

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
4883 HRES ANWR LAND TRADES: DOI. . . - PROXY STATEMENTS. . .

55

Area 11 - Black Hills:

Most of this area has been recommended for additional protection by Comprehensive Conservation Planning. The Bristol Bay Plan discusses the possibility of a cooperative management agreement or exchange of the area to FWS. None of the area is within Izembek NWR or Alaska Peninsula NWR but is contiguous to both. Major resource values include: calving area for the southern Alaska Peninsula caribou herd and waterfowl and shorebird nesting habitat throughout the Caribou-Sapsuk River lowlands. Migratory bird values are believed to be high based on preliminary surveys but very little work has been done in the area.

LOW PRIORITY

Area 1 - Trumpeter Swan Nesting Area:

One of the best waterfowl nesting areas in the State that was not included in the refuge system. Not in or near an existing NWR. About 25% of the Pacific Flyway trumpeter swans recorded on breeding ground population counts use the Gulkana Basin for nesting.

Area 2 - Redoubt Bay:

This area is located on the west side of Cook Inlet and is not in or near an existing refuge. The area contains most of the (Tule) greater white-fronted goose nesting and fall staging habitat. Resident game values are also high.

Area 8 - Kisaralik River:

This area includes the uppermost portion of the Kisaralik watershed. The parcel is outside the boundary of Yukon Delta NWR. Raptor surveys conducted in 1984 documented very high nesting density and diversity along the Kisaralik downstream from this area. Resident game such as beaver, moose and caribou is the principle wildlife resource value. The river is used by anglers and has high recreational potential.

Area 6 - Shearwater Peninsula:

Near Kodiak NWR this area is now managed as a "refuge" by the State as part of the Terror Lake Agreement (mitigation). The area contains small numbers of nesting seabirds and a few small, marine mammal haulout sites. Some of the coastal streams are brown bear feeding areas.

Area 9 - Nushagak/Iliamna Area:

A very large parcel of almost 7 million acres. Not in or near an NWR. Important area for resident game. The area also contains salmon spawning habitat for the Bristol Bay run and a large and growing sport fishery. Scenic values are very high and the area is adjacent to Lake Clark National Park and Preserve.

Area 5 - Raspberry Island:

Not within a refuge. The State owns about half of the island, the other half being owned by a Native Corporation. The island contains the only elk herd in the Kodiak area that is on public land. Black-tailed deer and brown bear are also present.

Area 12 - Kamishak:

Not within a refuge. Located between McNeil River State Game Area and Katmai National Park and Preserve. Contains several small seabird colonies and some moose habitat. Important area for resident game especially brown bears which use the adjacent McNeil River area for feeding.

Area 13 - Kokrine Hills/Melozitna River:

Not within a refuge. The area is almost all upland and is primarily habitat for resident game species such as moose, brown bear and caribou.

Area 14 - Lower John/Alatna River:

Not within a refuge. The area is primarily upland and is habitat for resident game. Also contains some spawning habitat for king and chum salmon.

Area 16 - Wolf Townships:

Bordered on three sides by Denali National Park and Preserve. Habitat for resident game including wolves, sheep, moose and caribou. National Park Service is interested in acquiring this parcel.

Area 17 - Reed River:

Bordered on three sides by Gates of the Arctic National Park and Preserve. Important habitat for resident game. Used by the western Arctic caribou herd.

Area 3 - McCarthy:

An inholding in Wrangell St. Elias National Park and Preserve. Alleged by the State to be threatened by development.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF LAND AND WATER MANAGEMENT

555 CORDOVA STREET
POUCH 7-005
ANCHORAGE, ALASKA 99510-7005
PHONE: (907) 276-2653

February 5, 1986

Robert E. Gilmore, Regional Director
U.S. Fish and Wildlife Service
1011 E. Tudor Road
Anchorage, Alaska 99503

Dear Mr. Gilmore:

I appreciate the opportunity to meet with you to discuss state involvement in any land exchange involving the Arctic National Wildlife Refuge (ANWR). My purpose in arranging this meeting is twofold. Consistent with the governor's recent letter to you on this subject, I would like to learn more about the details of your on-going land exchange negotiations with several ANCSA regional corporations involving the coastal plain of ANWR. Secondly, I have consulted with state agencies to assemble a large pool of state land available for preliminary exchange consideration by your office (attachment).

As you may be aware, the state owns a substantial amount of habitat land surrounded by, or immediately adjacent to, components of the national refuge system (and other conservation system units). We have examined these areas and have identified almost 12 million acres of state land which we believe possess attributes worthy of exchange consideration by your office. You may conclude that acquisition and management of these lands by the Fish and Wildlife Service would further federal interests as well as serve to reduce unwieldy state/federal land ownership patterns.

The pool of state land presented for exchange consideration includes a wide variety of fish and wildlife habitat types in many geographic locations. Specifically included are such significant areas as the Copper River Basin trumpeter swan nesting areas, key brown bear and seabird habitat on the Shearwater Peninsula of Kodiak Island, calving grounds for the lower Alaska Peninsula caribou herd in the Black Hills, the Kisaralik River region between Togiak and Yukon Delta NWR's, state inholdings within the Tetlin NWR and Redoubt Bay on the west side of Cook Inlet (nesting and staging area for tule geese and trumpeter swans). Both the existing Bristol Bay Cooperative Management Plan and several of your draft refuge plans already recommend that much of this state land be acquired by the FWS through exchange.

