratified and executed this Agreement in accordance with the provisions of Article IX.

Section 2. Definitions. For the purposes of this Agreement, the following words and terms mean:

2 (1) ANCSA. The Alaska Native Claims Settlement Act, Public Law 92-203, 43 U.S.C. §§ 1601-31, as amended and supplemented from time to time.

(2) REGIONAL CORPORATION. A Regional Corporation formed pursuant to the provisions of ANCSA, but excluding the Thirteenth Regional Corporation formed pursuant to the provisions of Section 7(c) of ANCSA.

(3) CORPORATION. A Regional Corporation which is a party to this Agreement.

(4) ANCSA LANDS. All lands or interests in lands withdrawn for selection or selected by a Corporation pursuant to the provisions of ANCSA, or which may be obtainable by a Corporation by agreement, exchange or otherwise by virtue of or in lieu of the Corporation's land selection rights under ANCSA, or acquired in a trade of lands or interests in lands in accordance with Article II, Section 6. Lands shall not constitute ANCSA Lands after the occurrence of any of the following:

(i) Acquisition of title (by fee or patented mining claim) to Section 7(i) Resources in such lands by a Third Party other than the state or federal government;

(ii) Relinquishment by a Corporation of an application under ANCSA to select such lands or completion of administrative or judicial proceedings finally resulting in rejection of such an application; or

(iii) Acquisition of title to such lands or interests therein by the Corporation by any means other than through the provisions of ANCSA.

The foregoing notwithstanding, ANCSA Lands shall include lands deemed to be ANCSA Lands pursuant to Article III, Sections 2(a) and (h).

3 (5) SECTION 7(i) RESOURCES. The timber resources (other than timber acquired by merger with a Village Corporation) and resources from the subsurface estate in ANCSA Lands. Timber resources include both standing timber and future growth.

(6) SURFACE RIGHTS. All interests and rights in ANCSA Lands which are

not Section 7(i) Resources or which are not rights correlative to ownership of Section 7(i) Resources.

(7) GROSS SECTION 7(i) REVENUES. Subject to the provisions of Article II, all revenues (including money, benefits and any other thing of value) received by a Corporation that are attributable to, directly related to, or generated from the exploration, development, production, lease, sale or other exploitation of, or the disposition of any interest in, the Corporation's Section 7(i) Resources shall be included in Gross Section 7(i) Revenues.

(8) GROSS PASSIVE SECTION 7(i) REVENUES. Subject to the provisions of Article II, Gross Section 7(i) Revenues derived from Section 7(i) Resource Contracts, except contracts solely for the sale of produced or severed Section 7(i) Resources and contracts in connection with which the Corporation has made a Substantial Investment of Risk Capital (as hereinafter defined).

4 (9) GROSS ACTIVE SECTION 7(i) REVENUES. All Gross Section 7(i) Revenues which are not Gross Passive Section 7(i) Revenues.

(10) SUBSTANTIAL INVESTMENT OF RISK CAPITAL. A Corporation has made a Substantial Investment of Risk Capital in connection with a Section 7(i) Resource Contract if, as of the end of any Fiscal Year, the Corporation has incurred cumulative costs with respect to such Contract (or a project designated under that Contract, if any) of cash or property having a Fair Market Value which exceeds ten percent (10%) of the total

cumulative direct costs incurred under the Contract (or project) to that date, but not less than five hundred thousand dollars ($500,000). The costs (of the Corporation and of the other party or parties to the Contract) included for purposes of this calculation shall be costs incurred for any of the activities described in one or more of the categories of Active Section 7(i) Costs set forth in Article III, Section 3(c)-(f), inclusive. Any such costs incurred before the effective date of the Agreement or of the Section 7(i) Resource Contract with respect to the Section 7(i) Resources which are the subject of such Contract shall be included in the calculation of cumulative costs. If property is contributed by the Corporation, the amount credited for property shall not include any Section 7(i) Resource or the surface estate located at the specific location of the Section 7(i) Resource. A Corporation shall be deemed not to have incurred costs to the extent the Corporation is protected against loss with respect thereto through any non-recourse financing, guarantees, stop-loss agreements, or other similar arrangements. If, as of the end of a Fiscal Year, a Corporation has met the test for a Substantial Investment of Risk Capital with regard to a particular Section 7(i) Resource Contract (or a project designated pursuant thereto), it shall be deemed to have satisfied that test with respect to that Contract (or project) for that Fiscal Year and all subsequent Fiscal Years, even if the level of its investment would not satisfy such test as applied in such subsequent Fiscal Years. In accordance with Article VIII, Section 5, the above mentioned figure of five

hundred thousand dollars ($500,000), and the dollar amounts of the costs that have been incurred, shall be adjusted to correspond to constant dollars.

6 (11) SECTION 7(i) COST. Any cost of a Corporation which is an allowable Section 7(i) cost under Article III. All such costs must have been reasonable in the business judgment of the Corporation at the time the Corporation decided to incur the costs.

(12) PASSIVE SECTION 7(i) COSTS. All costs deductible pursuant to Article III, Section 2, and all amounts carried forward to be included in Passive Section 7(i) Costs pursuant to Article IV. Passive Section 7(i) Costs shall also include all costs deductible under Article III, Section 3, and all carry forwards of such costs, either of which is not includable in Active Section 7(i) Costs because of the exclusion contained in the second sentence of Section 2(13) below.

(13) ACTIVE SECTION 7(i) COSTS. All costs deductible pursuant to Article III, Section 3, and all amounts carried forward to be included in Active Section 7(i) Costs pursuant to Article IV. Active Section 7(i) Costs, however, shall not include any costs incurred in connection with a Section 7(i) Resource Contract (or project designated pursuant thereto, if any) unless the test of a Substantial Investment of Risk Capital has been met with respect to that Contract (or project).

7 (14) EXCESS PASSIVE SECTION 7(i) COSTS. The excess of Passive Section 7(i) Costs over Gross Passive Section 7(i) Revenues for a

particular Fiscal Year.

(15) EXCESS ACTIVE SECTION 7(i) COSTS. The excess of Active Section 7(i) Costs over the sum of Gross Active Section 7(i) Revenues plus forty percent (40%) of Adjusted Gross Passive Section 7(i) Revenues for a particular Fiscal Year.

(16) ADJUSTED GROSS PASSIVE SECTION 7(i) REVENUES. Gross Passive Section 7(i) Revenues for a particular Fiscal Year less all Passive Section 7(i) Costs deductible for that year.

(17) ADJUSTED GROSS ACTIVE SECTION 7(i) REVENUES. Gross Active Section 7(i) Revenues for a particular Fiscal Year plus forty percent (40%) of Adjusted Gross Passive Section 7(i) Revenues, if any, for that Year, less all Active Section 7(i) Costs and any Excess Passive Section 7(i) Costs deductible for that Year.

8 (18) ADJUSTED GROSS SECTION 7(i) REVENUES. Sixty percent (60%) of a Corporation's Adjusted Gross Passive Section 7(i) Revenues for a particular Fiscal Year, plus its Adjusted Gross Active Section 7(i) Revenues, if any, for that Year.

(19) NET SECTION 7(i) REVENUES. Adjusted Gross Section 7(i) Revenues for a particular Fiscal Year, less the General and Administrative Costs Allowance determined for that Fiscal Year pursuant to Article III, Section 7 or, if the Standard Annual Deduction is utilized, the sum of the Corporation's Gross Passive Section 7(i) Revenues and Gross Active Section 7(i) Revenues for the Fiscal Year, less the Standard Annual

Section 7(i) Costs Deduction.

(20) FAIR MARKET VALUE. The amount of money which an informed purchaser, willing but not obliged to buy, would pay an informed seller, willing but not obliged to sell, for particular property, goods or services. In determining the Fair Market Value of land, consideration shall be given to all uses to which the land is suited and might in reason be applied.

(21) DISTRIBUTIVE SHARE OF NET SECTION 7(i) REVENUES. For each Fiscal Year, the share of Net Section 7(i) Revenues to which each Corporation is entitled under ANCSA and this Agreement shall be as follows:

(i) Thirty percent (30%) to be retained by the Corporation owning the Section 7(i) Resource.

(ii) Seventy percent (70%) to be divided among the Regional Corporations, including the distributing Corporation, according to the percentages derived from the latest roll prepared by the Bureau of Indian Affairs, excluding enrolled Natives of village corporations which elected to acquire title to land under Section 19 of ANCSA.Once the final roll is published by the Bureau of Indian Affairs, any over-distribution or under-distribution that a Corporation has made, as measured by the percentages in the final roll, shall be corrected by such Corporation through adjustments in any future distributions it is required to make, and such adjustments in future distributions, if any, shall be the only means of correcting any such

over-distributions or under-distributions.

(22) FISCAL YEAR. The fiscal year of each Corporation.

10 (23) RELATED PARTY. With respect to a particular Corporation:

(i) An entity as to which, directly or indirectly, the Corporation owns or has the right to acquire twenty percent (20%) or more of the equity interest;

(ii) An entity as to which the Corporation has the power to control the election of a majority of the directors or trustees or has the power to control decisions under the by-laws, articles, partnership agreement, voting trust, or other organizational agreement of the entity;

(iii) An entity which, directly or indirectly, owns or has the right to acquire twenty percent (20%) or more of the equity interest of the Corporation;

(iv) An entity which has the power to control decisions under the by-laws, articles, partnership agreement, voting trust, or other organizational agreement of the Corporation;

(v) An individual who is an officer, director, partner or trustee of the Corporation or of one of the above-described entities;

(vi) Any corporation, partnership or other legal entity owned or controlled by an individual described in subsection (v) above or by such individual's spouse, parent or child;

(vii) A corporation, partnership or other legal entity in which the persons

who in the aggregate own fifty percent (50%) or more of the equity interest of the Corporation also own more than fifty percent (50%) of the equity interest; or

(viii) An entity which has the power to control the election of a majority of the directors of the Corporation.

(24) THIRD PARTY. With respect to a particular Corporation, an entity or person that is not a Related Party of that Corporation.

(25) PRIME RATE. For purposes of this Agreement, interest at the Prime Rate shall be computed as simple interest figured at the monthly average of the prime rate (calculated on the basis of that rate for the week in which the first day of each month falls) for short-term business loans during the period for which interest is computed. The average prime rate shall be determined by reference to the Federal Reserve Bulletin, and in the event such Bulletin shall no longer be published, to a successor publication, and in the event no successor publication exists, to the prime rate charged on short-term business loans by the Bank of America N.T. & S.A.

12 (26) SECTION 7(i) RESOURCE CONTRACT. Any contract or group of contracts for the exploration, development, production, lease, sale or other exploitation of, or the disposition of any interest in, a Corporation's Section 7(i) Resources, including contracts permitting one or more of such activities, and also including contracts relating to Section 7(i) Resources to which a Corporation has succeeded pursuant to Section 14(g) of ANCSA.

(27) SECTION 7(i) ACTIVITY. Any activity which has as its cost objective one or more of the functions set out in the Categories of Allowable Section 7(i) Costs as set forth in Article III, Sections 2 and 3.

(28) FORECLOSURE. Foreclosure includes judicial and non-judicial foreclosures, deeds in lieu of foreclosure, or dispositions or retentions of collateral by a creditor under the Uniform Commercial Code or other applicable law.

13 (29) OPERATING LABOR. Technical or field personnel (including, without limitation, geologists, geophysicists, petroleum and mining engineers, oil rig roustabouts, roughnecks and drillers, and miners) employed by the Corporation whose time is devoted to resource exploration, development, production or post-production.

(30) OPERATING EQUIPMENT. Equipment used by the Corporation which is devoted to resource exploration, development, production or post-production and which is of necessity separately situated from administrative offices of the Corporation because of requirements of proximity to the related Section 7(i) Resource or developmental and production activity in which such equipment is used.

(31) OPERATING FACILITIES. Buildings or other facilities used by the Corporation, including, without limitation, transmission, transportation and port facilities, which are devoted to resource exploration, development, production or post-production and which are of necessity separately situated from administrative offices of the Corporation because of the

requirements of proximity to the related Section 7(i) Resource or developmental and production activity in which such facilities are used.

14 (32) NON-OPERATING LABOR. All personnel other than Operating Labor.

(33) DEDICATED. Operating Labor, Operating Equipment, and Operating Facilities shall be deemed to be dedicated during such periods that they are devoted to Section 7(i) Activity, or to activity which would be Section 7(i) Activity if performed with relation to Section 7(i) Resources, for at least ninety percent (90%) of their operating time (exclusive of annual leave or sick time, in the case of Operating Labor), provided that such period must be at least four (4) consecutive months, or all the period of time during a Fiscal Year that an Employee is employed, or equipment or facilities are used by the Corporation, if such period of time is less than four (4) months. Non-Operating Labor shall be deemed to be dedicated during such period that their time (exclusive of annual leave or sick time) is ninety percent (90%) or more spent on a Section 7(i) Activity or Activities, provided that such period must be at least four (4) consecutive months or all the period of time during a Fiscal Year that an employee is employed, if such period of time is less than four (4) months.

(34) VILLAGE CORPORATION. A Village Corporation, urban corporation or incorporated Native group within the Corporation's region organized pursuant to ANCSA.

(35) Mainline Roads are permanent roads with a useful life of more than three (3) years which are constructed as the principal arterials to provide,

through Secondary and Spur Roads, access to the Merchantable Timber to be harvested within a Timber Block.

(36) Secondary Roads are temporary timber haul roads with a life of three years or less which are constructed to provide access to two or more harvest units through two or more Spur Roads.

(37) Spur Roads are temporary timber haul roads which are constructed to provide access to one or more harvest units and which are utilized for twelve (12) or less consecutive months.

(38) Timber Block must contain only Section 7(i) Timber and is defined in accordance with Section 21(c) of ANCSA, as amended, and in accordance with the U.S. Department of Treasury, Internal Revenue Service Income Tax Regulations, Section 1.611-1 through 1.611-3, as such regulations may be amended from time to time.

(39) Timber Operating Plan is a written annual plan prepared in advance of the harvest of timber, which includes 1) estimates for capital and operating costs, amortization rates, cumulative changes in amortization rates, merchantable volumes of Section 7(i) Timber by species and log sorts, forecasted sales prices, forecasted financial results of each operating area, and total revenues and costs for the operating year; 2) descriptions of areas to be harvested and estimated Mainline, Secondary, and Spur Roads to be constructed in each operating area; and 3) operational maps. A Timber Operating Plan may be amended during an operating year to reflect timber market changes.

(40) Merchantable Timber is any timber which the Corporation reasonably estimates it can beneficially sell in markets available to the Corporation.

(41) Section 7(i) Timber is timber which is a Section 7(i) Resource.

(42) Inventory Cruise is an extensive timber cruise, the primary purpose of which is to provide reasonably accurate estimates of timber volumes, species mix and values to facilitate ongoing forest and land management planning needs.

(43) Timber Cruise is an intensive estimate of timber volumes and value, the purpose of which is near term extraction of Section 7(i) Timber from a Timber Block.

(44) Pre-commercial Thinning is the harvest thinning of timber for biological enhancement.

(45) Putting Roads to Bed is the decommissioning of a road (which includes but is not limited to water-barring, removing drainage structures and bridges) to transform the terrain to its natural state in accordance with industry practices and applicable laws and regulations.

(46) Selling Costs includes costs directly related to the sale of Section 7(i) Resources including, but not limited to fees and commissions paid to a non-employee broker or sales agent, and costs incurred for the implementation, administration, and accounting of sale contracts, processing of sales claims, and establishment and monitoring of product standards for specific sales contracts.

ARTICLE II — REVENUES

15 Section 1. Revenues Subject to Distribution.

(a) Timing and Recognition of Revenues. Gross Section 7(i) Revenues shall be recognized and accounted for in the Fiscal Year received by a Corporation and shall be computed and accounted for on a cash basis of accounting as defined under federal income tax rules, regulations and case law, except as otherwise provided in this Agreement. Where an item of Gross Section 7(i) Revenues received by a Corporation is a right to future income or to a future benefit, such as a right to receive royalties based on future production (if any), the right to exercise an option, or the right to receive future installments, the Corporation shall not be required to include in Gross Section 7(i) Revenues the present value of the right to such future income (actual or contingent) or benefit in the Fiscal Year in which it obtained the right to the income or benefit, but shall include the income or benefit in Gross Section 7(i) Revenues in the Fiscal Year actually received. Where, under a Section 7(i) Resource Contract, payments are given to or benefits are conferred upon a party other than the party acquiring an interest in the Section 7(i) Resource, such payments or benefits shall be included in Gross Section 7(i) Revenues, except to the extent that they are given or conferred in return for goods or services, or for any licenses, taxes or consents (not including consents by a Village Corporation outside the village boundaries as described in section 14(f) of ANCSA) required in, or as a result of, obtaining such revenues.

(b) Non-Cash Revenues. Subject to the provisions of this Article, if Section 7(i) Revenues are received in a form other than cash or cash equivalents, the Fair Market Value at the time of receipt shall be included in Gross Section 7(i) Revenues.