Robert E. Gilmore
Page 2
February 5, 1986

State land exchanges must occur in accord with AS 38.50 and 11 AAC 67. These applicable statute and regulatory authorities provide authorization for the exchange of state land or interests, provided the exchange serves the public interest and there are thorough opportunities for public and agency involvement in the process. Specifically, the department must provide widespread public notice of a proposed exchange, hold public hearings, provide for public comment and prepare and distribute a report on the proposed exchange. In addition, if the proposed exchange is of unequal value, or includes state land having an appraised or estimated value greater than \$5,000,000, legislative review is required. These requirements are specifically designed to safeguard the public interest.

I urge your careful review of this state pool of possible exchange land. The state is sincerely interested in participating in any discussion of land pattern adjustments which would benefit state and national interests. I await your timely response and remain prepared to meet or otherwise discuss this matter in greater detail. Please give me a call at 762-4355 should you have any questions.

Sincerely,

Tom Hawkins
Tom Hawkins
Director

Attachment

Attachment

State Lands Available for Exchange Consideration With USFWS February 5, 1986

SOUTHCENTRAL ALASKA

Area 1 - Trumpeter Swan Nesting Area: In the Gulkana Basin approximately 500,000 acres of state land are available, including important trumpeter swan nesting and rearing areas. The Gulkana Unit has the highest density of nesting swans in the state and contains 27 percent of the world population.

Area 2 - Redoubt Bay: This area constitutes approximately 176,000 acres of state land on the west side of Cook Inlet. This area is used extensively by whitefronted geese (tule) for nesting and staging. The tule goose was listed as a subspecies of concern by the International Council for Bird Preservation. They also recommended to the U.S. Fish and Wildlife Service that the tule goose be listed as an endangered species. The area is also important for other waterfowl nesting, feeding and migration, moose calving, spring and fall bear feeding, and salmon spawning and rearing.

Area 3 - McCarthy: Surrounded by the Wrangell St. Elias National Park and Preserve are approximately 18,000 acres of state land in the heart of the park. These lands have development potential which could be precluded through federal acquisition.

SOUTHWEST ALASKA

KODIAK ARCHEPELAGO

Area 4 - Marmot Island: Marmot Island is located east of Afognak Island and is surrounded by Maritime National Wildlife Refuge (NWR). The island contains important Steller sea lion rookeries. The state owns the entire island which contains approximately 12,000 acres. The eastern shore of Marmot Island contains one of the largest Steller sea lion rookeries in Alaska and is critical habitat for this species. A 1982 survey reported approximately 8,000 individuals utilizing this area. Marmot Island also supports four seabird colonies totalling about 3,500 breeding birds. The largest percentage of these birds are black-legged kittiwakes.

Area 5 - Raspberry Island: Raspberry Island is located across Onion Bay from Kodiak NWR. The western half, or approximately 26,000 acres, of the island is under state ownership. Raspberry Island contains the only free roaming elk herd remaining on public land in the Kodiak Archipelago and the State of Alaska. The valley between Driver Bay and Onion Bay is critical habitat for elk and is used year round. Raspberry Island also supports populations of Sitka black-tailed deer and brown bear. The abundant wet meadows in Driver Bay contain sedges and grasses that provide critical brown bear spring feeding areas.

Area 6 - Shearwater Peninsula: The State of Alaska owns approximately 123,000 acres on the Shearwater Peninsula located adjacent to the eastern border of the Kodiak NWR. This portion of Kodiak Island was originally

contained within the Kodiak NWR. The Shearwater Peninsula provides excellent brown bear habitat and contains key spring feeding areas and numerous streams that are heavily fished by brown bears. Several coastal areas are used as haul-out sites by harbor seals and Gull Point is a documented northern sea lion haulout area. The Peninsula also contains three large seabird colonies consisting of approximately 4,000 birds, comprised primarily of red-faced cormorants, black-legged kittiwakes, and tufted puffins.

Area 7 - Tugidak Island: Tugidak Island is located about 15 miles south of Kodiak NWR and is surrounded by the Maritime NWR. The state has full ownership of this island, which contains approximately 55,000 acres. It is extremely valuable habitat for harbor seals and a variety of birds including waterfowl, raptors, and shorebirds. Tugidak Island is the most important single breeding ground for harbor seals in Alaska. It has the largest known population of harbor seals in the world, estimated to be between 15,000 to 20,000 animals with concentrations of hauled-out seals reaching 14,000. In past years, this population has produced in excess of 5,500 pups annually.

BRISTOL BAY REGION

Area 8 - Kisaralik River: This area consists of approximately 278,600 acres immediately adjacent to the Yukon Delta and Togiak National Wildlife Refuges. The upper reaches of the Kisaralik River system, which is one of the major salmon producing rivers in the Kuskokwim region, flow through this area. Brown bear, caribou, and moose are also found throughout the Kisaralik River vicinity. This river has high recreational potential and, in 1984, the National Park Service was studying the Kisaralik River for possible inclusion in the National Wild and Scenic River System.

Area 9 - Nushagak/Iliamna Area: Approximately 6,996,400 acres are included in this area. A substantial proportion of this acreage is immediately adjacent to the Lake Clark and Katmai National Parks and Preserves. Additionally, about 13,844 acres are surrounded by the Lake Clark National Park and Preserve. This area encompasses highly valuable habitat for a variety of species such as salmon, caribou, moose, and brown bear. For example, a large portion of the salmon resources harvested by commercial, recreational, and subsistence users in the Bristol Bay region originate in the Iliamna Lake and drainage system. Other rivers, such as the Nushagak River, also support large salmon runs utilized intensively by recreationists. Large game species are abundant in the area, and some of the acreage encompasses habitat critical to these species including caribou calving grounds, moose calving and winter concentration areas, and brown bear concentrations along salmon streams.