(c) Revenues Prior to Patent. Gross Section 7(i) Revenues under this Article shall include revenues received prior to patent or interim conveyance of ANCSA Lands.

16 (d) Borrowing. If a Corporation borrows money from a Third Party and the borrowing is secured by an interest in Section 7(i) Resources or their proceeds, or if a Corporation sells production payments or an interest therein with respect to Section 7(i) Resources to a Third Party where an interest in such Section 7(i) Resources is retained by the selling Corporation, the proceeds of such borrowing or sale shall not be included in Gross Section 7(i) Revenues to the extent that the proceeds of such borrowing or sale are used, or segregated for use, to finance or refinance Development, Production, or Post-Production Costs in connection with the exploitation of Section 7(i) Resources, or for the payment of indebtedness (including interest and other financing costs) incurred for such purposes. Expenditure of the proceeds of any such borrowing or sale, to the extent expended as provided above, shall not be a Section 7(i) Cost.

The repayment of any such borrowing (plus interest and other financing costs) or satisfaction of production payments out of the proceeds of Section 7(i) Resources, shall not be a Section 7(i) Cost, but to the extent that, with respect to any recourse financing or transfer of production payments subject to recourse to

the Corporation for satisfaction, the Corporation is required to make payment or repayment from sources other than proceeds of its Section 7(i) Resources because the proceeds of its Section 7(i) Resources are insufficient for full repayment on the schedule required in the financing documents, repayment of such financing arrangement (including interest and other financing costs) and satisfaction of such production payment obligations shall be a Section 7(i) Cost and shall be recorded in categories of Section 7(i) Cost in amounts based on the proportion in which the proceeds of the financing arrangement or transfer of production payments were applied to activities in such categories. The receipt of any amount which otherwise would be included in Gross Section 7(i) Revenues shall not be included in Gross Section 7(i) Revenues to the extent applied to the repayment of any such borrowing (plus interest and other financing costs) or the satisfaction of any such production payments (which may include a charge for interest and other financing costs). For purposes of this paragraph (d), financing costs include all costs required to be incurred by a Corporation in or as a result of borrowing or a sale of production payments, including, without limitation, costs and taxes which the terms of the borrowing or production payments transaction require to be borne by the Corporation.

Any other borrowing by a Corporation which is secured by an interest in Section 7(i) Resources, or their proceeds, shall result in the recognition of Gross Section 7(i) Revenues if the borrowing is secured by a percentage interest in any Section 7(i) Resource, or its proceeds, greater than the Corporation's Distributive Share of Net Section 7(i) Revenues. The Gross Section 7(i) Revenues so

recognized shall constitute Gross Passive Section 7(i) Revenues unless the security is Gross Active Section 7(i) Revenues or is a Section 7(i) Resource from which Gross Active Section 7(i) Revenues are being derived or is a Section 7(i) Resource the revenues from production of which at that time would have been Gross Active Section 7(i) Revenues.

The receipt of any amount which otherwise would be included in Gross Section 7(i) Revenues shall not be included in Gross Section 7(i) Revenues to the extent applied to the repayment of any borrowing (plus interest and other financing costs) which had been treated as Gross Section 7(i) Revenue. If, and to the extent that, any such borrowing is not repaid through the application of amounts which otherwise would be included in Gross Section 7(i) Revenues, but instead is repaid by the Corporation out of other funds, the amount of such repayment (plus interest and other financing costs) shall be deductible as a Passive Section 7(i) Cost.

In the event of a Foreclosure of any loan secured by a Section 7(i) Resource or an interest therein, to the extent the proceeds of such Foreclosure, net of the costs thereof, do not exceed the underlying obligation (plus interest and other financing costs) with respect to such borrowing, any Section 7(i) Resources or their proceeds delivered in satisfaction of such borrowing or production payments shall not be included in Gross Section 7(i) Revenues, provided that, with respect to a borrowing which does not result in Section 7(i) Revenues pursuant to the third paragraph of this Section 1(d), the delivery of Section 7(i) Resources or their proceeds in a Foreclosure shall result in

recognition of Gross Section 7(i) Revenues equal to the amount of the debt satisfied by such Foreclosure. To the extent the proceeds of such Foreclosure, net of the costs thereof, exceed the underlying obligation (plus interest and other financing costs), the amount of such proceeds shall be included in Gross Passive Section 7(i) Revenues.

Any borrowing by a Corporation which is not secured by an interest in a Section 7(i) Resource shall not result in the recognition of Gross Section 7(i) Revenues, even though the lender may otherwise have recourse for repayment, as an unsecured or judgment creditor, to the general assets of the Corporation, including the Corporation's Section 7(i) Resources.

20 (e) Sale of Section 7(i) Resources. The Gross Section 7(i) Revenues realized from the sale or other conveyance of a Section 7(i) Resource (other than a produced or severed Section 7(i) Resource) or the proceeds therefrom shall constitute Gross Passive Section 7(i) Revenues unless the interest sold is Gross Active Section 7(i) Revenues or is a Section 7(i) Resource from which Gross Active Section 7(i) Revenues are being derived or is a Section 7(i) Resource the revenues from production of which at the time would have been Gross Active Section 7(i) Revenues. In the Event Gross Active Section 7(i) Revenues are recognized, all unamortized Exploration and Development Costs (plus accrued, undeducted interest thereon) attributable to the Section 7(i) Resource sold shall be Active Section 7(i) Costs for the Fiscal Year of the sale unless the sale is an installment sale.

If the proceeds of sale are received in installments during more than one

(1) Fiscal Year, the amount deducted as such Exploration and Development Costs in each Fiscal Year shall be the greater of (i) the amount allowed under Article III, Sections 3(c)(ii) and 3(d)(ii) with respect to unamortized Exploration and Development Costs attributable to the Section 7(i) Resource sold for any Fiscal Year (plus accrued, undeducted interest thereon), or (ii) the amount derived by multiplying the unamortized Exploration and Development Costs (plus accrued, undeducted interest thereon) attributable to the Section 7(i) Resource sold by a fraction, the numerator of which is the installment or installments (exclusive of any interest stated or imputed) received during that Fiscal Year and the denominator of which is the total proceeds of sale (exclusive of any interest stated or imputed). In no event, however, shall the cumulative deductions allowed under the preceding sentence for the unamortized Exploration and Development Costs (exclusive of interest) exceed the total Exploration and Development Costs attributable to the Section 7(i) Resource sold, less amortization prior to the date of sale.

22 (f) Reimbursements or Credits for Costs. If a Corporation received any reimbursement or credit for a Section 7(i) Cost, including general and administrative costs, or recovers part or all of a Section 7(i) Cost of geological and geophysical data by selling such data, or a right to their use, the amount of such reimbursement, credit or cost recovery shall be included in Gross Passive Section 7(i) Revenues in the Fiscal Year such reimbursement, credit, or cost recovery is received, unless the original Section 7(i) Cost was capitalized, in which event the reimbursement or credit shall be first used to reduce the

unamortized cost.

(g) Amortization Recapture. Any amounts received from the sale of any tangible property the cost of which is subject to amortization pursuant to Article III, Section 3(c), (d) or (f), or the Fair Market Value of any such property withdrawn from Dedicated use in connection with a Section 7(i) Activity, shall be first used to reduce the remaining unamortized principal with respect to such property plus interest at a rate equal to the Prime Rate plus one percent (1%) per year on such unamortized principal from the beginning of the Fiscal Year of such sale until the time of sale, and any excess shall be included in Gross Active Section 7(i) Revenues in the Fiscal Year any such amounts are received or such withdrawal occurs. If any such tangible property is traded for other tangible property the cost of which is a Section 7(i) Cost, Gross Section 7(i) Revenues shall not be recognized in connection with the trade, but the trade-in value of the property traded shall be subtracted from the cost of the property acquired in determining the amount to be included in Section 7(i) Costs in connection with the acquisition of the property.

23 (h) Revenues Received Under Third Party Agreements Providing an Interest in Profits. When a Corporation disposes of its Section 7(i) Resources pursuant to an agreement with a Third Party that provides the Corporation an interest in the profits from the Section 7(i) Resources conveyed (i.e., a net profits interest or a carried working interest), Gross Section 7(i) Revenues shall include only the net amount received by the Corporation pursuant to the agreement, which net amount may have been reduced prior to receipt by any charges

allowable under the agreement, including charges which the Corporation has power to approve or disapprove, provided that no portion of the Corporation's general and administrative expense may be deducted in determining such net amount.

24 (i) Transfers of Section 7(i) Resources or Revenues to Certain Controlled Entities. A Corporation cannot transfer Section 7(i) Resources or proceeds therefrom to an entity which either (i) is eighty percent (80%) or more owned by the Corporation, or (ii) which immediately after the transfer is eighty percent (80%) or more owned by all the persons who were shareholders of the Corporation at the time of the transfer, or (iii) which immediately after the transfer is eighty percent (80%) or more owned by the Corporation and all the persons who were shareholders of the Corporation at the time of the transfer, unless the transferee agrees to be subject to all of the obligations of the transferor under this Agreement. Such a transfer shall not give rise to Gross Section 7(i) Revenues, and the resources shall continue to be treated as Section 7(i) Resources. If the transferee is eighty percent (80%) or more owned by the Corporation, it shall be treated in the same manner as the Corporation under this Agreement, with references to the Corporation understood also to include references to any such transferee, and Gross Section 7(i) Revenues and Section 7(i) Costs of the Corporation and the transferee shall be consolidated, and a single distribution of consolidated Net Section 7(i) Revenues shall be made. If, pursuant to a Section 7(i) Resource Contract, an entity which is eighty percent (80%) or more owned by the Corporation acquires an interest in Section 7(i)

Revenues, the foregoing provisions concerning consolidation shall also apply. If a transfer subject to this paragraph has been made prior to the effective date of this Agreement, it shall be treated in accordance with this paragraph as if the transferee had agreed to be subject to all of the obligations of the transferor under this Agreement.

25 (j) Intra-Company Transactions. If a Corporation (including an entity consolidated therewith pursuant to paragraph (i) of this Section) uses its Section 7(i) Resources, after they have been severed and processed (if necessary or customary) to the point of marketability, other than in the process of producing additional Section 7(i) Resources, or sells or transfers its Section 7(i) Resources, after they have been severed, to a Related Party (other than a Related Party consolidated with the Corporation pursuant to paragraph (i) of this Section) or to a Village Corporation, or if the Corporation (or an entity consolidated therewith) engages in the primary manufacture, refining or processing of said Section 7(i) Resources on its own account (beyond that necessary or customary to bring the Section 7(i) Resource to the point of marketability), Gross Section 7(i) Revenues resulting from such uses or transactions shall be computed exclusively on the basis of the fair market price for the same type, grade, quality and concentration of the Section 7(i) Resource in the relevant market at the point of sale or use, regardless of what price may actually be charged for internal purposes.

The relevant market for oil and gas, minerals, or timber, respectively, shall be the same field, deposit, or cutting area from which the resources in question were severed if a significant volume of arm's-length sales are made from such

field, deposit, or cutting area, and, if not, shall be based on the most nearly comparable fields, deposits, or cutting areas, provided that the fair market price of any production subject to price controls shall be the price determined pursuant to such controls. Fair market price for a Section 7(i) Resource sold under a long-term contract shall be measured at the time such contract is executed if the terms of the contract are commercially reasonable given the nature of the resource and the market therefor and, where markets for the resource are limited at the time such contract is executed, considering the nature and size of the project in connection with which the resource is used, manufactured, refined or processed. All uses and transactions covered by this paragraph, and the bases of their valuation, must be identified and reported by the Corporation pursuant to Article V, Section 3.

(k) Transactions with Related Parties. Except for transactions pursuant to paragraphs (i) and (j) of this Section and a commercially reasonable agreement with respect to sand and gravel with a Village Corporation, if a Corporation transfers any interest in Section 7(i) Resources or Revenues to a Related Party (other than a Related Party created pursuant to an arm's-length agreement with a Third Party) or a Village Corporation, the Corporation shall be required to account for such Resources or Revenues under the terms of this Agreement as if the transfer had not occurred.

27 Section 2. Rights and Benefits Excluded from Gross Section 7(i) Revenues. Gross Section 7(i) Revenues shall not include the following:

(a) Preference provisions for Native and shareholder hire in Section 7(i) Resource Contracts and the extension of preference to Natives and shareholders according to such provisions.

(b) Provisions for and granting of a reasonable number of scholarships for shareholders or members of their families in Section 7(i) Resource Contracts.

(c) When a Corporation disposes of Section 7(i) Resources, obligations undertaken, assumed or performed, or costs incurred on behalf of or for the benefit of the Corporation by a person or entity acquiring Section 7(i) Resources or interests therein from that Corporation, with respect to exploration, development or production of the Section 7(i) Resources, or Post-Production Costs Relating thereto, or, to the extent reasonably required, with respect to obtaining any necessary consents or approvals of Village Corporations or Third Parties to selection or acquisition of title to ANCSA Lands or to exploration, development, or production of Section 7(i) Resources.

(d) The value of geological and geophysical data relating to Section 7(i) Resources which are made available to the resource-owning Corporation or its agents in connection with the disposition of interests in Section 7(i) Resources to which the data pertain, except that any consideration received by the Corporation upon sale or transfer of such data shall be included in Gross Passive Section 7(i) Revenues.

(e) If a Corporation trades its rights to select certain ANCSA Lands for other ANCSA Lands, or the right to select other ANCSA Lands, or in selecting certain ANCSA Lands relinquishes the right to select other ANCSA Lands, no

Gross Section 7(i) Revenues shall be occasioned by such action, regardless of acre-equivalency or lack thereof in the trade or relinquishment and regardless of predominant surface or subsurface value of the rights surrendered or of the rights or ANCSA Lands obtained.

(f) If a Corporation or a Related Party thereto or a Village Corporation, alone or in legal relationship with others, contracts to furnish goods, services, properties, property interests, or resources (excluding Section 7(i) Resources) in connection with the exploration, development or production of its Section 7(i) Resources or in connection with a Section 7(i) Resource Contract, the profits, if any, derived from such contracts shall not be included in Gross Section 7(i) Revenues if the terms of such contracts are reasonable in relation to the Fair Market Value of the goods, services, properties, property interests, or resources furnished, when compared with contracts of similar type and character. In order to be deemed reasonable the terms of such contracts need not equal the lowest or average price at which a Third Party would agree to perform the contracts. If the Corporation's Section 7(i) Resource Contract provides for payments to the Corporation in return for goods, services, properties, property interests or resources furnished by the Corporation, the amount of such consideration must be clearly stated in or determinable from the Section 7(i) Resource Contract for the exclusion from Gross Section 7(i) Revenues provided by this paragraph to be available.

(g) If, pursuant to a Section 7(i) Resource Contract with a Third Party, or the negotiation thereof, a Corporation participates in a venture or agreement

for the purpose of exploring for and, if a commercial discovery is made, also developing and producing natural resources on lands other than lands obtained by the Corporation pursuant to ANCSA, the revenues from that venture or agreement shall be included in Gross Section 7(i) Revenues (as Active Section 7(i) Revenues) in the Fiscal Year received unless:

(i) The Corporation is required to pay its pro rata share of the costs of acquiring the lease or property (e.g., the amount paid to the State or the United States as acquisition, or bonus, costs with respect to property obtained in a state or federal lease sale), excluding costs of a general nature not specifically attributable to the particular land covered by the venture or agreement;

(ii) The Corporation or any assignee thereof is required to pay its pro rata share of all other costs incurred after acquisition and for so long as the Corporation retains an ownership interest, including the costs of drilling, and the costs of development of the property if a discovery is made, provided that the inclusion or exercise of penalty provisions governing recoupment of expenditures for non-consent operations or penalty provisions governing non-participation in exploration or development operations shall constitute pro rata cost sharing for purposes of this subparagraph, unless it is established that such a provision is commercially unreasonable as judged by industry practice as of the date such provision was agreed to, and provided further that the pro rata cost sharing requirements of this subparagraph shall not apply to pre-drilling

exploration or evaluation costs incurred before commercial discovery with respect to joint leases acquired by a Corporation prior to April 1, 1982;

(iii) Only in connection with any venture or agreement arising pursuant to a Section 7(i) resource Contract executed after April 1, 1982, the terms of any such participation are commensurate with terms that would be acceptable to unrelated persons dealing at arm's-length solely with respect to that articular venture; and

(iv) The interest of the Corporation is acquired before natural resources have been discovered in commercial quantities in the land covered by the venture or agreement.

If the above conditions are not met, any costs incurred by the Corporation in such venture or agreement shall be treated as Active Section 7(i) Costs.

32 Section 3. Allocation of Revenue Between Surface and Subsurface.

When a Corporation disposes of an interest in Surface Rights together with Section 7(i) Resources in one agreement or group of agreements pertaining to a common project or development, the compensation received by the Corporation for the Surface Rights shall be excluded from Gross Section 7(i) Revenues only to the extent permitted by this Agreement. That portion of the compensation received by the Corporation for its Surface Rights shall be excluded from Gross Section 7(i) Revenues to the extent it does not exceed the lesser of (1) the Fair Market Value of the Surface Rights or (2) the value allocated to the Surface Rights in the Agreement or group of agreements. The Corporation which asserts that compensation received for Surface

Rights in the circumstances described in this Section is not includable in Gross Section 7(i) Revenues shall have the burden of proof with respect to that issue.

In no event shall allocation of value to Surface Rights reduce the value attributed to Section 7(i) Resources below the Fair Market Value that such Section 7(i) Resources would have in the hands of an owner whose ownership was limited to subsurface estate and timber.

33 Section 4. Payments Subject to Possible Refund.

When, in connection with the disposition of its Section 7(i) Resources, a Corporation receives a payment which is subject to refund or repayment, absent or upon the occurrence of a specific condition or contingency, that payment shall be deemed a deposit and shall not be included in Gross Section 7(i) Revenues at the time of receipt if;

(a) One hundred percent (100%) of the payment that otherwise would be Gross Section 7(i) Revenue is placed in escrow within ninety (90) days after the end of the Fiscal Year of its receipt;

(b) The escrow holder is a federally-insured state or federal bank or savings institution authorized by law to do business in the State of Alaska;

(c) The escrow holder is instructed (i) to invest the funds in ninety-day Treasury Bills or comparable short-term government obligations, or in bank certificates of deposit or banker's acceptances representing the domestic obligations of any of the five United States banks having the largest assets, and (ii) unless the Section 7(i) Resource Contract provides that a Third Party may become entitled to the interest, to distribute, as received, but not in an amount

less than ten thousand dollars ($10,000), the income from such investments (less the cost of the escrow) to the Corporations according to their respective Distributive Share as set forth in Section 2 (21) of Article I, which shares shall be set forth in the escrow agreement and revised from time to time as necessary; and

(d) The other Corporations are provided with the identity of the escrow holder and the terms of the escrow.

Ninety (90) days after the end of the Fiscal Year in which the deposit, or a portion thereof, becomes no longer subject to refund or repayment, the funds corresponding thereto which have been placed in escrow pursuant to subparagraph (a), plus accrued but previously undistributed interest thereon, shall be returned to the Corporation and the Corporation shall include such funds in Gross Passive Section 7(i) Revenues for that Fiscal Year. When the Corporation determines that it is obligated to refund the deposit, or some portion thereof, the funds shall be released from escrow upon the instructions of the Corporation and the Corporation shall so notify the other Corporations.

34 Section 5. Options. The Fair Market Value of an option or right of a Corporation to make an investment in the production of its Section 7(i) Resources in an agreement relating to the disposition of its Section 7(i) Resources shall not be included in Gross Section 7(i) Revenues. If the Corporation subsequently receives revenues in exchange for such option or right, such revenues shall be included in Gross Passive Section 7(i) Revenues in the Fiscal Year of receipt, unless the Corporation has made a Substantial

Investment of Risk Capital in connection with such agreement, in which event the revenues shall be included in Gross Active Section 7(i) Revenues.

35 Section 6. Disposition of ANCSA Lands by Trade.

Where a Corporation, by trade with a Third Party, disposes of land conveyed to it under ANCSA (by patent or interim conveyance), no revenue shall be recognized at the time of the trade, except to the extent provided in paragraphs (i) through (k) below, and the rules set forth below shall apply concerning recognition of Gross Section 7(i) Revenues, with the term “subsurface” being understood to mean all Section 7(i) Resources, the term “surface” understood to mean any land or interest in land, including improvements, which is not subsurface, and the term “boot” understood to mean cash or any property other than surface or subsurface which, in addition to surface or subsurface, is given or received in trade. All revenues recognized as Gross Section 7(i) Revenues pursuant to this Section shall be Gross Passive Section 7(i) Revenues unless, as of the date of the trade, revenues received from production of the subsurface given in trade would have been Gross Active Section 7(i) Revenues had the trade not been effected.

(a) If subsurface is traded for subsurface, revenues from the subsurface received in trade shall be subject to this Agreement in the same way as revenues from the subsurface given in trade would have been subject to this Agreement;

(b) If surface plus subsurface are traded for subsurface, revenues from the subsurface received in trade, until equal to the Fair Market Value (at the time

of the trade) of the surface given in trade (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to their discounted value as of the time of trade), shall be received by the Corporation without sharing under this Agreement or Section 7(i), and only subsequent revenues shall be included in Gross Section 7(i) Revenues;

(c) If subsurface is traded for surface, all revenues from the surface received in trade shall be included (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to their discounted value as of the time of trade) in Gross Section 7(i) Revenues in the Fiscal Year or Years the revenues are received, but only until the amount thus included equals one hundred percent (100%) of the Fair Market Value (at the time of the trade) of the surface received in trade;

(d) If subsurface is traded for surface plus subsurface, revenues from the subsurface received in trade shall be subject to this Agreement in the same way as revenues from the subsurface given in trade would have been subject to this Agreement and all revenues from the surface received in trade shall be included (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to their discounted value as of the time of trade) in Gross Section 7(i) Revenues in the Fiscal Year or Years the revenues are received, but only until the amount thus included equals one hundred percent (100%) of the Fair Market Value (at the time of the trade) of the surface received in trade;

(e) If surface plus subsurface are traded for surface plus subsurface, the Fair Market Value of the surface estates given and received in trade must be

determined. If the Fair Market Value (at the time of the trade) of the surface given in trade is less than the Fair Market Value (at the time of the trade) of the surface acquired, then subsequent revenue from the subsurface received in trade shall be subject to this Agreement in the same way as revenues from the subsurface given in trade would have been subject to this Agreement, and all revenues from the surface received in trade shall be included (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to their discounted value as of the time of trade) in Gross Section 7(i) Revenues in the Fiscal Year or Years the revenues are received, but only until the amount thus included equals the difference between the two Fair Market Values. If the Fair Market Value (at the time of the trade) of the surface given in trade exceeds the Fair Market Value (at the time of the trade) of the surface acquired, all revenues from the surface received in trade shall be received by the Corporation without sharing under this Agreement or Section 7(i), and, until the revenues from the subsurface received in trade (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to their discounted value as of the time of trade) equal the difference between the two Fair Market Values, such revenues shall be received by the Corporation without sharing under this Agreement or Section 7(i), and only subsequent revenues from the subsurface received in trade shall be included in Gross Section 7(i) Revenues;

(f) If surface plus subsurface are traded for surface, then the Fair Market Value of the surface estates given and received in trade must be determined. If the Fair Market Value (at the time of the trade) of the surface

given in trade is less than the Fair market Value (at the time of the trade) of the surface received, revenues from the surface received in trade shall be included in Gross Section 7(i) Revenues in the Fiscal Year or Years the revenues are received, but only until the amount thus included (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to its discounted value as of the time of trade) equals the difference between the two Fair Market Values. If the Fair Market Value (at the time of the trade) of the surface given in trade equals or is greater than the Fair Market Value (at the time of the trade) of the surface acquired, revenues from the property received in trade shall not be subject to sharing under this Agreement or Section 7(i);

(g) If surface is traded for surface, or for subsurface, or for surface and subsurface, revenues from the property received in trade shall not be subject to sharing under this Agreement or Section 7(i);

(h) If boot is given in trade, the rules expressed above apply, with the boot, valued at its Fair Market Value, treated as an additional element of surface value given in trade;

(i) If subsurface is traded for boot, the Fair Market Value of the boot is included in Gross Section 7(i) Revenues in the Fiscal Year the boot is received;

(j) If subsurface and surface are traded for subsurface and boot (or for subsurface, surface and boot), and if the Fair Market Value (at the time of the trade) of the surface given in trade is less than the Fair Market Value (at the time of the trade) of the boot (or of the boot and surface) received, then subsequent revenue from the subsurface received in trade shall be subject to this Agreement

in the same way as revenues from the subsurface given in trade would have been subject to this Agreement, and the difference between the Fair Market Value of the boot (or of the boot and surface received) and the Fair Market Value of the surface given in trade shall be included in Gross Section 7(i) revenues in the Fiscal Year the boot is received (or the boot and surface are received). If the Fair Market Value (at the time of the trade) of the surface given in trade exceeds the Fair Market Value (at the time of the trade) of the boot (or of the boot and surface) received, the boot (and the surface received, if any) shall be received by the Corporation without sharing under this Agreement or Section 7(i), and, until the revenues from the subsurface received in trade (after adjustment by an interest factor equal to the Prime Rate plus one percent (1%) to their discounted value as of the time of trade) equal the difference between the two Fair Market Values, such revenues shall be received by the Corporation without sharing under this Agreement or Section 7(i), and only subsequent revenues from the subsurface received in trade shall be included in Gross Section 7(i) Revenues;

(k) If surface and subsurface are traded for surface and boot, and if the Fair Market Value (at the time of the trade) of the surface given in trade is less than the Fair Market Value (at the time of the trade) of the surface and boot received, the amount of such difference shall be included in Gross Section 7(i) Revenues in the Fiscal Year the surface and boot are received. If the Fair Market Value (at the time of the trade) of the surface given in trade equals or is greater than the Fair Market Value (at the time of the trade) of the surface and boot received, the surface and boot received shall not be subject to sharing

under this Agreement or Section 7(i).

41 Section 7. Sand and Gravel. The parties to this Agreement recognize that the ruling of the United States Court of Appeals for the Ninth Circuit that sand and gravel are Section 7(i) Resources has made it disproportionately difficult in relation to the benefits to the Corporations to determine their Section 7(i) obligations with regard to these resources, because (i) sand and gravel deposits usually are small and localized; (ii) the cost of development is high in relation to their potential value; (iii) the cost of accounting is high; and (iv) it is difficult to arrive at a satisfactory method of accounting for use by the Corporations and the Village Corporations. The parties to this Agreement also recognize that it is desirable to permit Village Corporations to use sand and gravel on their own lands for their own local needs without incurring a financial obligation to the Corporations. For these reasons, the parties agree that, in each Fiscal Year, the first one hundred thousand dollars ($100,000) of gross revenues received by a Corporation from the sale or disposition of sand, stone, gravel, pumicite or cinder resources shall be excluded from Gross Section 7(i) Revenues, and the items of cost associated with such revenues shall be excluded from Section 7(i) Costs. The parties further agree to use their best efforts to cause Congress to amend ANCSA to exclude sand, stone, gravel, pumicite, and cinders from the sharing requirements of Section 7(i). On the effective date of any such amendment or legislation excluding sand, stone, gravel, pumicite and cinders from the sharing requirements of Section 7(i), such resources shall cease to be Section 7(i) Resources under this Agreement.

42 Section 8. Mergers. No Gross Section 7(i) Revenues shall be recognized in connection with a merger or consolidation between a Corporation and any other corporation, provided that the surviving or resulting corporation following the merger or consolidation shall be subject to all of the provisions of this Agreement in the same way as the Corporation was subject to this Agreement, and the Section 7(i) Resources and Revenues of the Corporation prior to the merger or consolidation shall be Section 7(i) Resources and Revenues of the surviving or resulting corporation following the merger or consolidation.

~~Section 9. Timber Revenues. Where a Corporation harvests timber resources on ANCSA Lands in whole or in part for its own account, revenues derived from the sale of such timber resources shall be included in Gross Passive Section 7(i) Revenues and shall be limited to the Fair Market Value of the severed timber resources as they existed in their nature state prior to severance. In determining what timber has been sold, the timber sold shall either be specifically identified or the first-in, first-out convention of inventory accounting shall be applied. The Fair Market Value of timber resources shall be determined each Fiscal Year by the most accurate method or methods available in accordance with timber industry practices. Any costs otherwise deductible under Article III, Section 2 shall not be deductible if used as a downward adjustment in the determination of Fair Market Value and costs set forth in Article III, Section 3 shall not be deductible with respect to timber resources. All determinations of the Fair Market Value of timber resources pursuant to this Section, and the bases of valuation for each such determination (including description of costs, if any, utilized to effect a downward~~

~~adjustment in determining Fair Market Value), must be identified and reported by the Corporation pursuant to Article V, Section 3.~~

ARTICLE III — DEDUCTIONS

43 Section 1. General.

(a) Allowable Deductions. Only Section 7(i) Costs as defined in this Agreement shall be deductible from Gross Section 7(i) Revenues.

(b) Determination of Net Section 7(i) Revenues. Each Corporation shall determine its Net Section 7(i) Revenues within ninety (90) days of the end of its Fiscal Year.

(c) Standard Annual Section 7(i) Cost Deduction. The Standard Annual Section 7(i) Cost Deduction is set at three hundred thousand dollars ($300,000) per Fiscal Year, but in the event a Corporation changes its Fiscal Year and this results in an accounting period of less than twelve (12) months, the Standard Annual Section 7(i) Cost Deduction shall be prorated at the rate of one-twelfth (1/12) of the total annual deduction per month. The Standard Annual Section 7(i) Cost Deduction shall not be subject to audit or challenge under Articles V and VI of this Agreement. No portion of the Standard Annual Section 7(i) Cost deduction may be carried forward to succeeding Fiscal Years in the event a Corporation's Gross Section 7(i) Revenues do not exceed the Standard Annual Section 7(i) Cost Deduction in the Fiscal Year claimed. The Standard Annual Section 7(i) Cost Deduction shall be applied first to Gross Passive Section 7(i) Revenues and then the excess, if any, to Gross Active Section 7(i) Revenues.

(d) Itemized Section 7(i) Cost Deductions. Itemized Section 7(i) Cost

Deductions taken by a Corporation are subject to audit and challenge under Articles V and VI of this Agreement but not otherwise. Itemized Section 7(i) Costs may be carried forward to subsequent Fiscal Years in accordance with Article IV. If a Corporation elects to take the Standard Annual Section 7(i) Cost Deduction in any Fiscal Year, that election shall preclude the Corporation from deducting at an time any of the then existing excess itemized Section 7(i) Costs. This Subsection shall not apply to deductions covered by Section 5 of Article VIII. Deductions covered by that Section may be carried forward to subsequent Fiscal Years even if a Corporation elects to take the Standard Annual Section 7(i) Cost Deduction pursuant to paragraph (c) of this Section.

45 Section 2. Categories of Allowable Passive Section 7(i) Costs.

The costs set forth in Paragraphs (a) through (i) of this Section shall be allowed as Passive Section 7(i) Costs, unless such costs are deductible as Active Section 7(i) Costs pursuant to Section 3(a) of this Article.

(a) Land Selection Costs. Costs incurred in connection with the investigation of, selection of, application for, or acquisition of ANCSA Lands where such lands are in fact investigated, selected, applied for, or acquired for their Section 7(i) Resource potential, including the monitoring and processing of land selection applications, and the review and appeal of decisions to issue title. If costs are deducted under this paragraph or paragraph (b) of this Section for the acquisition of interim rights under state or Federal law, the lands or interests in lands to which such costs relate shall be ANCSA Lands; if such costs are not

deducted, such lands or interests in lands shall not be ANCSA Lands.

46 (b) Geological and Geophysical Costs. Pre-conveyance costs of Section 7(i) Resource identification, exploration (excluding drilling other than limited drilling for core sampling, seismology, or other geological or geophysical analysis purposes), analysis or evaluation on ANCSA Lands and on lands within three miles of ANCSA Lands to the extent geologically necessary properly to identify, explore, analyze, or evaluate Section 7(i) Resources on ANCSA Lands.

(c) Contract Negotiation Costs. The ordinary costs incurred in preparing for the disposition of a Section 7(i) Resource and costs incurred in the preparation for negotiation, negotiation, preparation, execution or amendment of Section 7(i) Resource Contracts.

47 (d) Contract Administration Costs. Costs incurred in the administration, monitoring, record keeping, enforcement and supervision of the performance of Section 7(i) Resource Contracts.

(e) Section 7(i) Resource Litigation Costs. Costs incurred because of threatened litigation, litigation or other dispute resolution:

(i) To collect, protect or increase Gross or Adjusted Gross Passive Section 7(i) Revenues;

(ii) To protect title or possession of or to perfect title to particular ANCSA Lands in fact selected, applied for, or acquired for their Section 7(i) Resource potential;

(iii) To protect, permit or facilitate development of particular Section 7(i) Resources or to recover damages or compensation for such

resources; or

(iv) To minimize taxes which are allowable as Section 7(i) Costs under Section 2(g) of this Article.

The Costs of threatened litigation, litigation and other dispute resolution allowed by this Paragraph or Section 3(h) of this Article shall not include the costs of litigation or dispute resolution concerning the distribution of Net Section 7(i) Revenues among the Regional Corporations.

48 (f) Resource Management Costs. Costs incurred for the identification, evaluation and management of Section 7(i) Resources in order to preserve, maintain and enhance Section 7(i)) Resource values, including costs incurred for (i) forest regeneration (e.g., seed and seedling production, seeding and planting); (ii) timber stand improvement (e.g., pre-commercial thinning or stocking control, brush control and species/timber quality manipulation); (iii) fertilization; (iv) insect and disease control; (v) fire control; (vi) road maintenance; (vii) soil management; (viii) resource inventory (including aerial photography); (ix) complying with governmental regulations; and (x) protection against waste, encroachment, trespass or theft.