Area 10 - Alaska Peninsula: This area is comprised of several large tracts of state land between the Naknek River and Hereendeen Bay. This area contains approximately 2,869,800 acres, which are contiguous to the Becharof National Wildlife Refuge, the Alaska Peninsula Wildlife Refuge, Katmai National Park, and Aniakchak National Monument and encompasses much of the productive coastal plain of the Alaska Peninsula. Brown bear populations in this area are among the largest in the state, and the coastal plain provides critical fall and spring feeding areas for this species. This area also contains portions of several of the most important

sport fishing streams. The area contains extensive wetlands and some very important waterfowl habitat. The state lands adjacent to the Cinder River state Critical Habitat Area have been recently identified by the U.S. Fish and Wildlife Service (USFWS) as providing essential habitat for cackling Canada geese. The area also contains substantial state inholdings within the Alaska Peninsula Wildlife Refuge at Mother Goose Lake, as well as other locations on the peninsula.

Area 11 - Black Hills: This area consists of approximately 460,800 acres contiguous to the Izembek National Wildlife Refuge. The Black Hills contain the major calving area for the lower Alaska Peninsula caribou herd, as well as the drainages of several important salmon streams including the Caribou and Sapsuch rivers. This area contains extensive wetlands, and is adjacent to the Port Moller State Critical Habitat Area, which contains critical habitat for many species of waterfowl. The Black Hills area also supports a large brown bear population. The Bristol Bay Area Plan recommends this area for consideration for an exchange or cooperative agreement with the USFWS.

Area 12 - Kamishak: This area consists of approximately 76,000 acres of state land between the McNeil River State Game Sanctuary and Katmai National Park and Preserve. The area includes important brown bear, moose and seabird habitat, including much of the range used by brown bears frequenting the adjacent McNeil River area.

NORTHERN ALASKA

Area 13 - Kokrine Hills/Melozitna River: This land, composed mostly of patented state lands with a surrounding ring of selected lands, lies north of the Yukon River between the Nowitna NWR (to the south) and the Koyukuk NWR (to the west). The "Melozitna" is a valuable wildlife production area, supporting good populations of moose and grizzlies. Black bears occur on the lower river near the canyon. A small population of caribou use the Kokrines Hills. The river is an important summer chum spawning stream, and both grayling and Dolly Varden occur commonly in the lower river. At least two peregrine falcon eyrie sites occur along the river (active in 1980). The upper Melozitna meanders through substantial wetlands, which are used by waterfowl and furbearers.

Area 14 - Lower John/Alatna Rivers: This mixed block of patented and selected state lands lies between the Kanuti NWR (to the south) and Gates of the Arctic National Park (to the north and west). Wildlife values include moose, caribou, and Dall sheep. Lake trout is an important fish species in lakes and both king and chum salmon use the Alatna River. Chum salmon also spawn in the lower John River. This would expand the values of Kanuti NWR substantially.

Area 15 - Tetlin NWR Consolidation: Several townships of state patented or selected lands lie within the Tetlin NWR south of the Alaska Highway. Consolidating these areas into the refuge would eliminate unwieldy land ownership patterns.

Area 16 - Wolf Townships: This area, composed of approximately 62,000 acres, is surrounded on three sides by Denali National Park and Preserve. It is an important wintering area for moose and would provide additional

habitat protection for caribou, sheep and wolves.

Area 17 - Reed River: Approximately 110,000 acres of state land in this area is surrounded on three sides by Gates of the Arctic National Park and Preserve. This area contains bear and moose habitat and is used by the Western Arctic caribou herd.

BILL SHEFFIELD
GOVERNOR



State of Alaska
OFFICE OF THE GOVERNOR

WASHINGTON 03, 1985

MEMORANDUM

TO: THE HONORABLE TED STEVENS, U.S. Senate
THE HONORABLE FRANK MURKOWSKI, U.S. Senate
THE HONORABLE DON YOUNG, U.S. House of Reps.

FROM: *JK* JOHN W. KATZ, Director of State/Federal Relations
and Special Counsel to the Governor

SUBJECT: ANWR LAND EXCHANGE

As you know, the Interior Department has commenced discussions with various Native corporations about the possibility of exchanging privately owned lands for federal acreage located in the Arctic National Wildlife Refuge (ANWR). We are advised that these discussions are at an early stage. Accordingly, the State has neither been consulted by DOI officials, nor have we taken a position regarding the wisdom of such an exchange.

Nevertheless, the State does have certain interests and concerns which hopefully will be addressed as negotiations continue. Some of these concerns are expressed in the attached correspondence from Governor Sheffield to Bob Gilmore of the U.S. Fish and Wildlife Service.

In essence, we have three specific interests at this point in time. First, as a sovereign State, Alaska should be fully consulted and meaningfully involved in matters, such as ANWR, which are integrally related to important State land use and resource concerns. On the basis of Mr. Gilmore's letter to the Governor and of my conversations with Bill Horn, I believe that such State participation will occur.

Second, the State is concerned about possible adverse impacts on the 90-10 revenue sharing formula which applies to the allocation of federal mineral revenues derived from oil and gas development within wildlife refuges in Alaska. Under this formula, the State receives 90 percent of the

Page 2

federal share of bonuses, rentals, and royalties attributable to such development. The accompanying memorandum from Tom Koester of the Attorney General's office details the legal and policy reasons which support continuation of the current formula.