(g) Section 7(i) Resource Taxes. Taxes and charges imposed by any governmental entity less any tax credits thereon, excluding Federal and state corporate income taxes, but including, although not limited to, business or mining license taxes, reserve and ad valorem taxes, production taxes, conservation taxes, and all taxes payable on Section 7(i) Resources in place, the production of which would give rise to Gross Passive Section 7(i) Revenues.

(h) Costs of Acquiring an Interest in ANCSA Lands. Costs incurred by a Corporation in purchasing any interest in Section 7(i) Resources in land conveyed to the Corporation under ANCSA. Any such purchase must be of an interest claimed under Federal or state law (e.g., leases, mining claims, unperfected land entries), outstanding at the time of conveyance and must be from a Third Party in an arm's-length transaction. Any interest thus purchased shall be ANCSA Lands after the purchase.

(i) Borrowing Costs. Costs incurred by the Corporation which are deductible as Passive Section 7(i) Costs pursuant to the terms of Article II, Section 1(d).

49 Section 3. Categories of Allowable Active Section 7(i) Costs.

(a) Allocation of Costs. When a Substantial Investment of Risk Capital has been made in connection with a Section 7(i) Resource Contract, costs incurred in the Fiscal Year in which the test of a Substantial Investment of Risk Capital is met, and in subsequent Fiscal Years, relating to such Section 7(i) Resource Contract, which are identified as Passive Section 7(i) Costs under Section 2, paragraphs (c)-(f), inclusive, shall be deductible as Active Section 7(i) Costs. If any of these cost items is both a Passive Section 7(i) Cost and an Active Section 7(i) Cost, that cost item shall be allocated equally between the two.

50 (b) Section 7(i) Resource Taxes. Taxes and charges imposed by any governmental entity, less any tax credits thereon, excluding Federal and State

corporate income taxes, but including, although not limited to, business or mining license taxes, reserve and ad valorem taxes, production taxes, conservation taxes, severance taxes, and all taxes payable on Section 7(i) Resources in place, the production of which would give rise to Gross Active Section 7(i) Revenues.

(c) Exploration Costs.

(i) Definition.

(A) Costs of geological and geophysical work, or in the case of Section 7(i) Timber, Inventory Cruises performed in connection with ANCSA Lands, title to which has been obtained by the Corporation, where such work is performed to aid in locating Section 7(i) Resources on such lands, or to aid in assessing the commercial feasibility of producing or otherwise realizing revenue from Section 7(i) Resources on such lands.

(B) Costs associated with drilling, for the purpose of locating Section 7(i) Resources or assessing the commercial feasibility of producing Section 7(i) Resources, on ANCSA Lands, title to which has been obtained by the Corporation.

(C) Except in the case of Section 7(i) Timber, c~~C~~osts associated with federal, state or local government permitting, and costs of conducting a feasibility study and preparing a report thereon, necessary for development of Section 7(i) Resources on ANCSA Lands, title to which has been obtained by the Corporation.

Except in the case of Section 7(i) Timber, e~~E~~xploration is

deemed to continue until the date that a determination has been made by a reputable firm of petroleum or mining engineers, as appropriate for the resource, that a Section 7(i) Resource has been located which is commercially feasible to produce or exploit.

Commercial feasibility shall be deemed to exist if, in the opinion of such firm, the Section 7(i) Resource can be produced or exploited by the Corporation at a profit, ignoring any previous costs incurred with respect to such Section 7(i) Resource or any amortization of any previous costs. The determination of commercial feasibility of development of a reserve of sand, stone, gravel, pumice, pumicite, or cinders may be made by the Corporation.

(D) With respect to Section 7(i) Timber, the costs described in this Section 3(c) shall be deemed to be Exploration Costs, and the accounting treatment for such costs shall be as provided in (ii) below, regardless of when such costs are incurred.

(ii) Accounting Treatment. Exploration Costs shall be capitalized and amortized on a straight line basis over ten (10) years. The first such amortization deduction for any item of costs shall be taken in the Fiscal Year such costs are incurred and thereafter the Corporation shall be entitled to an amortization deduction for such item of costs during the succeeding nine (9) Fiscal Years. Commencing in the first Fiscal Year following the Fiscal Year in which such costs are incurred, the Corporation

shall also be entitled to a deduction for interest at a rate equal to the Prime Rate plus one percent (1%) per year on the unamortized balance of all such costs measured at the beginning of each Fiscal Year.

In no event may Exploration Costs included in Section 7(i) Costs for a Fiscal Year exceed thirty percent (30%) of the sum of the Corporation's Gross Active Section 7(i) Revenues plus forty percent (40%) of the Adjusted Gross Passive Section 7(i) Revenues in that Fiscal Year, but any amount not included because of such limitation shall be carried forward, with interest at a rate equal to the Prime Rate plus one percent (1%) per year and included in Exploration Costs in future Fiscal Years to the extent it can be included without causing the total Exploration Costs included in such Fiscal Year, including accrued interest on prior year carry-forwards, to exceed thirty percent (30%) of the sum of Gross Active Section 7(i) Revenues plus forty percent (40%) of Adjusted Gross Passive Section 7(i) Revenues for that Fiscal Year. Such interest shall commence ninety (90) days following the close of the Fiscal Year in which such carry-forward is generated, and the amount subject to interest shall be deemed to be reduced ninety (90) days following the close of any Fiscal Year in which the carry-forward is reduced by inclusion of all or a portion of such carry-forward in Exploration Costs for such Fiscal Year.

54 (d) Development Costs.

(i) Definition. Development Costs shall consist of costs incurred in developing any commercially feasible Timber Block or reserve

of Section 7(i) Resources on ANCSA Lands, title to which has been obtained by the Corporation, so that production of Section 7(i) Resources from such reserve or Timber Block may be commenced in commercial quantities, as defined in Section 3(e)(i) of this Article. Except in the case of Section 7(i) Timber, d~~D~~evelopment is deemed to commence when commercial feasibility has been determined as provided in Section 3(c)(i) of this Article. In the case of Section 7(i) Timber, development is deemed to commence when costs are incurred pursuant to a Corporation's Timber Operating Plan. Development Costs shall include, without limitation, construction costs, geological, geophysical and engineering costs, forestry and other consultant costs incurred and associated with developing Timber Blocks, costs associated with drilling, testing, completing, suspending and abandoning wells or mineral deposits, costs associated with developing Timber Blocks (e.g., expenditures for Mainline Roads, logging camps, shops, sort yards, log transfer facilities, and docks, including federal, state or local permitting necessary to develop these facilities), bonding costs imposed by federal, state or local authorities, and costs of access and transportation facilities for Section 7(i) Resources (e.g., easements, roads, pipelines, helicopter pads, landing strips, docking facilities).

(ii) Accounting Treatment. Except for Development Costs incurred in developing Section 7(i) Timber, ~~All D~~development Costs which under any generally accepted accounting principles may be capitalized

shall be capitalized and amortized on a straight line basis over ten (10) years, or over ~~on the basis of~~ the useful life of the capital item, whichever period is shorter. The first amortization deduction for any such capitalized item of cost shall be taken in the Fiscal Year such costs are incurred and thereafter the Corporation shall be entitled to an amortization deduction for the item of cost for each of the remaining years of its amortization period.

The accounting treatment of Development Costs incurred in the development of Section 7(i) Timber shall be [as] follows:

Costs of Mainline Roads shall be capitalized and amortized. The first amortization deduction shall be taken in the Fiscal Year such costs are incurred. The amount to be amortized in a Fiscal Year shall bear the same ratio to the total amount to be amortized that the volume of Merchantable Timber harvested in that Fiscal Year bears to the total volume of Merchantable Timber in the Timber Block, with any remaining unamortized costs deducted in the last year timber is harvested from the Block or the tenth (10th) year, whichever is sooner. Costs for the construction of logging facilities other than roads (e.g., logging camps, shops, sort yards, log transfer facilities, docks or anchorages) shall be capitalized and amortized over ten (10) years or the useful life of the facility, whichever is shorter, with the first amortization deduction taken in the Fiscal Year in which costs are incurred. The amount to be amortized in a Fiscal Year shall bear the same ratio to the total amount to be

amortized that the volume of Merchantable Timber harvested in that Fiscal Year bears to the total volume of Merchantable Timber serviced by the facility, with any remaining unamortized costs deducted in the last year of service.

Amortization rates for Mainline Roads and facilities shall be stated each year in the Corporation's Section 7(i) Annual Report and shall be consistent with the forecast of Merchantable Timber to be extracted for the Fiscal Year indicated in the Timber Operating Plan. The quantity of Merchantable Timber used as the basis for amortization shall be reviewed by the Corporation on a yearly basis and shall be increased or decreased during the amortization period whenever market changes in merchantability standards, changes in Inventory Cruises or Timber Cruises, or changes in environmental regulatory standards cause the estimated quantity of Merchantable Timber to increase or decrease by ten percent (10%) or more. Changes in amortization rates shall be prospective only.

Commencing in the first Fiscal Year following the Fiscal Year in which such costs are incurred, the Corporation shall also be entitled to a deduction for interest at a rate equal to the Prime Rate plus one percent (1%) per year on the unamortized balance of all ~~such costs measured~~ capitalized Development Costs at the beginning of each Fiscal Year. All other Development Costs shall be expensed in the Fiscal Year incurred ~~by the Corporation~~.

56 (e) Production Costs.

(i) Definition. Production is deemed to commence and Development is deemed to cease when the Section 7(i) Resources is first produced in commercial quantities (i.e., when production is sufficient to cover current operating expenses, as defined below, without regard to ~~previous costs~~ Exploration or Development Costs). For purposes of this determination, operating expenses ~~means~~ are expenditures made and costs incurred (other than depreciation, amortization or depletion) in (a) producing and ~~marketing~~ selling oil and/or gas from completed wells, ~~or (b) the lifting, processing, and marketing of other minerals, including,~~ (b) mining, processing, and selling other minerals, and (c) producing and selling logs or other forest products from Section 7(i) Timber. Production costs include, without limitation, labor, fuel, repairs, handling, material, supplies, inventory, insurance, utility charges and other costs incidental to or necessary for the maintenance or operation of any well ~~or mine or the marketing~~, mine, or commercial timber operation, or the selling of production therefrom, ad valorem and severance taxes, insurance, and compensation to others for services rendered in conducting such operations. ~~Once production of any commercially feasible reserve has commenced, all Development Costs incurred with respect to that reserve shall be deductible as Production Costs.~~ Production costs shall also consist of:

(A) Costs incurred in producing, transporting and selling

Section 7(i) Resources including, without limitation, costs to expand or enhance production; costs of maintaining, operating, and servicing wells, mines and quarries; timber harvesting operation costs, and costs of secondary and other enhanced recovery.

(B) Costs of refining or processing as necessary or customary to bring a Section 7(i) Resource to the point of marketability as described in Article II, Section 1(j).

Once production of any commercially feasible reserve or Timber Block has commenced, all Development Costs incurred with respect to that reserve or Timber Block shall be deductible as Production Costs, except costs incurred for Mainline Roads, logging camps, shops, sort yards, log transfer facilities, docks and anchorages shall continue to be classified as Development Costs and shall be amortized as provided in Section 3(d)(ii).

(ii) Accounting Treatment.

A. The accounting treatment for the following Section 7(i) Timber Production Costs shall be as follows:

(1) All costs of logging (including but not limited to, felling, bucking, yarding, loading, transporting, road maintenance, quality control, unloading, sorting, scaling, dumping, storing, towing, ship loading, shipping, selling, mobilization, and costs paid to contractors to demobilize due to falling markets or force majeure, facilities maintenance,

logging camp operation and demobilization), shall be deducted in the year incurred, except when generally accepted accounting principles would require that facilities related costs be capitalized and amortized as a component of logging camps, log transfer facilities or other facilities.

(2) Costs of Spur Roads, including costs of Putting Roads to Bed, shall be deducted in the year incurred.

(3) Costs of Secondary Roads, if used for only one year, shall be deducted in the year incurred. Costs of Secondary Roads to be used for more than one year shall be capitalized and amortized. The first amortization deduction shall be taken in the Fiscal Year such costs are incurred. The amount which shall be amortized in each Fiscal Year shall bear the same ratio to the total amount to be amortized that the volume of Merchantable Timber to be harvested in that Fiscal Year bears to the total volume of Merchantable Timber accessed by the Secondary Road. Any amounts remaining unamortized shall be deducted during the last year of service of the Secondary Road system, or in the third (3rd) year, whichever is sooner. Commencing in the first Fiscal Year following the Fiscal Year in which such costs are incurred, the Corporation shall also be entitled to a deduction for interest at a rate equal to the

Prime Rate plus one percent (1%) per year on the unamortized balance of all such costs at the beginning of each Fiscal Year.

(4) Costs of Timber Cruises shall be deducted in the year in which Revenues are first received for the Section 7(i) Timber included in the Timber Cruises; provided, that no deduction may be taken for cruises or inventories obtained only for federal income tax purposes.

(5) Selling Costs of Section 7(i) Timber (including quality control costs) shall be deducted in the Fiscal Year incurred, except when generally accepted accounting principles require such costs to be capitalized; provided, notwithstanding any provision of Article III, Section 5(a) and (b) or Article I, Section 2 (33), when a Corporation markets both Section 7(i) and non-Section 7(i) Merchantable Timber sold during the Fiscal Year bears to the total volume of all Merchantable Timber sold during the Fiscal Year.

(B) All other Production Costs shall be deducted in the Fiscal Year incurred by the Corporation regardless of whether any of such costs could have been capitalized under generally accepted accounting principles.

58 (f) Post-Production Costs.

(i) Definition. Post-Production Costs shall include all costs

required by contract, applicable law or regulation or sound land management practice to be incurred by the Corporation to shut down, plug, abandon, (including Putting Mainline and Secondary Roads to Bed) restore, recontour, or reclaim the land in connection with the cessation of production of Section 7(i) Resources, but do not include costs of shutting down, plugging, abandoning, restoring, recontouring, or reclaiming the land in connection with a particular well, part of a mine or pit, or Timber Block, where such activity is conducted while commercial production of the Section7(i) Resource continues. Such latter costs shall be included in Production Costs pursuant to Section 3(e) of this Article.

(ii) Accounting Treatment. At any time after it is estimated that there are less than ten (10) years of production remaining from a particular project, or in the case of Section 7(i) Timber production, less than three (3) years of harvesting remaining, the Corporation shall make annually an estimate of the Post-Production Costs for that project. A reserve for Post-Production Costs will be established and maintained by an annual deduction in an amount sufficient to amortize the difference between the current year's estimate of unexpended costs and the balance of any previously established reserve for that project, on a straight line basis over the estimated remaining life of the project. This annual deduction (but not the reserve) shall be reduced in each Fiscal Year in an amount equal to interest at the Prime Rate plus one percent (1%) per year on any reserve balance as of the beginning of that Fiscal Year.

All Post-Production Cost expenditures shall be charged against the reserve established for a particular project. At the conclusion of post-production activities, but in no event later than the end of the third Fiscal Year following the conclusion of timber harvesting or production for a project, any remaining reserve balance for that project shall be included in Gross Active Section 7(i) Revenues. Any Post-Production Cost expenditures in excess of the reserve shall be deductible as Post-Production Costs.

(g) Borrowing and Other Costs. Costs incurred by a Corporation which are deductible as Active Section 7(i) Costs pursuant to the terms of Article II, Sections 1(d) or 2(g).

(h) Section 7(i) Resource Litigation Costs. Costs incurred because of threatened litigation, litigation or other dispute resolution: (i) to collect, protect or increase Gross or Adjusted Gross Active Section 7(i) Revenues; or (ii) to minimize taxes which are allowable as Section 7(i) Costs under Section 3(b) of this Article.

(i) Special Provisions Applicable to Joint Use Agreement of Timber Harvesting Roads and Facilities. Notwithstanding any other provision of this Agreement or Appendix A, costs incurred for the construction and operation of roads and facilities built to service Section 7(i) Timber and non-Section 7(i) Timber, whether owned by the Corporation or third parties, shall be allocated on a per thousand board foot (mbf) basis between the total volume of Section 7(i) Merchantable Timber and the total volume of non-Section 7(i) Merchantable

Timber tributary to the road or facility as determined in the Fiscal Year the costs were incurred. Costs which are allocated to Section 7(i) Timber may be deducted from Gross Section 7(i) Revenues as provided in this Section. Costs which are allocated to non-Section 7(i) Timber may not be deducted.

Revenues received by a Corporation for the use of roads of facilities whose costs were or will be deducted whole or in part pursuant to this Section shall be included in Gross Active Section 7(i) Revenues up to the total amount of the costs that have or will be deducted for such road or facility, including but not limited to future amortization and interest deductions. Any revenues received exceeding such deductible costs shall not be included in Section 7(i) Revenues.