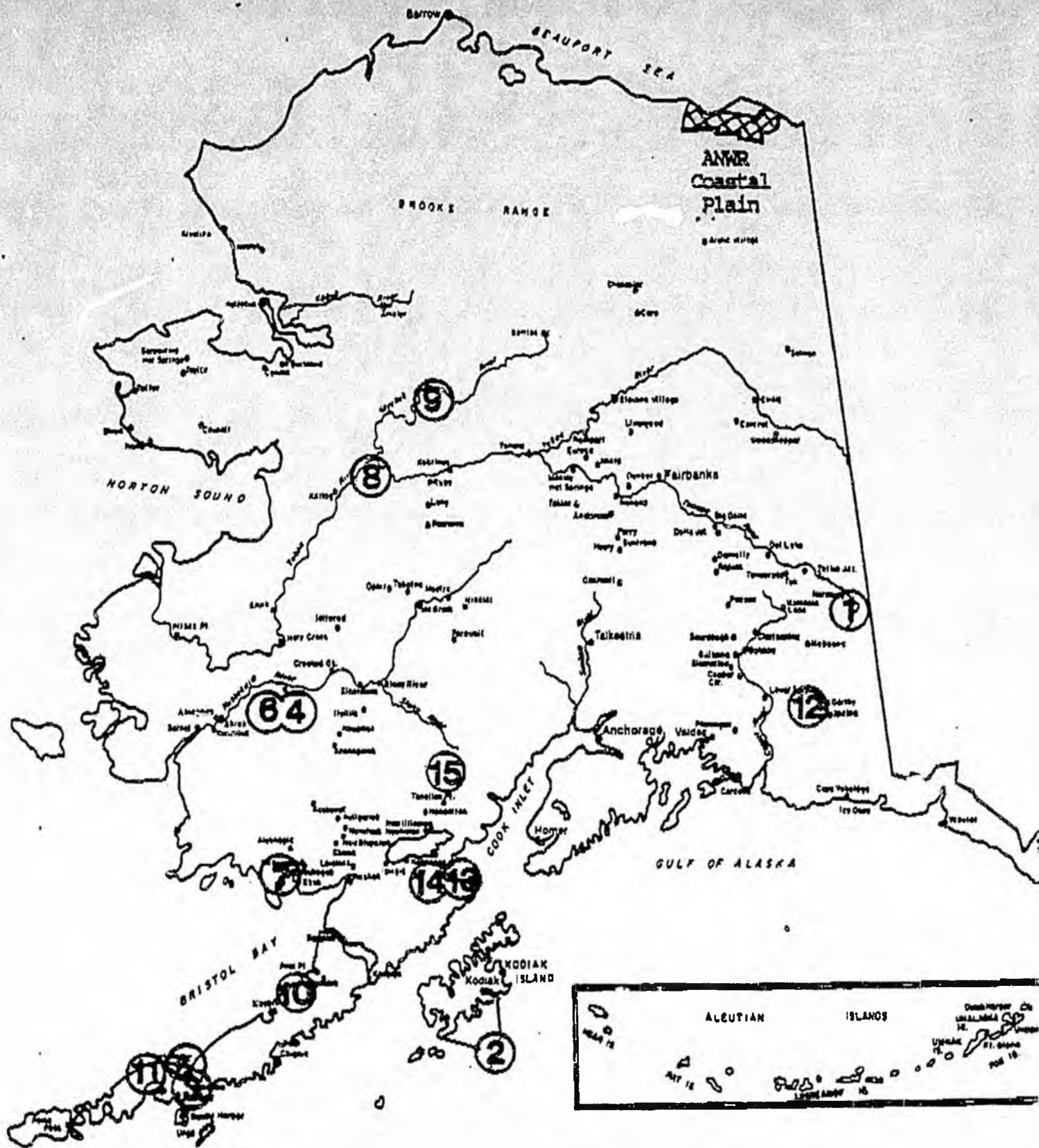
Third, as the owner of certain lands located within or adjacent to federal conservation system units, the State may be interested in exchanging some of these lands for federal acreage located on the coastal plain of ANWR. The resource related reasons for discussions regarding such an exchange are similar to those which pertain to certain Native holdings.

I will be meeting with Bill Horn later this week to discuss these matters in greater detail. However, knowing of your longstanding interest in the management and disposition of ANWR lands, I wanted to apprise you of the State's current thinking at this early juncture.

We look forward to working with you and your staffs in the development of a land ownership and management regime for ANWR which adequately balances all of the various considerations. Please let me know if you have any questions or comments concerning the subject matter of this memorandum.

Attachment

cc: Bill Phillips
Greg Chappados
Dennis Fradley
John Moseman
C.J. Zane
Rick Agnew



**LOCATION OF STATE LAND PARCELS
Subject to Exchange for ANWR Oil and Gas Rights**

- 1-4 State Land Within NWR's
- 5-9 State Selections Within NWR's
- 10-11 State Land Adjacent to NWR's
- 12-13 State Land Within National Parks
- 14-15 State Land Adjacent to National Parks

STATE LAND
PROPOSED FOR CONVEYANCE TO THE U.S. DEPT. OF INTERIOR
IN EXCHANGE FOR OIL & GAS RIGHTS
IN THE ARCTIC NATIONAL WILDLIFE REFUGE (ANWR) COASTAL PLAIN

STATE OWNED LAND WITHIN NATIONAL WILDLIFE REFUGES

- | | |
|-------------------------------|--------------|
| 1. Tetlin NWR | 45,000 acres |
| 12-13N 20-21E CRM | |
| 2. Alaska Maritime NWR | 300 acres |
| 32S 21W SM (Long Island) | |
| 40S 31W SM (Sundstrom Island) | |
| 3. Alaska Peninsula NWR | 45,000 acres |
| 51S 72-75W SM | |
| 4. Yukon Delta NWR | 4,800 acres |
| 14N 55W SM | |