60 Section 4. Unallowable Costs. Except as provided in Sections 1, 2, 3 and 7 of this Article and in Article VII, Section 5, no other costs are allowed as Section 7(i) Costs, regardless of any beneficial or causal relationship between the costs and Gross Section 7(i) Revenues.

61 Section 5. Provisions Applicable to Itemization of Section 7(i) Costs.

(a) Identification and Determination of Allowable Costs. All allowable Section 7(i) Costs (except the General and Administrative Costs Allowance provided for under Section 7 of this Article) must be specifically identified to a Section 7(i) Activity or Activities at the source document level (employee time records, employee expense reports, equipment use logs and vendor invoices), and determined as follows:

(i) Labor Costs: The salary or wages plus payroll taxes and employee benefits, for: (a) Dedicated Non-Operating Labor; and (b) Dedicated Operating Labor, but only to the extent that the time of such Labor is spent on a Section 7(i) Activity. Labor costs must be supported by employee time records setting forth all activities of the employee for the accounting period maintained reasonably contemporaneously with the activities they detail, and showing the basis of any allocation between Section 7(i) Activities and non-Section 7(i) Activities. In-house labor costs shall not exceed the compensation and related costs paid by Third Parties for personnel performing comparable services and possessing comparable skill and experience.

(ii) Other In-House Costs: Travel and related costs for personnel whose labor costs are an allowable cost on a Section 7(i) Activity must be supported by employee expense reports maintained reasonably contemporaneously with the activities they detail;

(iii) Outside Costs: Vendor invoices, to the extent obtainable from vendors, must be broken down into goods and services components, must specify the hourly or other rate for all services performed, must contain a description of the goods and services, and must be supported by adequate documentation for all costs. Charges imposed on a Corporation by a Third Party operator under a Section 7(i) Resource Contract providing the Corporation a non-carried working interest are outside costs hereunder.

(iv) Costs of Dedicated Operating Facilities and Equipment. The costs of Dedicated Operating Facilities and Equipment must be supported by records adequately showing their uses, maintained reasonably contemporaneously with the uses detailed therein, and showing the basis of any allocation between Section 7(i) Activities and non-Section 7(i) Activities.

63 (b) Allocation of Costs. Where Dedicated Operating Labor, Equipment or Facilities are devoted to both Section 7(i) Activity and to activity which would be Section 7(i) Activity if performed with relation to Section 7(i) Resources, the costs of such labor, equipment or facilities shall be allocated between such activities and the proportionate share of the costs associated with the Section 7(i) Activity may be deducted. That proportionate share shall be calculated on the basis of time for Operating Labor and where otherwise appropriate, and in all other cases on the basis of industry practice, on units of production or, if no meaningful production is available, on the basis or relative economic value of the service or function performed. No other allocation shall be made of in-house costs which are attributable to a non-Section 7(i) Activity as well as to a Section 7(i) Activity.

Where an outside cost is attributable to a non-Section 7(i) Activity as well as a Section 7(i) Activity, that costs may, and in the first instance shall, be allocated between such activities by the outside party which bills the cost on the basis of actual time expended as supported by employee time records or, to the extent allocation cannot be made on this basis, then on the basis of the relative

values of the Section 7(i) and non-Section 7(i) cost objectives. If, but only to the extent that, the outside party is unable to make such allocation, the Corporation may itself make the allocation on the same basis.

Any cost which is attributable to a non-Section 7(i) Activity as well as a Section 7(i) Activity and is not allocated in accordance with this Paragraph shall not be an allowable Section 7(i) Cost. Certain accounting procedures for allocating costs pursuant to this Section are set forth in Appendix A.

64 (c) Expenses Recognized as Offsets to Gross Section 7(i) Revenues. Any other provisions of this Agreement notwithstanding, in no event shall a Corporation deduct as itemized Section 7(i) Costs any costs which it has previously recognized in calculating its Gross Section 7(i) Revenues under Article II (such as, for example and without limitation, costs of transportation, extraction, or severance deducted in computing the amount included in Gross Section 7(i) Revenues).

(d) Non-Operating Working Interests. If, pursuant to a Section 7(i) Resource Contract negotiated at arm's-length and in good faith with a Third Party, a Corporation receives a non-operating working interest in the development and production of Section 7(i) Resources, any costs or charges imposed on the Corporation pursuant to that contract which fall within the categories of allowable Section 7(i) Costs as set forth in Sections 2 and 3 of this Article shall be deductible in accordance with the accounting treatment provided for the applicable category of cost. Any such costs or charges imposed on the Corporation which do not fall within the categories of allowable Section 7(i) Costs

shall nevertheless be deductible as Passive or Active Section 7(i) Costs, as the case may be, provided that no portion of the Corporation's general and administrative expense may be deducted under this Section.

65 (e) Costs of Related Parties. The full costs of any goods or services furnished by a Related Party or a Village Corporation shall be deductible if (i) the goods or services in question are customarily obtained from Third Parties, (ii) the Related Party or the Village Corporation is in the business of furnishing such goods or services to Third Parties, and (iii) the amount deducted does not exceed the cost of comparable goods or services if furnished by a Third Party of comparable skill and experience. In all other cases a Related Party or a Village Corporation shall be treated in all respects as identical with the Corporation for the purposes of identifying and computing items of allowable Section 7(i) Costs, so that deductions for services or goods provided by a Related Party or Village Corporation shall be limited to those costs incurred by the Related Party or Village Corporation which fall within the categories of allowable Section 7(i) Costs.

(f) Written Cost Objectives for Section 7(i) Activity. Each Section 7(i) Activity must have a written cost objective identified at or about the time costs are initially incurred. The cost objective for each Section 7(i) Activity shall be identified on a written form maintained by the Corporation for this purpose.

66 Section 6. Timing and Quantification of Cost Deductions. All costs which are deductible as Passive Section 7(i) Costs pursuant to this Agreement shall be deducted

in the Fiscal Year incurred. Costs which are deductible as Active Section 7(i) Costs shall be deducted in accordance with the accounting treatment provided for such costs or, if no accounting treatment is provided for such costs or, if no accounting treatment if provided, shall be deducted in the Fiscal Year incurred.

Regardless of the timing of deductibility accorded by this Agreement, costs incurred shall be quantified in accordance with generally accepted accounting principles, except that when interest is required to be imputed under any generally accepted accounting principle, such interest shall be determined at the rate of the Prime Rate plus one percent (1%) per year.

67 Section 7. General and Administrative Costs Allowance. As consideration for any and all costs for which a current or future deduction is not otherwise allowed under this Agreement, including, without limitation, general and administrative costs, marketing costs (other than contract negotiation costs under Section 2(c) and selling costs under Section 3(e) of this Article), lobbying costs, and costs of shareholder relations, the Corporation shall be allowed in each Fiscal Year and additional deduction as follows: If a Corporation's Adjusted Gross Section 7(i) Revenues for a particular Fiscal Year are less than three million dollars ($3,000,000), the Corporation shall be allowed a percentage allowance equal to twenty percent (20%) of its Adjusted Gross Section 7(i) Revenues for that year. If a corporation's Adjusted Gross Section 7(i) Revenues for a particular Fiscal Year are greater than three million dollars ($3,000,000) but less than one hundred million dollars ($100,000,000), the Corporation shall be allowed a percentage allowance for that Fiscal Year equal to the greater of either six percent (6%)

of its Adjusted Gross Section 7(i) Revenues for that year or six hundred thousand dollars ($600,000). If a Corporation's Adjusted Gross Section 7(i) Revenues for a particular Fiscal Year exceed one hundred million dollars ($100,000,000), the Corporation shall be allowed a percentage allowance for that Fiscal Year equal to the greater of either four percent (4%) of its Adjusted Gross Section 7(i) Revenues for that year or six million dollars ($6,000,000).

ARTICLE IV — CALCULATION OF DISTRIBUTABLE REVENUES

68 Section 1. Revenue Calculation Where Section 7(i) Costs Are Itemized. For each Fiscal Year, each Corporation shall calculate its Adjusted Gross Passive Section 7(i) Revenues. If that calculation yields a positive number, sixty percent (60%) of the Corporation's Adjusted Gross Passive Section 7(i) Revenues shall be segregated and shall be added to the Corporation's Adjusted Gross Active Section 7(i) Revenues, if any, in computing the Corporation's Adjusted Gross Section 7(i) Revenues for the year; the other forty percent (40%) shall be added to the Corporation's Gross Active Section 7(i) Revenues for that year. If the calculation of a Corporation's Adjusted Gross Passive Section 7(i) Revenues yields a negative number, the amount of the Corporation's Excess Passive Section 7(i) Costs shall be added to the Corporation's Active Section 7(i) Costs shall be added to the Corporations Active Section 7(i) Costs in computing the Corporation's Adjusted Gross Active Section 7(i) Revenues. For purposes of this calculation, any remaining unutilized amount of Initial Excess Deductions as defined in Article VII, Section 5, shall be included as a Passive Section 7(i) Cost.

In the event calculation of the Corporation's Adjusted Gross Active Section 7(i) Revenues produces a negative number (i.e., if the Corporation's Active Section 7(i) Costs plus any Excess Passive Section 7(i) Costs for the Fiscal Year exceed the Corporation's Gross Active Section 7(i) Revenues plus forty percent (40%) of the Corporation's Adjusted Gross Passive Section 7(i) Revenues), the Corporation may carry forward such excess costs, plus interest at a rate equal to the Prime Rate plus one

percent (1%) per year on that portion of such excess costs, if any, which constitutes Excess Active Section 7(i) Costs, from ninety (90) days following the close of the Fiscal Year in which such carry forward was generated until ninety (90) days following the close of the succeeding Fiscal Year. In calculating Adjusted Gross Active Section 7(i) Revenues, the Corporation's Gross Active Section 7(i) Revenues plus forty percent (40%) of Adjusted Gross Passive Section 7(i) Revenues for the Fiscal Year shall be offset first by any Active Section 7(i) Costs for that year. If that calculation yields a negative number, the amount of Excess Active Section 7(i) Costs, plus interest thereon as described above, shall be included in the Corporation's Active Section 7(i) Costs in the succeeding Fiscal Year, and any Excess Passive Section 7(i) Costs shall be included in the Corporation's Passive Section 7(i) Costs in that succeeding Fiscal Year. If that calculation yields a positive number (i.e., if there are no Excess Active Section 7(i) Costs for the year), any excess costs remaining after computing Adjusted Gross Active Section 7(i) Revenues (i.e., after deducting the Corporation's Excess Passive Section 7(i) Costs) shall be included in the Corporation's Passive Section 7(i) Costs in the succeeding Fiscal Year. The interest portion of any carry forward of Excess Active Section 7(i) Costs (including the interest allowed with respect to unamortized Exploration and Development Costs as provided in Section 3(c) and (d) of Article III) shall be identified in a separate sub-account of Active Section 7(i) Costs and shall be the first Active Section 7(i) Costs to be deducted from Gross Active Section 7(i) Revenues in the succeeding Fiscal Year, provided however that any of such interest costs not deducted in a Fiscal Year may be carried forward, without interest, to succeeding Fiscal Years.

Election by a Corporation to take the Standard Annual Section 7(i) Deduction for a Fiscal Year shall extinguish any then existing carry forward of excess costs pursuant to this Article, except as provided in Article VII, Section 5.

The Corporation's Adjusted Gross Active Section 7(i) Revenues, if a positive number, shall be added to sixty percent (60%) of the Corporation's Adjusted Gross Passive Section 7(i) Revenues in calculating the Corporation's total Adjusted Gross Section 7(i) Revenues for that Fiscal Year. That sum, less the Corporation's General and Administrative Costs Allowance pursuant to Article III, Section 7, shall constitute the Corporation's Net Section 7(i) Revenues subject to distribution in accordance with Article I, Section 2(21).

70 Section 2. Revenue Calculation Where Standard Annual Section 7(i) Cost Deduction is Utilized. In the event a Corporation elects to take the Standard Annual Section 7(i) Cost Deduction in a particular Fiscal Year, the Corporation's Gross Passive Section 7(i) Revenues shall be added to its Gross Active Section 7(i) Revenues for that Fiscal Year. That sum, less the Standard Annual Section 7(i) Cost Deduction, shall constitute the Corporation's Net Section 7(i) Revenues subject to distribution in accordance with Article I, Section 2(21).

ARTICLE V — COMPLIANCE MECHANISM

71 Section 1. Annual Distributions. Each Corporation, within ninety (90) days of the close of its Fiscal year, shall distribute to the other Corporations their Distributive shares of the Corporation's Net Section 7(i) revenues for that Fiscal Year.

Section 2. Interest for Failure to Distribute. If a Corporation fails to distribute Net Section 7(i) Revenues as provided in Section 1 of this Article, or to place such funds in escrow as provided in Section 10 of this Article, the Corporation shall pay interest at the Prime Rate plus five percent (5%) per year on all amounts not distributed or escrowed, from the close of its Fiscal Year until the date distribution occurs. No interest shall be charged to the extent a Corporation distributes or escrows its Net Section 7(i) Revenues within ninety (90) days of the close of its Fiscal Year. If Arctic Slope Regional Corporation fails to make the distributions provided under Article VII, Section 7, it shall pay interest at the Prime Rate plus five percent (5%) per year on all amounts not distributed from the date such distribution was due until the date payment occurs.

72 Section 3. Reporting Requirements. Within one hundred and eighty (180) days after the close of the Corporation's Fiscal Year, the Corporation shall furnish to the other Corporations a Section 7(i) annual report:

(a) Section 7(i) Annual Report: The Section 7(i) annual report shall contain the following:

(1) Statement of Significant Accounting Policies and, if

requested by another Corporation, Charts of Accounts as required under paragraph (b) of this Section;

(2) Statement of Gross Section 7(i) Revenues, as required under paragraph (c) of this Section;

(3) Statement of Section 7(i) Costs, as required under paragraph (d) of this Section;

(4) Statement of any adjustments to prior reports increasing or decreasing Gross or Net Section 7(i) Revenues reported or Section 7(i) Costs claimed therein;

(5) Statement, by Fiscal Year, of any excess Section 7(i) Costs which, as provided in Article IV, the Corporation claims it may carry forward to subsequent years;

(6) Computation of the Distributive Share of each Corporation;

(7) A detailed reconciliation of the gross revenues reflected on the Corporation's financial statements to the Statement of Gross Section 7(i) Revenues;

(8) Statement of the basis and method of computation of any cost determined by allocation;

(9) The information required to be reported by Article II, Section 1(j);

(10) A statement identifying each transaction pursuant to Article II, Sections 1(b), (1)g, 2(f). 3, 6, or 9, and the basis for any determination of Fair Market Value in connection therewith;

(11) Any and all footnotes and supplemental information necessary to explain or clarify the statements and the information set forth therein; and

(12) A certification by the Corporation's independent certified public accounting firm, in accordance with Professional Standards Section AU612, Special Reports, of the AICPA, and any revisions or restatements thereof, as follows:

> "We have examined the Section 7(i) Annual Report of for the year ended _____. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> "As described in Note x, the Section 7(i) Annual Report has been prepared in accordance with the accounting policies described in the Section 7(i) Settlement Agreement, which policies differ from generally accepted accounting principles.
>
> "In our opinion, the aforementioned Section 7(i) Annual Report presents fairly the information required by Article V, Section 3 of the Settlement Agreement on the basis prescribed therein."

13. For any Corporation which has engaged in the Active Development of Section 7(i) Timber during the past Fiscal Year, a copy of the Corporation's Timber Operating Plan or Plans in effect during the Fiscal year. A Corporation may exclude from the Plan confidential forecasts of sales prices and financial results for each operating area.

In the second and all subsequent reports filed under this Agreement, the certification shall include the additional words "which basis has been applied in a

manner consistent with that of the preceding fiscal year" or an accompanying explanation of the effect of any changes.

If for any reason the independent certifies public accounting firm is unable to express an unqualified opinion on a Corporation's Section 7(i) annual report, the certificate shall be appropriately modified to disclose the nature of the qualification and the principal effects of the subject matter of the qualification on the Net Section 7(i) Revenues reported. If the effects are not determinable, the certificate shall so state. The modified certificate shall also make clear whether the subject matter of the qualification is (a) one which results from a limitation on the scope of the examination or an insufficiency of evidential matter, (b) one involving an uncertainty as to the interpretation of this Agreement, (c) one involving another uncertainty, the resolution of which depends on the outcome of future events, or (d) one as to which a difference of opinion exists between the independent accountant and the Corporation and for which the independent accountant believes and adjustment should be made.

75 (b) Statement of Significant Accounting Policies and Charts of Accounts. For the first Fiscal Year as to which a Corporation computes Section 7(i) Revenues or Costs pursuant to this Agreement, the Corporation shall furnish to the other Corporations a written statement by its chief financial officer of its significant accounting policies and, if requested by another Corporation, the charts of accounts employed by the Corporation for its accounting pursuant to this Agreement. For each succeeding Fiscal Year the Corporation shall furnish

either a written certification by its chief financial officer that there has been no material change in the Corporation's Section 7(i) accounting since the end of the prior Fiscal Year or a written statement by its chief financial officer of such changes.

76 (c) Statement of Gross Section 7(i) Revenues. The Statement of Gross Section 7(i) Revenues shall include all Gross Section 7(i) Revenues received by the Corporation during the Fiscal Year, identified by source, such as project, Section 7(i) operation of Section 7(i) Resource Contract or Contracts. The statement should also describe and state the basis for determining the Fair Market Value of non-cash Section 7(i) Revenues.

(d) Statement of Section 7(i) Costs.

(1) The Statement of Section 7(i) Costs shall consist of either:

(i) A written claim of the Standard Annual Section 7(i) Cost Deduction for the Fiscal Year which shall reflect the reporting period as to which the deduction is claimed; or

(ii) itemization of the Corporation's Section 7(i) Costs by category of allowable cost as maintained by the Corporation in its books and records, together with a brief description of all Section 7(i) Activities.

(2) Total Section 7(i) Costs shall be reported regardless of any reimbursements for such costs received from Third Parties.

(e) Management Representation. The Section 7(i) annual report shall

be transmitted to the other Corporations with a representation by the appropriate corporate officer in the following form:

> "The accompanying Section 7(i) annual report of (Corporation) for the fiscal year ended (date) was prepared under my supervision and direction. In connection therewith, I represent that to the best of my knowledge and belief:
>
> (1) The accompanying report sets forth all information required to be presented by Article V, Section 3 of the Agreement dated _____ among (the Corporations).
>
> (2) Such information is presented fairly in accordance with the applicable provisions of the Agreement.
>
> (3) (Except as described in the report,) There have been no matters coming to my attention that would require adjustment to any previously issued Section 7(i) annual report.
>
> /s/ Chief Financial Officer

77 Section 4. Estimates. For the purpose of allowing all Corporations to engage in cash flow planning, each Corporation may elect to project its estimated Net Section 7(i) Revenues at such times and upon such basis as is convenient to the reporting Corporation.

No Corporation or Third Party shall be held liable, for negligence or otherwise, with respect to or as a result of any errors or changes in such projections nor shall any such projection be introduced in evidence or referred to for any purpose in any arbitration or litigation.

78 Section 5. Required Records. Each Corporation shall maintain its books and records in sufficient detail to support its Section 7(i) Annual Report. At or about the time of the occurrence of transactions affecting the determination of Section 7(i) Revenues or Section 7(i) Costs, the Corporation shall segregate into one or more separate

accountants, or otherwise maintain the identity of such transactions; that is, a Corporation shall not co-mingle in the same account Section 7(i) Costs and non-Section 7(i) Costs in such a manner as to preclude an audit trail. Each Corporation shall preserve all records relevant to determining or auditing Gross and Net Section 7(i) Revenues and Section 7(i) Costs for at least six years after the close of the Fiscal Year to which the records relate and until the completion or any audit or arbitration proceeding or appeal pending at the end of six years to which the particular records are relevant.

Section 6. Distribution of Financial Reports. Each Corporation, in addition to the Section 7(i) Annual Report, shall distribute to each other Corporation every report distributed to its shareholders as a class which pertains in any way to the present or past financial condition of the Corporation. Every such report shall be distributed to each other Corporation at the same time as it is distributed to the Corporation's shareholders as a class.

Section 7. Effective Date for Record-Keeping. The effective date for the record-keeping provisions of this Agreement shall be the first day of a Corporation's Fiscal Year next following the effective date of this Agreement, but not before January 1, 1983. Costs incurred during the Fiscal Year in progress at the effective date of this Agreement, which would otherwise be deductible under this Agreement and during any Fiscal Year preceding such Fiscal Year which is not covered under Article VII, Sections 3 and 7 or up to January 1, 1983, shall be deductible despite the fact that such costs

are not documented in accordance with the record-keeping and reporting provisions of this Agreement. During the Fiscal Year in progress when this Agreement becomes effective, however, each Corporation shall use its best efforts to comply with the record-keeping requirements of this Agreement.

79 Section 8. Audit of Section 7(i) Annual Report. Within twelve (12) months from the date of the transmittal of the Section 7(i) annual report of a Corporation, any other Corporation may, upon sixty (60) days written notice to the other Corporations, commence an audit or other examination of the pertinent financial and contractual records of that Corporation by one independent certified public accounting firm for the purpose of auditing the Gross Section 7(i) Revenues and Section 7(i) Costs of the reporting Corporation. Any other Corporation may (i) participate in determining the basic scope of the audit; or (ii) expand the audit objectives or the scope of the audit assignment. Except as otherwise provided by this Agreement, no Corporation shall have the right to restrict the audit objectives or the scope of the audit. In ascertaining revenues and deductions, the accounting firm shall, as necessary, retain and consult with foresters, mineral consultants or other resource experts.

If one or more Corporations exercise their right to audit the Section 7(i) annual report of any Corporation, no other Corporation, through arbitration or otherwise, shall commence any audit or other examination of that same report. In the event a final determination is made, either through arbitration conducted pursuant to Article VI of this Agreement or by stipulation of the audited Corporation, that the Net Section 7(i)

Revenues were understated by five percent (5%) or more, but not less than one hundred thousand dollars ($100,000) before consideration of any carry-forward of deductions, the costs of the audit or examination shall be paid by the Corporation audited, and the additional distributable amounts shall be subject to the provisions of Section 2 of this Article. In all other cases, the costs of the audit shall be paid in equal shares by the Corporations which requested or participated in the audit or examination, except that the costs of additional work, as determined by the certified public accounting firm, resulting from an expansion of the original objectives and scope of the audit, shall be paid by the Corporation or Corporations requesting such expansion.

No Corporation may be audited pursuant to this Section more than once for any Fiscal Year.

80 Section 9. Preparation of Section 7(i) Annual Report by Other Corporation. If a Corporation fails to transmit its Section 7(i) annual report within one hundred and eighty (180) days after the close of the Corporation's Fiscal Year, any Corporation may, upon sixty (60) days written notice to the other Corporations, cause an audit or their examination of the pertinent financial and contractual records of the non-reporting Corporation to be conducted by one independent certified public accounting firm for the purpose of preparing for that Corporation the Section 7(i) annual report which the Corporation failed to transmit. The report so prepared shall be presumptively valid, and the non-reporting Corporation shall have the burden of establishing any changes therein. If arbitration is not initiated within one hundred and twenty (120) days after

transmittal of the report, the non-reporting Corporation shall be precluded from challenging the report or any part thereof and shall make distributions accordingly. In any event, the non-reporting Corporation shall be liable for the costs and expenses incurred in the audit and preparation of the report and shall pay such costs and expenses forthwith.

81 Section 10. Escrow of Revenues Not Distributed Pending Arbitration. If a Corporation is uncertain how to treat revenues received or expenses incurred, at or before the time it files its Section 7(i) annual report, it may withhold distribution of the funds in question pending arbitral review of its proposed treatment and avoid the interest and penalty provisions of Section 2 of this Article if:

(i) The funds in question, less the Corporation's Distributive Share of that amount, are placed in escrow within ninety (90) days after the end of the Corporation's Fiscal Year;

(ii) The escrow holder is a federally-insured state or federal bank or savings institution authorized by law to do business in the State of Alaska;

(iii) The escrow holder is instructed to invest the funds in ninety (90) day Treasury Bills, comparable short-term government obligations, or in bank certificates of deposit or banker's acceptances representing the domestic obligations of any of the five United States banks having the largest assets; and

(iv) The other Corporations are provided at or before the time the Corporation files its Section 7(i) annual report with the identity of the escrow holder, a copy of the escrow agreement, and a statement of the revenues or expenses involved which describes in detail the Corporation's proposed treatment of such revenues and expenses and its basis therefor under this Agreement.

If the Corporation's proposed treatment is reviewed by arbitration and rejected, the principal amount in escrow and the interest earned thereon shall be distributed to the other Corporations according to their respective Distributive Shares. If the Corporation's proposed treatment is reviewed by arbitration and rejected in part, that portion of the principal amount in escrow subject to the rejected accounting treatment, plus the interest earned on and attributable to that portion, shall be distributed to the other Corporations according to their respective Distributive Shares, and all other amounts in escrow shall be transferred to the proposing Corporation. If the Corporation's proposed treatment is approved in arbitration, or if no arbitration is initiated within two (2) years from the date of transmittal of the Section 7(i) annual report describing the items of revenue or cost to which the escrow relates, all amounts in escrow shall be transferred to the proposing Corporation.

83 Section 11. Confidentiality. Unless otherwise provided by law, any Corporation may request that all or part of the information discovered, reviewed, or disclosed in the

course of any audit, examination, arbitration, or appeal therefrom, or otherwise disclosed pursuant to this Agreement, shall be confidential. Upon such request, the following procedures shall apply:

(i) Confidential information may not be disclosed by any Corporation, or its agents or attorneys, to any person not participating in the audit, examination, arbitration or appeal, or in rendering advice in regard thereto, and may not be used except in connection therewith. Each person to whom confidential material is made available shall sign a confidentiality agreement which shall set forth the substance of this Section.

(ii) Because of the acknowledged difficulty of assessing damages in this respect, breach of the nondisclosure or limited use provisions of this Section by a Corporation, its agents, or attorneys will result in either minimum liquidated damages of ten thousand dollars ($10,000) or, at the election of the injured Corporation, an amount of actual damages. Liability of a Corporation for liquidated or actual damages shall be determined by arbitration.

(iii) A proceeding in which confidential information is to be discovered, reviewed or disclosed shall be conducted upon a sealed record.

ARTICLE VI — ARBITRATION

84 Section 1. Issues Subject to Arbitration. Except as provided in this Section, any disputes arising under this Agreement between or among the Corporations may be submitted to arbitration in the manner provided for in this Article. Arbitration under this Article shall be the exclusive means of resolving such disputes. No arbitration shall be held concerning the Federal or State income tax consequences of revenues, deductions, distributions, or any other income tax issues under Section 7(i) or this Agreement.

Section 2. Governing Rules. Except as this Agreement provides to the contrary, the Commercial Arbitration Rules of the American Arbitration Association, as amended and in effect (hereinafter referred to as "Rules"), shall govern all aspects of the arbitration. The arbitrators will be bound by this Agreement and, to the extent consistent therewith, shall give effect to the laws of the State of Alaska and of the United States.

85 Section 3. Times for Arbitration. Except as provided in Article V, Section 9, demand for arbitration shall be served not later than two (2) years from the date the Section 7(i) annual report which is the subject of the arbitration was due, or not later than two (2) years from the discovery of material information not disclosed in said report, or not later than ninety (90) days after receipt of the audit report prepared pursuant to Article V, Section 8 or 9. Failure to file a timely demand for arbitration waives all right to arbitrate

under this Agreement.

Section 4. Initiation of Arbitration. Any Corporation seeking arbitration shall serve a notice upon the Corporation or Corporations with which it has a dispute, and all other Corporations. The notice shall contain a demand for arbitration and a statement setting forth the nature of the dispute (including the specific issues involved therein), the amount involved, the remedy sought, and a declaration that the party seeking arbitration has theretofore attempted to resolve the dispute with the Corporation or Corporations against which arbitration is sought. The Corporation demanding arbitration may initiate arbitration by filing, not less than thirty (30) days nor more than sixty (60) days after delivery of the notice, with the Chairman of the panel established under Article VI, Section 5(b) or, if such a panel has not been established, with the regional office of the American Arbitration Association those documents and fees required by the Rules and by serving written notice upon all the other Corporations. Any Corporation may join the arbitration proceedings once initiated by serving written notice of its intention so to join upon all other Corporations within twenty (20) days of notice that arbitration has been initiated. Any Corporation which fails to join the arbitration shall be bound by the arbitration and shall thereby waive its right subsequently to challenge the outcome of the arbitration or the transaction subject to arbitration.

86 Section 5. Appointment of Arbitrator. The Corporation initiating arbitration pursuant to this Article and any other Corporations that have joined with it shall, not less than

twenty (20) days nor more than thirty (30) days after the initiation of the arbitration, appoint one of the arbitrators, provided that if the Corporations cannot agree on a single arbitrator, the initiating Corporation shall appoint the arbitrator, the initiating Corporation shall appoint the arbitrator. Within thirty (30) days of notice of such appointment, the respondent Corporation or Corporations shall appoint a second arbitrator by majority vote, or if there is no majority, by lot from among the individuals proposed by such respondent Corporations. The two arbitrators thus selected need not be members of the panel, if any, established under Article VI, Section 5(b) or of any American Arbitration Association panel of arbitrators, but must meet the qualifications of Section 6 of this Article. The two arbitrators thus appointed shall appoint a third arbitrator, and such three arbitrators shall, as promptly as practicable, decide the matter, provided, however, that:

(a) If the second arbitrator shall not have been appointed as aforesaid, the first arbitrator, after thirty (30) days' prior written notice to the parties to the arbitration, shall proceed to determine such matter; and

(b) If the first two arbitrators appointed as aforesaid are unable to agree upon the appointment of a third arbitrator within thirty (30) days after the appointment of the second arbitrator, they shall give written notice of such failure to agree to the parties to the arbitration, and, if the parties fail to agree upon the selection of such third arbitrator within fifteen (15) days, the third arbitrator, within thirty (30) days thereafter, shall be designated from a panel of arbitrators, if such a panel is in existence, and, if not, from a panel of neutral arbitrators prepared by

the American Arbitration Association. The panel of arbitrators compiled by the Corporations shall elect a Chairman by majority vote of the panel members, and the Chairman so elected shall notify the Corporations of such election. If the third arbitrator is designated from the panel of arbitrators compiled by the Corporation, the Chairman of that panel shall make such designation. If the third arbitrator is designated from the panel prepared by the American Arbitration Association, the Association shall make the designation.

88 Section 6. Qualification. Any arbitrator appointed pursuant to Section 5 of this Article shall possess substantial legal, accounting, or business experience, or other professional experience relevant to the issues in dispute in the arbitration as stated by the parties thereto in the notice required to be filed pursuant to Section 4 of this Article. No person who has any financial or personal interest in the result of the arbitration, or who is an employee, attorney, accountant, or other consultant for any party to the arbitration, or any Related Party to such party or a Village Corporation, shall serve as an arbitrator in any arbitration unless all parties to the arbitration in writing waive such disqualification.

Section 7. Location. Arbitration shall occur in Anchorage, Alaska, unless all parties to the arbitration otherwise agree in writing.

Section 8. Consolidation. Where two or more arbitrations involve common or similar questions of law or fact, the parties may stipulate to consolidation, or any party to the

arbitration may move for consolidation. Unless otherwise agreed by the parties, consolidated arbitrations shall be heard by three arbitrators selected as follows: (i) if two arbitrations have been consolidated, the two arbitrators appointed as third arbitrators under Section 5 of this Article shall constitute two of the arbitrators, and the third arbitrator shall be designated under the procedure provided in Section 5(b) for designation from a panel; (ii) if three arbitrations have been consolidated, the three arbitrators shall be the three persons appointed as third arbitrators under Section 5 for the three arbitrations; and (iii) if more than three arbitrations have been consolidated, three arbitrators shall be chosen at lot from among the persons appointed as third arbitrators under Section 5 for such arbitrations. A motion for consolidation shall be filed with the arbitrators assigned to hear the arbitration with the earliest date of initiation and those arbitrators shall have the authority to order consolidation. In determining whether to order consolidation, the arbitrators shall apply the principles set forth in Rule 42(a) of the Federal Rules of Civil Procedure, and precedent thereunder.

89 Section 9. Discovery and Subpoenas. The arbitrators shall have the authority granted under Alaska Statute 09.43.070 to issue subpoenas for the attendance of witnesses and to compel production of documents at the hearing. The arbitrators may, upon motion and showing of good cause, authorize any pretrial discovery which would be authorized under the Alaska Rules of Civil Procedure.

Section 10. Evidence. The Alaska Rules of Evidence shall apply and shall be given application to promote justice.

Section 11. Record of Hearing. A record of all evidence presented, including testimony, shall be made and preserved until the time for appeal has expired or, if an appeal is filed, until the appeal is concluded.

Section 12. Time. Decisions shall be announced and served within thirty (30) days after the close of hearing or after the date fixed for post-hearing briefs, if any.

Section 13. Form of Decision. The arbitration decision shall be accompanied by a written opinion explaining the facts and reasoning upon which it is based, including the findings of fact and conclusions of law made and reached by the arbitrators. The opinion and the findings of fact and conclusions of law shall be served, by mail, on all twelve Corporations. The Corporations shall cause a permanent library of decisions to be maintained. The arbitrators shall consider, but not be bound by, the results of prior arbitrations.