VALID STATE SELECTIONS WITHIN NATIONAL WILDLIFE REFUGES

- | | |
|----------------------------|--------------|
| 5. Alaska Peninsula NWR | 31,000 acres |
| 50S 73-74W SM | |
| 6. Yukon Delta NWR | 55,000 acres |
| 11N 65W SM | |
| 15N 55,56,63W SM | |
| 16N 56,61W SM | |
| 17N 56W SM | |
| 22N 59W SM | |
| 7. Togiak NWR | 3,300 acres |
| 14S 56W SM | |
| 8. Innoko NWR (north unit) | 57,000 acres |
| 7S 8E KRM | |
| 8S 5,7,9E KRM | |
| 9S 8E KRM | |
| 11S 2E KRM | |
| 9. Koyukuk NWR | 19,000 acres |
| 6N 13E KRM | |

STATE OWNED LAND ADJACENT TO NATIONAL WILDLIFE REFUGES

10. Mother Goose Lake/
Cinder River Unit 535,000 acres
(Alaska Peninsula NWR)

32S 51-54W SM
33S 52-56W SM
34S 53-57W SM
35S 51-58W SM
36S 51,55-58W SM
37S 57-58W SM

11. Black Hills Unit 380,000 acres
(Alaska Peninsula NWR)

49S 80-81W SM
50S 79-82W SM
51S 78-82W SM
52S 79-85W SM
53S 85W SM
54S 85W SM

STATE OWNED LAND WITHIN NATIONAL PARKS

12. Wrangell-St. Elias NP&P 18,000 acres

5S 11-13E CRM
6S 11-15E CRM

13. Katmai NP&P 49,000 acres

13S 26-29W SM

STATE OWNED LAND ADJACENT TO NATIONAL PARKS

14. Kamishak Bay Unit 27,000 acres
(Katmai NP&P)

13S 29-30W SM
14S 32W SM

15. Bonanza Hills Unit 218,000 acres
(Laha Clark NP&P)

5N 30-32W SM
6N 30-32W SM
7N 29-31W SM
8N 30W SM
9N 30-31W SM

Mobil Oil Corp. opposes proposed ANWR land swap

THE ASSOCIATED PRESS

ANCHORAGE — Proposed land swaps that would give Native corporations lucrative oil and gas rights in the Arctic National Wildlife Refuge are illegal under federal land and mineral leasing laws, according to an opinion prepared for a major oil company opposed to the trades.

Mobil Oil Corp., the first major oil producer to oppose publicly the trades, believes the controversial land exchange proposals are hurting the effort to convince Congress to allow oil and gas development in the 1.5-million-acre coastal plain of the refuge, a Mobil spokesman said Friday.

The Interior Department wants to swap about 166,000 acres of potentially oil-rich ANWR land for surface rights to 891,000 acres of Native-held land in wildlife refuges throughout Alaska. The government has said it wants the Natives' refuge in-holdings to protect the land and wildlife from development.

Eighteen Native corporations have teamed with oil company partners and selected ANWR tracts in a bidding process that critics say was improper and aimed simply at pressuring Congress into opening the coastal plain to development. Oil companies would be able to explore for oil years sooner by avoiding a lengthy federal leasing process if the tracts are privately held.

Mobil is not one of the eight companies involved in the land trades. Other oil company officials suggested Fri-

day that Mobil only is trying to protect its own interests by opposing the trades.

Mike Kimmitt, a Dallas-based spokesman for Mobil, said the company opposes the land trades because they raise "competitive and legal" questions and detract from the central issue of opening the refuge to development.

David Heatwole of ARCO Alaska Inc., whose company is teamed with two Native corporations in the trades, said ARCO and its lawyers have concluded the proposed swaps are "perfectly legal."

State officials also are fighting the proposed trades, for many of the same reasons pointed out in Mobil's legal opinion. And environmental groups have sued to stop the swaps, claiming they violate federal environmental policy laws.

Kimmitt said Mobil commissioned the legal opinion from a Washington, D.C.-based law firm.

The 31-page opinion, issued Nov. 24, blasts the Interior Department for the way it has handled the proposed trades, saying the government made serious mistakes in the way it arrived at dollar values for ANWR oil and gas rights as well as dollar values for the Native-held lands.

Undervaluing the oil and gas rights, and waiving a standard royalty on production from federal lands, could result in significant losses to the federal treasury, the opinion said.

Moreover, the trades would sidestep a competitive

bidding process that has been "the cornerstone" of the government's leasing policy for 70 years. Oil companies that did not participate in the land swaps would be at a disadvantage in any future lease sales because they won't have the benefit of drilling and exploratory information gained by the companies that did join with the Native corporations, the opinion said.

According to the opinion, the Native selections were made after more than two years of secret negotiations between the Natives and Interior. In July, Native corporation officials held closed-door meetings with Interior in a hotel in Arlington, Va., to choose specific tracts.

The Natives submitted sealed bids for their top choices. If no other corporation had picked the same tract, the company was awarded the tract at the minimum value established by Interior, the opinion said.

If more than one company wanted the same acreage, a negotiation took place in which "the participants were given an opportunity to leave the room and negotiate among themselves to try to allocate tracts so they could still be awarded at the minimum price," the opinion said.

The corporations were allowed to pay each other cash to convince competitors to relinquish tracts. But if they couldn't work it out after 90 minutes, Interior could call for a competitive bid or a random drawing to allocate the tract, the opinion said.

The corporations were able to seek advice from their

oil company partners via telephone during process, the opinion said.

The tract selection process essentially competitive bidding and ensured the corp the minimum price for each tract, the opinio

Initially, the federal government was to royalty of 1.75 percent on the coastal plain tr royalty apparently was eliminated, the opini ing that federal mineral leasing law calls for 12.5 percent royalty on federal lands.

The opinion said Interior is proposing the the Alaska National Interest Lands Conserva that law requires land swaps to be of equal v in the public interest.

But the way Interior valued the ANWR held acreage, combined with the way the tr was carried out, was simply a contrived proc the exchanges appear to be of equal value or i interest, the opinion said.