90 Section 14. Payment of Expenses.

(a) Unless otherwise agreed to by the parties, the prevailing party in an arbitration or an appeal therefrom shall be entitled to reimbursement of the costs of arbitration or appeal, including attorneys' fees, determined by the arbitrators (or court, in the event of an appeal) in accordance with Rule 82 of the Alaska Rules of Civil Procedure. For purposes of this subsection, the defendant

Corporation in an arbitration shall be the prevailing party if the outcome of the arbitration and any appeal does not increase its Net Section 7(i) Revenues before any carry-forward of deductions by five percent (5%) or more, but not less than one hundred thousand dollars ($100,000).

(b) Pending the determination of allowable costs pursuant to paragraph (a), the Corporations shall pay the fees and expenses of the arbitrators whom they respectively appoint, and shall share equally the costs of the third arbitrator and the other costs of arbitration.

(c) In any case where costs are to be awarded to a party and to be paid by several parties, costs shall be shared equally among the Corporations participating on the non-prevailing side.

(d) An award for costs shall be paid within thirty (30) days of the award becoming final and, if not paid, shall bear interest at the rate specified in Article V, Section 2.

Section 15. Post-Arbitration Proceedings. Post-arbitration proceedings shall be governed by Chapter 09.43 of the Alaska Statutes, except that as a matter of exclusive venue, any such proceedings must be filed in the Superior Court for the Third Judicial District at Anchorage, Alaska.

ARTICLE VII — SETTLEMENT PROVISIONS RELATING TO PAST TRANSACTIONS

91 Section 1. Period Affected. The provisions of this Article shall control the determination of Gross and Net Section 7(i) Revenues and Section 7(i) Costs for all Fiscal Years ending on or before March 31, 1982 ("Past Years"). Determination of revenues and costs for all Fiscal Years ending on or after April 1, 1982, ("Future Years") shall be governed by this Agreement.

Section 2. Past Revenues. Each Corporation, except Arctic Slope Regional Corporation ("Arctic Slope"), shall recognize as Gross Section 7(i) Revenues the following amounts:

Ahtna Inc.	$ 1,082,000 through June 30, 1981
Aleut Corporation	$ 77,492 through June 30, 1981
Bering Straits Native Corp.	$ 62,000 through December 31, 1981
Bristol Bay Native Corporation	$ 1,763,960 through March 31, 1982
Calista Corporation	$ 1,884,415 through December 31,1981
Chugach Natives, Inc.	$ 112,501 through March 31, 1982
Cook Inlet Region, Inc.	$27,181,061 through December 31, 1981
Doyon, Ltd.	$ 8,453,205 through October 31, 1981
Koniag, Inc.	$ 1,140,888 through June 30, 1981
NANA Regional Corp., Inc.	$ 3,334,204 through June 30, 1981
Sealaska Corp.	$ 3,018,013 through December 31, 1981

Each Corporation agrees that the amounts listed above are the agreed Gross Section 7(i) Revenues for the period covered.

92 Section 3. Past Deductions. Each Corporation, except Arctic Slope, shall be entitled to claim as Section 7(i) Costs for Past Years the following amounts:

Ahtna Inc.	$ 1,500,000 through June 30, 1981

Aleut Corporation	$ 1,752,724 through June 30, 1981
Bering Straits Native Corp.	$ 1,500,000 through December 31, 1981
Bristol Bay Native Corporation	$ 2,060,470 through March 31, 1982
Calista Corporation	$ 3,664,047 through December 31, 1981
Chugach Natives, Inc.	$ 2,572,515 through March 31, 1982
Cook Inlet Region, Inc.	$ 7,771,902 through December 31, 1981
Doyon, Ltd.	$ 5,922,911 through October 31, 1981
Koniag, Inc.	$ 1,862,942 through June 30, 1981
NANA Regional Corp., Inc.	$ 1,652,448 through June 30, 1981
Sealaska, Inc.	$ 5,352,292 through December 31, 1981

Section 4. Previous Distribution and Amounts Presently Owed. Based on the Gross Section 7(i) Revenues and Section 7(i) Costs set forth in Sections 2 and 3 of this Article, and the previous Section 7(i) distributions each Corporation has made, and subject to the provisions of Article I, Section 2(21), the following amounts are owed by the following Corporations, except Arctic Slope, as Section 7(i) distributions for Past Years:

Ahtna Inc.	$ 0
Aleut Corporation	$ 0 .
Bering Straits Native Corp.	$ 0 .
Bristol Bay Native Corporation	$ 0 .
Calista Corporation	$ 0 .
Chugach Natives, Inc.	$ 0 .
Cook Inlet Region, Inc.	$ 737,170
Doyon, Ltd.	$ 0 .
Koniag, Inc.	$ 0 .
NANA Regional Corp., Inc.	$ 0 .
Sealaska Corp.	$ 0 .

Such amounts are to be divided by each such Corporation among the other Corporations in accordance with their Distributive Shares, except that the amount payable to each Corporation by Arctic Slope shall be as set forth in Section 7 of this Article. Except as set forth in Section 7, which provides terms of payment applicable to Arctic Slope, such distributions shall be made, without interest, within thirty (30) days

following entry of the dismissals provided for in Section 11 of this Article.

If prior to the effective date of this Agreement, a Corporation has received a payment subject to a possible refund, as defined in Article II, Section 4, said payment shall be deemed a deposit and shall not be recognized as Gross Section 7(i) Revenues if the Corporation, promptly after the effective date of this Agreement, complies with the requirements of Article II, Section 4(a) through (d), except the timing requirement of Section 4(a). Upon such compliance, the deposit shall be treated as provided under the final paragraph of Article II, Section 4.

94 Section 5. Deduction Carry-Forward. Section 7(i) Costs for the following Corporations have exceeded Gross Section 7(i) Revenues for Past Years by the amounts shown herein:

Ahtna Inc.	$ 418,000
Aleut Corporation	$ 1,675,232
Arctic Slope Regional Corp.	$ 0 .
Bering Straits Native Corp.	$ 1,438,000
Bristol Bay Native Corporation	$ 296,510
Calista Corporation	$ 1,779,632
Chugach Natives, Inc.	$ 2,460,014
Cook Inlet Region, Inc.	$ 0 .
Doyon, Ltd.	$ 0 .
Koniag, Inc.	$ 772,054
NANA Regional Corp., Inc.	$ 0 .
Sealaska Corp.	$ 2,334,277

Such amounts ("Initial Excess Deductions") may be carried forward and applied against Gross Section 7(i) Revenues in Future Years.

Section 6. Prior Excess Distributions. The following Corporations have distributed in

Past Years more Section 7(i) Revenues than required in the amounts shown herein:

Ahtna Inc.	$ 451,245
Aleut Corporation	$ 39,467
Arctic Slope Regional Corp.	$ 0 .
Bering Straits Native Corp.	$ 22,000
Bristol Bay Native Corporation	$ 226,485
Calista Corporation	$ 0 .
Chugach Natives, Inc.	$ 0 .
Cook Inlet Region, Inc.	$ 0 .
Doyon, Ltd.	$ 1,258,790
Koniag, Inc.	$ 175,874
NANA Regional Corp., Inc.	$ 730,301
Sealaska Corp.	$ 263

Subject to the provisions of Article I, Section 2(21), such amounts ("Prior Excess Distributions") may be applied by such Corporations as a setoff against future distributions required by Article V until such amounts have been exhausted.

95 Section 7. Provisions Dealing with Arctic Slope.

(a) Basic Settlement. Based on Section 7(i) revenues and costs through June 30, 1981, disclosed in the course of litigation and negotiation by Arctic Slope, in recognition of the prior settlements entered into between Arctic Slope and six Regional Corporations, and in compromise and settlement of the pending claims by and against Arctic Slope, Arctic Slope shall pay, pursuant to the schedule hereinafter set forth, seven million two hundred and fifty thousand dollars ($7,250,000), which sum shall be divided among the other eleven Regional Corporations as follows:

Ahtna Inc.	$ 51,192.25
Aleut Corporation	486,315.50

Bering Straits Native Corp.	305,522.25
Bristol Bay Native Corporation	265,799.50
Calista Corporation	642,168.75
Chugach Natives, Inc.	52,388.50
Cook Inlet Region, Inc.	944,747.50
Doyon, Ltd.	1,373,360.25
Koniag, Inc.	505,426.50
NANA Regional Corp., Inc.	232,949.75
Sealaska Corp.	2,390,129.25

	$7,250,000.00
	==========

96 (b) Initial Payment. Not more than thirty (30) days after the entry of the dismissals provided for in Section 11 of this Article, or the earlier dismissals of the appeals and release of the bond entered to stay enforcement of the judgment, Arctic Slope shall pay one million and five hundred thousand dollars ($1,500,000) which shall be applied as follows:

Aleut Corporation	$ 486,315.50
Bristol Bay Native Corporation	$ 49,172.12
Cook Inlet Region, Inc.	$174,775.60
Doyon, Ltd.	$254,067.50
Koniag, Inc.	$ 93,502.42
Sealaska Corp.	$442,166.86

(c) Annual Payments. The remaining five million, seven hundred and fifty thousand dollars ($5,750,000) shall be paid in not more than ten (10) equal annual installments of one million, one hundred and two thousand, three hundred and fifty-two dollars and eighty-six cents ($1,102,352,86), applied first to interest at fourteen percent (14%) per year and then to principal, together with a final payment equal to the then-remaining principal and accrued interest. Payments shall be made annually on the anniversary date of the initial payment and shall

be allocated among the respective Corporations in accordance with the percentage which their unpaid balance bears to the total unpaid balance hereunder, as follows:

Ahtna Inc.	0.8903%
Bering Straits Native Corp.	5.3134%
Bristol Bay Native Corporation	3.7674%
Calista Corporation	11.1682%
Chugach Natives, Inc.	0.9111%
Cook Inlet Region, Inc.	13.3908%
Doyon, Ltd.	19.4660%
Koniag, Inc.	7.1639%
NANA Regional Corp., Inc.	4.0513%
Sealaska Corp.	33.8776%

97 (d) Additional Payments. In addition, Arctic Slope shall pay, within thirty (30) days of receipt, fifty percent (50%) of any section 7(i) distribution received by Arctic Slope from any of the other Regional Corporations, and may pay any additional sums it desires at any time, all such payments to be allocated against principal of the installment with longest maturity remaining outstanding. All such payments shall be allocated among the respective Corporations in accordance with the percentage which their unpaid balance bears to the total unpaid balance hereunder.

(e) Right of Offset. Arctic Slope's obligations under this Section shall not be subject to any right of offset by other Corporations except to the extent any such obligations shall be in default.

(f) Partial Settlement. Notwithstanding anything else in this Agreement, if not all Regional Corporations settle with Arctic Slope under this Section, the release under Section 10 and the dismissals under Section 11 shall

not be executed as between Arctic Slope and such Regional Corporation or Corporations, and Arctic Slope and such Regional Corporations shall each retain all rights against the other.

98 (g) Prior Agreements. Arctic Slope has previously entered into settlement agreements with Ahtna, Inc., Bering Straits Native Corporation, Calista Corporation, NANA Regional Corporation, Inc., Chugach Natives, Inc., and Bristol Bay Native Corporation. Upon this Agreement becoming effective, this Agreement shall supersede all such prior agreements (except as to any of said six Regional Corporations which may not enter into this Agreement with Arctic Slope) and said prior settlement agreements shall have no further force or effect, except to the extent Arctic Slope has prepaid revenues not yet received.

Section 8. Special Deduction. Notwithstanding Article III, all Corporations may include as allowable Passive Section 7(i) Costs professional fees and expenses, and the out-of-pocket expenses of in-house personnel, incurred in the litigation and settlement of Aleut Corp., et al. v. Arctic Slope Regional Corp., et al., after the dates through which deductions have been recognized in Section 3 of this Article and extending through the date of entry of the stipulation for dismissal or partial dismissal provided for herein.

Section 9. Special Provisions for Certain Contracts with Third Parties. Several Corporations have entered into agreements with Third Parties prior to May 19, 1981,

under which their right to participate in revenues has been determined. In lieu of the provisions of Articles II and III, all parties agree that revenues and costs in connection with those agreements listed in Appendix B to this Agreement, for purpose of Section 7(i), shall be computed as set forth in Appendix B. Revenues and costs under any agreement not set forth in Appendix B shall be determined under this Agreement, excluding Appendix B.

99 Section 10. Special Releases. In consideration of the terms and provisions of this Agreement, and except for the payments to be made pursuant to this Article, each of the parties hereto shall and does hereby forever relieve, release and discharge the other parties hereto from any and all claims, debts, liabilities, demands, obligations, promises, acts, agreements, costs, and expenses (including but not limited to attorneys' fees), damages, actions and causes of action, of whatsoever kind or nature, whether known or unknown, suspected or unsuspected, foreseen or unforeseen, apparent or not yet discovered, which are based upon or arise out of, or in connection with, the Section 7(i) revenues, costs, and obligations of each of the parties for Past Years.

Section 11. Dismissal of Pending Actions. Each of the parties to this Agreement agrees to dismiss with prejudice, as to each of the other Corporations, all claims or counterclaims, made or which could have been made, and all appeals in Aleut Corp., et al. v. Arctic Slope Regional Corp., et al., and to cause their attorneys promptly to file all appropriate documents of dismissal with the courts. The Agreement shall not be effective unless and until incorporated into a court order of dismissal with prejudice, but

if so ordered shall be effective as of the date provided in Article IX, Section 3.

Section 12. Special Master Fees and Expenses. The fees and expenses of the Special Master and his accountants shall be paid by the Corporations in the ratio of their respective enrollments.

ARTICLE VIII — MISCELLANEOUS

100 Section 1. Recognition of this Agreement as a Compromise. The parties to this Agreement recognize that it is a compromise and settlement (a) of current disputes and disagreements over the interpretation and application of Section 7(i) of ANCSA, (b) of the issues in litigation in Aleut Corp., et al., v. Arctic Slope Regional Corp., et al., and (c) of the future relationship of the parties towards one another in complying with Section 7(i) of ANCSA. The parties further recognize that when issues are compromised and settled, as by this Agreement, each party has foregone legitimate positions. Because of this, it is expressly recognized that in any dispute over Section 7(i) involving a Regional Corporation not a party to this Agreement, any Corporation may take positions in that dispute inconsistent with the terms of this settlement.

Section 2. Integration. This Agreement, including the Appendixes hereto, constitutes a single integrated contract expressing the entire agreement and understanding of the parties hereto relative to the subject matter contained herein. No covenants, agreements, promises, representations, warranties or undertakings of any kind whatsoever have been made by any party hereto, except as specifically set forth in this Agreement. This Agreement supersedes all prior agreements and understandings among the parties, either written or oral, with respect to such subject matter, including any prior settlement drafts and any agreements or understandings reached in the process of drafting this Agreement, and no evidence of any such prior agreements or

understandings shall be admissible in any arbitration or appeal therefrom conducted pursuant to this Agreement.

101 Section 3. Severability. The parties to this Agreement recognize that the revenues and deductions provisions of Articles II and III (except Article II, Sections 7 and 8) and the provisions for calculating distributable revenues set forth in Article IV are of the essence of this Agreement. Accordingly, in the event that (1) the provisions of Article IV are determined by final judgment of a court of competent jurisdiction (not subject to further appeal) to be incompatible with ANCSA, or (2) any of the provisions of Articles II or III (except Article II, Sections 7 and 8) are determined by final judgment of a court of competent jurisdiction (not subject to further appeal) to be incompatible with ANCSA, and such determination would materially change the amount of a Corporation's Net Section 7(i) Revenues under this Agreement, or (3) a court of competent jurisdiction determines by final judgment (not subject to further appeal) that the forty percent (40%) portion of a Corporation's Adjusted Gross Passive Section 7(i) Revenues which is added to the Corporation's Gross Active Section 7 (i) Revenues for purposes of the calculations required by Article IV constitutes income to the other Corporations for tax purposes, whether or not distributed or subject to distribution under this Agreement, the parties hereto agree that, except to the extent provided in Section 7 of this Article, the entire Agreement shall be rendered prospectively void and unenforceable and that they will promptly attempt in good faith to negotiate a new Agreement. In the event that any other provision of this Agreement should be held to be void, voidable or unenforceable,

the remaining portions hereof shall remain in full force and effect.

102 Section 4. Right of Offset. At the option of a Corporation which is owed a fixed sum of money by any other Corporation pursuant to this Agreement, the Corporation owed such payment may, upon notice to all Corporations, deduct the amount thereof from any distribution or other payment which it owes the delinquent Corporation, and such offset, to the extent thereof, shall constitute a distribution or payment.

Section 5. Constant Dollar Adjustment. The dollar amounts provided in Article I, Section 2(10); Article II, Section 7; Article III, Section 1(c); Article III, Section 7; Article V, Sections 8 and 11; and Appendix A, shall, on the first day of the sixth calendar year to begin after the effective date of this Agreement, and at five-year intervals thereafter on the first day of the calendar year, be adjusted to correspond to constant dollars by application of the Gross National Product Implicit Price Deflator as published by the Bureau of Economic Analysis of the United States Department of Commerce, or its successor index, or the most nearly comparable index if no such index or successor index is published. Any dollar amounts so adjusted shall be effective with respect to any Fiscal Year beginning on or after the date of such adjustment. The base for such adjustment shall be such index as of the first day of the first calendar year to begin after the effective date of this Agreement.

103 Section 6. Notices. All notices, distributions, reports, requests, demands and other

transmittals required or permitted under the provisions of this Agreement shall be in writing and shall be communicated to the Corporations by certified mail, return receipt requested. Except as otherwise provided in this Agreement, notice shall be deemed given seven (7) days after deposited in the United States mail, postage prepaid.

Section 7. Indemnification. Each Corporation agrees that it will indemnify the other Corporations to the extent specified in this Section.

(a) If, as a result of a final judgment or judgments, not subject to any further appeal, against a Corporation which received or is due a distribution ("receiving Corporation"), this Agreement has been rendered void and unenforceable under Section 3 of this Article, and such receiving Corporation is required to pay to Village Corporations in its region or to at-large shareholders enrolled in its region an amount in excess of the share with respect to such distribution of such Village Corporations (notwithstanding any mergers) or at-large shareholders under Section 7(j) of ANCSA, the receiving Corporation shall pay fifty percent (50%) of the amount of the judgment or judgments for any such excess and the Corporation which made the distribution ("distributing Corporation") shall indemnify the receiving Corporation for fifty percent (50%) of the amount of the judgment or judgments for any such excess.

(b) Any obligation of the distributing Corporation to indemnify under paragraph (a) above shall terminate and be of no force or effect as to that action unless the receiving Corporation, within thirty (30) days of service of a complaint

by a Village Corporation or an at-large shareholder, the effect of which is to challenge a distribution under, or the enforceability of, this Agreement, gives notice to the distributing Corporation and, if so requested by the distributing Corporation, promptly thereafter moves to implead the distributing Corporation to make it a party to such action.

(c) In any action of the type described in paragraph (a) above, the receiving Corporation and the distributing Corporation shall cooperate in the defense. Each Corporation shall be responsible for its own costs, including attorneys' fees. Neither Corporation shall settle any such action without consent of the other. Regardless of the outcome of the action, the receiving Corporation shall not be entitled to and shall not accept any additional distribution ordered in such action from the distributing Corporation for any Fiscal Year covered by the judgment.

(d) If, as a result of a final judgment or judgments, not subject to any further appeal, this Agreement has been rendered void and unenforceable under Section 3 of this Article, and a distributing Corporation is required to pay to Village Corporations, or to at-large shareholders enrolled in its region, or to one or more of its shareholders in a shareholder derivative suit, any amount of money based on a claim that the distributing Corporation has distributed too much to other Corporations, the receiving Corporations shall indemnify the distributing Corporation for fifty percent (50%) of the amount of the judgment or judgements for any such over-distribution (with relative shares of such indemnification being equal to such receiving Corporations' respective distributive shares of such over-

distribution), and the distributing Corporation shall pay fifty percent (50%) of the amount of the judgment or judgments for any such over-distribution.

(e) Any obligation of a receiving Corporation to indemnify under paragraph (d) above shall terminate and be of no force or effect as to that action unless the distributing Corporation, within thirty (30) days of service of a complaint by a Village Corporation or an at-large shareholder in its region, or a complaint in a shareholder derivative action, the effect of which is to challenge a distribution under, or the enforceability of, this Agreement, gives notice to such receiving Corporation and, if so requested by such receiving Corporation, promptly thereafter moves to implead such receiving Corporation to make it a party to such action.

(f) In any action of the type described in paragraph (d) above, the receiving Corporations and the distributing Corporation shall cooperate in the defense. Each Corporation shall be responsible for its own costs, including attorneys' fees. No Corporation shall settle any such action without the consent of all of the Corporations which are parties to the action or subject to a pending impleader motion, provided, however, that the distributing Corporation may settle any such action without consent of the other Corporations, but in so doing shall surrender all rights to indemnification which it may have under paragraph (d).

(g) Nothing in this Agreement shall be construed to create any right of action, direct or otherwise, in any Village Corporation or the shareholders of any Corporation.

(h) The provisions of this Section shall remain in full force and effect with respect to any distributions made or required to have been made under this Agreement prior to any final judgment, not subject to any further appeal, that renders this Agreement or any provision thereof void and unenforceable.

ARTICLE IX — RATIFICATION OF AGREEMENT

107 Section 1. Defense of Agreement. Each Corporation agrees that it will cooperate in the defense of any legal action by anyone not a party to this Agreement challenging either the terms of this Agreement or any distribution made in accordance with the terms of this Agreement.

Section 2. Method of Ratification of Agreement and Execution Thereof. A Regional Corporation can ratify this Agreement only by filing an appropriate resolution of its Board of Directors, accompanied by a certificate of incumbency. A duplicate original of the certified resolution shall be served on all other Regional Corporations, without regard to whether any given Regional Corporation has ratified the Agreement, and on Ralph Wienshienk, the Special Master.

108 Section 3. Effective Date of Agreement. Subject to court approval this Agreement shall be effective and binding in all respects as of the date of service of the resolution of ratification of the tenth Corporation to serve such notice. As to the eleventh and twelfth Corporations to ratify, this Agreement shall become effective and binding on the date of service of the resolution of ratification and shall be effective as of the date determined pursuant to the preceding sentence. A Regional Corporation which has ratified this Agreement shall be considered a party to this Agreement for purposes of Article I, Section 2(3).

Section 4. Ratification Deadline. This Agreement shall only be effective if ratified by ten or more Regional Corporations prior to October 1, 1982.

ARTICLE X — AMENDMENTS

108 This Agreement may not be amended without the unanimous agreement of all Corporations, provided, however, that no amendment shall be effective on arbitration proceedings then in progress without the approval of the parties to such arbitration.

ARTICLE XI — REVIEW

108 The Corporations shall meet at approximate two-year intervals beginning two (2) years after the effective date of this Agreement and at such other times as all the Corporations may agree for the purpose of reviewing how the Agreement is operating and whether any modifications seem desirable.

AGREED to as of this 29th day of June, 1982, subject to ratification by the respective Boards of Directors pursuant to the terms hereof.

[Signatures:] Ahtna, Inc. (missing)
Aleut Corporation
Arctic Slope Regional Corp.
Bering Straits Native Corp.
Bristol Bay Native Corporation
Calista Corporation

Second Signature Page to Section 7(i) Settlement Agreement, agreed to as of this 29th day of June, 1982, subject to ratification by the respective Boards of Directors pursuant to the terms hereof.

[Signatures:] Chugach Natives, Inc.
Cook Inlet Region, Inc.
Doyon, Ltd.
Koniag, Inc.
NANA Regional Corp., Inc.
Sealaska Corp.

APPENDIX A

111 Accounting Procedure for Operating Equipment and Facilities

Part 1 — SCOPE AND APPLICABILITY

This Appendix provides guidance for compliance with the cost allocation provisions of Article III Section 5 of this Agreement. The Provisions of this Appendix do not supersede any provisions of the Agreement and do not apply to outside costs described in Article III, Section 5(a)(iii).

The provisions of Parts 2 and 3 of this Appendix need not be applied to insignificant items; that is, those with a cost less than three thousand dollars ($3,000).

Part 2 — DEFINITIONS AND GENERAL PRINCIPLES

Operating Equipment is generally tangible personal property as defined in Article I Section 2(30) having a useful life in excess of one year. Operating Facilities are generally structures as defined in Article I Section 2(31) having a useful life in excess of one year. All Operating Equipment and Facilities are to be accounted for under this Appendix A, regardless of whether obtained through construction, purchase or lease (but only if a capital lease as defined by Financial Accounting Standard No. 13).

The period of benefit derived from the incurrence of costs for Operating Equipment and Facilities usually will not coincide with the period of incidence. The objective of these procedures is to allocate fairly costs between periods so that they may be allocated fairly between activities undertaken within a period. Such allocations necessarily involve the use of estimates, which may be proven incorrect by later events.

Provision is therefore made to account for the effects of events affecting previously deducted costs.

Part 3 — BASIC CONSIDERATIONS

112 Section 1 — Sole Use Equipment and Facilities. Items of equipment and facilities which are intended for use solely (after making allowance for incidental non-Section 7(i) Activity use, i.e., less than seventy-five (75) hours per year) in a Section 7(i) Activity or Activities, the cost of which is an allowable cost under Article III, shall be accounted for as follows:

(a) At the time of acquisition, the cost of the equipment or facility shall be recorded in the appropriate category of Section 7(i) Costs.

(b) If an item of equipment or facility is later sold, retired or used in a non-Section 7(i) Activity, it shall be accounted for under the provisions of Article II Sections 1(f) and 1(g), and if the disposition results from changing the equipment or facilities to a mixed use, an acquisition of mixed use equipment or facilities shall be recorded (using the same Fair Market Value as used for the disposition), and the equipment or facilities shall thenceforth be accounted for as mixed use equipment or facilities under Section 2 of this Part.

(c) Associated costs of operation, maintenance and repair shall be charged to the appropriate Section 7(i) cost category when incurred.

(d) For sole use equipment or facilities acquired before the effective date of this Agreement or for mixed-use equipment which is dedicated to sole

use subsequent to acquisition, the cost to be recorded id the lesser of depreciated cost (i.e., the original cost less any depreciation allowance recorded) or Fair Market Value as of the effective date of this Agreement, in the former case, or as of the date of dedication, in the latter case.

113 Section 2 — Mixed Use Equipment and Facilities. Operating Equipment and Operating Facilities which are used both on Section 7(i) Activities and non-Section 7(i) Activities shall be accounted for by an annual allocation of estimated ownership costs, adjusted to actual cost at the conclusion of service life as provided in paragraph (c) of this Section. Costs of operation shall be charged to the activity in which incurred.

114 (a) Determination of Ownership Costs. Annual ownership costs consists of the following:

(i) Depreciation — Costs of acquiring equipment or facilities shall be allocated among fiscal periods over each item's estimated useful life using the straight-line method of depreciation. The estimated useful life shall be no shorter than that used by a corporation in its financial reports to shareholders. Costs of painting, overhauls and other major repairs shall be similarly allocated among the periods benefitted.

(ii) Interest — Interest shall be computed on the depreciated cost of equipment and facilities as of the beginning of a Fiscal Year at the rate of the Prime Rate plus one percent (1%).

(iii) Other Ownership Costs — These are costs of insurance,

taxes and licenses incurred with respect to a facility or item of equipment.

115 (b) Allocation of Costs. For each Facility and item or class of Equipment, the annual cost of ownership shall be allocated between the various categories of Section 7(i) Costs and non-Section 7(i) Costs on the basis of its operation for that fiscal year (but see the limitation set forth in Section 2 of Part 4), using a distribution base allowed under Article III Section 5(b) which best portrays the relative benefits accruing to the different activities. Once selected, a distribution base may not be changed for a particular item of equipment or facility, unless the base selected becomes no longer applicable.

(c) Operating Costs. Costs of fuel, utilities, minor repairs and routine maintenance shall be charged to Section 7(i) Costs when incurred in the performance of Section 7(i) Activities. However, if any such cost benefits both a Section 7(i) and a non-Section 7(i) Activity, that cost shall be allocated in accordance with Article III, Section 5(b).

(d) Accounting for dispositions of mixed-use equipment and facilities. A disposition occurs whenever it is reasonably determined that Equipment or Facilities will not again be used in connection with Section 7(i) Activities, either as a result of sale, lease, trade, abandonment or dedication to other activities. A gain or loss on the disposition of Operating Equipment or Facilities shall be determined by subtracting the depreciated cost of the equipment or facilities disposed of from the sales proceeds or lease revenues, in the event of a sale or lease, or the Fair Market Value (i.e., reasonable salvage value) in the event of

other disposition. The gain or loss thus calculated shall be included in Section 7(i) Revenues or Costs in the same proportion that cumulative previous ownership costs associated with the Equipment or Facility disposed of were charged to Section 7(i) Costs.

Section 4 — Duplication of Cost. No item of cost included in the determination of ownership and operating costs of Operating Facilities and Equipment shall be also deducted under any other category of allowable cost.

Part 4 — SPECIAL CONSIDERATIONS

116 Section 1 — Casualty losses. If Operating Equipment or Facilities are damaged or destroyed in the performance of Section 7(i) Activities, the costs of repair or, if totally destroyed, the remaining depreciated cost (or with respect to sole-use equipment, the unamortized cost, if any) of the property in question should be charged to the appropriate category of Section 7(i) Costs. If the loss is suffered with respect to a concurrent Section 7(i) and non-Section 7(i) Activity (e.g., a pipeline operation), the loss associated with the particular equipment or facility should be allocated between the two. Any insurance proceeds or similar benefits relating to such losses shall serve to reduce the allowable costs or shall be included in Section 7(i) Revenues at the time received by the Corporation.

117 Section 2 — Costs of idle equipment and facilities. Idle equipment and facilities

(sole use or mixed-use) include both completely unused equipment and facilities and the unused capacity of partially used equipment and facilities. The costs of idle equipment and facilities are allowable if properly allocated between Section 7(i) and non-Section 7(i) Activities and only to the extent that:

(i) they are necessary to meet normal fluctuations in workload; or

(ii) they were necessary when acquired but are idle because of changes in work requirements, reorganization, cost reduction programs or other causes which could not have been reasonable foreseen.

Under the limitation stated in (ii) above, costs shall be allowable only for a reasonable period of time, but in no event longer than one year from the event causing idleness, necessary to devise alternate uses, or sell, lease or dispose of the item of equipment or facility in question.

If in any Fiscal Year, the period of idleness exceeds the period of use for a particular facility or item or class of equipment, the costs associated with the period of idleness shall be allocated between Section 7(i) Activities and non-Section 7(i) Activities on the basis of aggregate use for that Fiscal Year and the preceding three Fiscal Years, or period of ownership if less.

118 Section 3 — Deduction for fully-depreciated equipment and facilities. A deduction for depreciation on fully-depreciated Operating Equipment and Facilities used in connection with Section 7(i) Activities may be allowed if computed as follows:

(i) the depreciation rate is determined on the basis of an

estimated useful life in years which is the age of the equipment or facility plus one (1).

(ii) the original costs of the equipment or facility is reduced by an amount equal to depreciation previously allocated between Section 7(i) and non-Section 7(i) activities, if any.

(Example: An item of equipment having an original cost of $10,000 and estimated useful life of five (5) years is used as follows:

	Depreciation	
Year	7(i)	Non-7(i)
1	$ –	$ 2,000
2	1,250	750
3	250	1,750
4	–	2,000
5	–	2,000

Depreciation previously allocated between Section 7(i) and non Section 7(i) Activity is $4,000 (the total of years 2 and 3). If the equipment were used 50% of the time on a 7(i) activity when the equipment is seven (7) years old, the Corporation would be entitled to a deduction equal to:

1/8 X (10,000 - 4,000) X 50% = $375)

119 Section 4 — Limited use equipment. If an item of equipment is utilized in connection with Section 7(i) activities less than 200 hours in a Fiscal Year, the

Corporation may elect to determine an hourly cost of ownership and operation for determining Section 7(i) Costs in lieu of performing the accounting procedures set forth in Part 3 of this Appendix. If such election is made, ownership costs shall be based upon the latest edition of the "Contractors' Equipment Ownership Cost Schedule" published by the Associated General Contractors of America, or, if such Schedule is no longer published, upon methods accepted by the U.S. Government for the evaluation of costs under fixed-price construction contracts.

If an item of sole-use equipment is used in Non-Section 7(i) Activities not more than 75 hours in any Fiscal Year, the Corporation may elect to reduce Section 7(i) Costs for such use by an amount determined on the basis of an hourly cost computed in accordance with the preceding paragraph, rather than record a disposition pursuant to Part 3, Section 1(b) of this Appendix.

APPENDIX B

121 Doyon Asbestos Agreement. For purposes of this Agreement, Doyon Ltd., shall be deemed to receive Gross Passive Section 7(i) Revenues and incur Passive Section 7(i) Costs as Lessor under its lease for asbestos development in the area of Eagle, Alaska, with GCO Minerals Co., Tanana Asbestos Corp., and Boreal Exploration Co., Lessees, and shall not be deemed to receive Gross Active Section 7(i) Revenues or incur Active Section 7(i) Costs through the operations of Tanana Asbestos Corp., its wholly-owned subsidiary, as Lessee under such lease.

Chugach Natives, Inc. Settlement. For purposes of this Agreement, out of the cash payments to be received by Chugach Natives, Inc. pursuant to the United States' offer of settlement dated May 28, 1982 and accepted by Chugach on June 5, 1982, the first two million, four hundred and sixty thousand and fourteen dollars ($2,460,014) shall be included in Gross Section 7(i) Revenues and the remainder shall not be included in Gross Section 7(i) Revenues, provided that the total amount subject to this paragraph shall not exceed, in the aggregate, twelve million dollars ($12,000,000).