"We expect that when the record of the e reviewed, it will become apparent that the pu exchanges is to remove lands from ANWR s can be open to immediate development by p ties without waiting for Interior to establish agement and leasing regime for all ANWR," said.

 ALASCOM

Telegram

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PMS

REP SAM COTTEN

0013

JUNEAU AK

HJR9 OPPOSES NATIVE LAND TRADES FOR LANDS IN ANWR, CHIEFLY ON THE BASIS THAT THE STATE NEEDS THE 90 PERCENT OF FEDERAL ROYALTIES THAT IT WOULD GET UNDER PRESENT LAW IF THE U.S. GOVERNMENT OWNS AND LEASES THE LAND. THIS REASONING IS MISGUIDED FOR FIVE REASONS.

FIRST, 90 PERCENT OF NOTHING IS STILL NOTHING. NATIVE INVOLVEMENT AND SUPPORT WILL BE ESSENTIAL IF CONGRESS IS TO OPEN ANWR AT ALL. ALASKA IS SEEN OUTSIDE AS HAVING HAD ITS FLING, AND HOW MANY NEW VOTES CAN THE OIL COMPANIES DELIVER? CONGRESSIONAL SUPPORT IN D.C. TOWARD NATIVE AMERICAN AND WILDLIFE REFUGE ENHANCEMENT THROUGH NATIVE TRADES WILL OFF-SET THE INCLINATION TO CAST AN EASY PRO-ENVIRONMENTAL VOTE TO KEEP ANWR CLOSED. LANDS GIVEN UP BY THE NATIVES WILL INCLUDE EXTREMELY IMPORTANT INHOLDINGS IN OTHER WILDLIFE REFUGES IN ALASKA, SUCH AS THE MAJOR HABITAT FOR SEVERAL THREATENED SPECIES OF GEESE AND BRANDT. FEDERAL ACQUISITION OF SUCH INHOLDINGS WILL WIN THE SUPPORT OF SEVERAL WILDLIFE ORGANIZATIONS, AND FORM

PAGE 2

THE BASIS FOR THE KIND OF COMPROMISE WHICH WILL BE NEEDED TO OPEN ANWR. OPPOSING THESE LAND TRADES PLAYS RIGHT INTO THE HANDS OF THOSE WHO WOULD LOCK UP ANWR FOREVER.

SECOND, THE 90 PERCENT FIGURE IS CERTAIN TO BE REEXAMINED IF CONGRESS OPENS ANWR TO OIL AND GAS DEVELOPMENT. NATIVE SUPPORT WILL BE VALUABLE FOR THE STATE IN ITS ATTEMPT TO KEEP ITS SHARE OF FEDERAL ROYALTIES AT A HIGH LEVEL.

THIRD, THE POTENTIAL SIZE AND IMPACT OF THE NATIVE TRADE ON THE ANWR LANDS HAS BEEN GREATLY EXAGGERATED. WHILE THE NATIVES WILL BE TRADING IN VERY SUBSTANTIAL ACREAGE IT WILL BE TRADED ON A VALUE BASIS. THE VALUE OF THE ANWR LANDS FAR EXCEEDS THAT OF THE NATIVE LANDS.

FOURTH, THE TRADES WILL ESTABLISH A STRONG TAX-BASE. STATE PRODUCTION TAXES WILL BE PAID FOR NATIVE ROYALTY PRODUCTION FROM NATIVE LANDS.

FIFTH, NATIVE CORPORATIONS, BEING PRIVATE, CAN IMPOSE AND ENFORCE ALASKA HIRE PROVISIONS IN A WAY THAT THE STATE CAN NEVER HOPE TO MATCH CONSTITUTIONALLY.

FINALLY, THE BOTTOM LINE IS NOT TO LOSE SIGHT OF THE ULTIMATE OBJECTIVE OF OPENING ANWR, CREATING JOBS AND DEVELOPMENT, AND ESTABLISHING A SOUND TAX BASE FOR THE STATE. IT IS AN HISTORICAL AXIOM THAT ALASKA HAS NEVER ACHIEVED MAJOR LAND LEGISLATION IN CONGRESS WHEN THE STATE WAS DIVIDED.

ON BEHALF OF OUR 6300 SHAREHOLDERS AND THE 12 VILLAGE CORPORATIONS IN OUR REGION AND WESTERN ALASKA COMPRISING THE NATIVE LANDS GROUP, COOK

PAGE 3

INLET REGION INC. ASKS FOR YOUR CONSIDERATION IN REMOVING THE PROVISIONS IN HJR9 OPPOSING NATIVE LAND TRADES.

ROY M. HUHDORF, PRESIDENT
COOK INLET REGION INC.

CC: GOVERNOR STEVE COWPER
COMMISSIONER BRADY
COMMISSIONER KELSO
COMMISSIONER COLLINGSWORTH
COMMISSIONER SMITH
COMMISSIONER MALONE
COMMISSIONER GUITTEREZ
JOHN KATZ, SPECIAL ASSISTANT TO THE GOVERNOR

ANILWAR

LAND TRADES

PROXY STATEMENTS

LEGAL (MOBIL/TEA)

PRESS

Major Issues System

Issue Brief

Order Code IB87228

ARCTIC NATIONAL WILDLIFE REFUGE CONTROVERSY: AN OVERVIEW

Updated December 14, 1987



by

M. Lynne Corn and John E. Blodgett

Environment and Natural Resources Policy Division

John J. Schanz

Senior Specialist, ENR

Pamela Baldwin

American Law Division

Congressional Research Service

CONTENTS

SUMMARY

ISSUE DEFINITION

BACKGROUND AND ANALYSIS

- History and Recent Congressional Actions
- The Legislative Choices
- Geological Variables and Development Impacts
 - Hidden Petroleum Probabilities
 - Exploration Options
 - Leasing Options
- Environmental Quality Management
- General Land Management
 - Animals and Plants: The Purpose of a Refuge
 - Port and Offshore Activity
 - Management of Support Services: Avoiding Past Mistakes
 - Access: Roads and Legal Conflicts
 - Subsistence Use
 - Areas of Special Environmental Significance
- Revenue Allocation
- Legal Issues
 - Land Exchange ("Megatrade")
 - Submerged Lands Beneath Navigable Waters
- Long-Term Issues

LEGISLATION

FOR ADDITIONAL READING

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Major Issues System

Issue Brief

Order Code IB87228

ARCTIC NATIONAL WILDLIFE REFUGE CONTROVERSY: AN OVERVIEW

Updated December 14, 1987



by

M. Lynne Corn and John E. Blodgett

Environment and Natural Resources Policy Division

John J. Schanz

Senior Specialist, ENR

Pamela Baldwin

American Law Division

Congressional Research Service

CONTENTS

SUMMARY

ISSUE DEFINITION

BACKGROUND AND ANALYSIS

- History and Recent Congressional Actions
- The Legislative Choices
- Geological Variables and Development Impacts
 - Hidden Petroleum Probabilities
 - Exploration Options
 - Leasing Options
- Environmental Quality Management
- General Land Management
 - Animals and Plants: The Purpose of a Refuge
 - Port and Offshore Activity
 - Management of Support Services: Avoiding Past Mistakes
 - Access: Roads and Legal Conflicts
 - Subsistence Use
 - Areas of Special Environmental Significance
- Revenue Allocation
- Legal Issues
 - Land Exchange ("Megatrade")
 - Submerged Lands Beneath Navigable Waters
- Long-Term Issues

LEGISLATION

FOR ADDITIONAL READING

ARCTIC NATIONAL WILDLIFE REFUGE CONTROVERSY: AN OVERVIEW

SUMMARY

Congress may soon decide whether to develop the coastal plain of the Arctic National Wildlife Refuge (ANWR) in Alaska, an area rich in fauna, flora, and oil potential. Current law forbids energy leasing. Development proponents argue that any ANWR oil would help secure our energy future and could be developed safely. Opponents argue that ANWR's balanced ecosystem is more valuable intact and should be legally designated as wilderness, or at least remain as an area in which energy development is forbidden.

Four committees have held hearings on ANWR and nine bills have been introduced in the 100th Congress. The hearings so far have emphasized an April 1987 Department of Interior (DOI) environmental impact statement, environmental effects, and assessments of energy needs. Legislative options include proceeding with development (relevant bills are H.R. 1082, H.R. 3601, and S. 1217) and designating the area as wilderness, thereby halting development (relevant bills are H.R. 39 and S. 1804). Another option is to take no action; this would also prevent onshore development.

Many complex and difficult issues would be involved with a decision to proceed. Though seismic studies and drilling outside the 100% area strongly suggest (but do not prove) a probability for a significant quantity of oil, whether and how exploratory drilling might proceed (relevant bill H.R. 3601), who would pay the costs, and how the leasing options would be awarded are some of the many questions involved. How would the small Native population (around 200 people) living on the Refuge fare? What environmental protection measures would be appropriate, and how would change of habitat affect plant and animal populations? Assuming development revenues from bonuses, rents, and royalties, how would these monies be divided among the Federal Government, the State of Alaska, and others?

Land exchanges involving DOI and Alaskan Natives have been proposed (relevant bills are H.R. 2629 and S. 1493). Interior Secretary Hodel has agreed not to proceed with these exchanges until Congress authorizes them legislatively, though he insists that he has the authority to do so. This authority and the question of ownership of certain submerged lands beneath navigable waters within and offshore of ANWR (relevant bills are H.R. 2629 and S. 576) are two of the major legal issues being addressed at this time.

ISSUE DEFINITION

The coastal plain of the Arctic National Wildlife Refuge (ANWR) is the most promising U.S. onshore oil and gas prospect. It could contain as much oil as the giant field at Prudhoe Bay, which is on State land west of ANWR. On the other hand, the Refuge is home to a large variety of plants and animals in a nearly undisturbed state. The conflict between oil potential and pristine nature creates a dilemma: Should Congress open the area for oil and gas development or should the area's ecosystem be given permanent protection? What factors should determine whether to open the area? If the area is opened, how can damage be minimized? To what extent should Congress involve itself in the management of the area (if it is developed) and to what extent should Federal agencies be left on their own?

BACKGROUND AND ANALYSIS

History and Recent Congressional Actions

Much of what is now the Arctic National Wildlife Refuge was set aside in December 1960 by Public Land Order 2214. The Alaska National Interest Lands Conservation Act (ANILCA, P.L.96-487) of 1980 prohibited oil and gas development in the 1.5-million-acre coastal plain of the 19-million-acre Arctic National Wildlife Refuge (ANWR) until authorized by Congress. Under Section 1002 of ANILCA, Congress required the Department of the Interior (DOI) to report on the plant and animal resources and the oil and gas potential of the this part of ANWR, now generally called the "1002 area." This report to Congress, the Final Legislative Environmental Impact Statement (FLEIS), was submitted in April 1987. DOI recommended that the area be fully leased. (For a history of the FLEIS, see CRS Issue Brief 87026 (archived).)

Four Committees have held extensive hearings on ANWR development: House Merchant Marine and Fisheries, House Interior and Insular Affairs, Senate Energy and Natural Resources, and Senate Environment and Public Works. The hearings have so far emphasized the DOI FLEIS, the environmental effects of oil development in ANWR or at Prudhoe Bay, and assessments of the need for additional sources of oil.

Several bills relating to ANWR have been introduced. Two bills (H.R. 39, S. 1804) would designate the 1002 area as wilderness, thereby precluding oil and gas development and maintaining the area's largely untouched state. Two bills (H.R. 1082, S. 1217) would authorize the Interior Secretary to lease the coastal plain area expeditiously, and two others (H.R. 2629, S. 1493) would address a proposed land trade; H.R. 2629 (as amended) would also address the ownership of submerged lands in ANWR as would S. 576. H.R. 3601 would, among other things, establish an exploratory drilling program, allow the President to initiate a leasing program, and set up a program for the disposition of revenues from the leasing program. Finally, S. 735 would provide that income from oil and gas leasing programs in the National Wildlife Refuge System would be paid according to a formula to the State of origin, the Treasury, and the Land and Water Conservation Fund.

The Legislative Choices

Congress has three basic choices for ANWR legislation. One option is designating the area as wilderness, thereby preventing energy development. This choice, like the failure to find oil, would likely encourage alternative energy supplies and strategies. Supporters of this option argue that the entire, balanced ecosystem is most valuable in the aggregate and worth preserving intact. (Relevant bills are H.R. 39 and S. 1804.)

A second option is passing legislation permitting energy leasing in the 1002 area. Supporters of oil development argue that ANWR oil is the best onshore prospect remaining in the United States, and that its development is necessary for long-term national security and for improving the balance of trade. They also argue that effects on animals, especially caribou, will not be serious, although they concede that wilderness values will be lost. If this option is chosen, Congress could also decide at what pace and under what conditions any oil would be developed, and whether to adopt a preliminary exploration program. (Relevant bills are H.R. 1082, H.R. 3601, and S. 1217.)

The third option is taking no action, thereby preventing onshore energy development at this time. Those supporting delay often argue that not enough is known about either the probability of discoveries or about the environmental impact if development is permitted. Others argue that oil deposits should be saved for an unspecified "right time." Finally, some parties favoring preservation advocate awaiting a new Administration that might be more favorable to their view.

One difficult question is whether the petroleum is needed at a possible expense of other values in ANWR. If ANWR oil is found, it would not contribute to national security or the trade balance until 15 years from now -- when any oil would first appear in quantity. But 15 years is enough time to pursue other energy alternatives. Moreover, the oil estimate from even a large field is equivalent to one year or less of current national consumption. Proponents of development contend that because the TransAlaskan Pipeline now delivers one-fifth of U.S. oil production and because the 1002 area is the best -- and maybe the only -- prospect for keeping the pipeline flowing after 2000, ANWR must be developed. Proponents generally encourage pursuing energy alternatives under any circumstances, believing that other options cannot be prudently ignored. For some cases, the debate will be whether Congress should decide some of these issues in legislation, or leave them to the Executive agencies.

Geological Variables And Development Options

The fundamental conflict of energy development versus wilderness protection is exacerbated by uncertainty over how much oil is present in the 1002 area. This uncertainty has caused some Members of Congress to consider proposals to clarify how much petroleum is at stake in ANWR.

Hidden Petroleum Probabilities

Few have challenged the DOI interpretation of the 1002 area geological data. Seismic studies and drilling outside the 1002 area strongly suggest (but do not prove) a relatively high probability for a significant quantity of oil to be present and recoverable. Thus, some of the debate tends to be on the significance of these data from the FLEIS to Congress.

If the low range of DOI's estimate (one field of less than one billion barrels) is correct, then 30 years of production could begin in about 10 years. More likely are several fields of varying sizes producing sequentially over 50 years or more. Any associated natural gas would not be immediately economic, but its later production could extend beyond 50 years.

Exploration Options

Conventional Federal leases permit exploration and, after discovery, extend automatically until production ceases entirely. However, to reduce uncertainty, it has been suggested that Congress permit industry to begin exploration but not proceed automatically to development. Two options are possible.

One option is for DOI to offer leases and allow leaseholders to do further site-specific evaluations and to drill exploratory wells in winter. Any information or discoveries could then be evaluated and used to determine whether to proceed to full development or to terminate the activity. This approach appeals to those seeking more hard information. But it is opposed by industry and some Members because company expenditure of time and money might lead to naught even if producible oil is discovered.

A second option (proposed in H.R. 3601) is to conduct a specific "informational" drilling program whose purpose would be to expand knowledge of the prospects in the region, rather than primarily to find oil. Informational drilling could be conducted by government at its own expense, or under some kind of incentive program for industry participants. Even if oil were found, it would not likely confirm producibility with so few wells.

If Congress authorizes any type of exploratory drilling program, it will need to address at least the following issues:

1. If exploration is part of a conditional leasing process, how can industry be persuaded to participate, in view of a risk that a discovery might not lead to development rights?
2. Under any exploration option, how should the resulting information be disseminated?
3. If a purely informational drilling program actually encounters oil, how will the discovery affect subsequent leasing?

Leasing Options

DOI and industry prefer for ANWR leasing to follow the customary procedures. In the 1002 area, DOI accordingly wants the discretion to offer for sale any or all of the area. Industry could bid on all or part, and DOI could accept all to none of the bids. However, many of the prime prospects could go in one sale in a relatively small area.

Different Federal leasing programs have different customary tract sizes -- typically providing larger tracts in difficult or frontier areas such as the Outer Continental Shelf. Similarly, longer leases are frequently employed under special circumstances such as unique environmental protection requirements.

Congress may wish to consider several of these issues in any ANWR legislation:

1. Should some limit be set on the size of DOI's initial lease offerings in the 1002 area, to reduce the chance of selling all of the best prospects in the first sale?
2. Should tract size be limited in order to spur competition and higher revenues, encourage development coordination, facilitate wildlife protection, and improve coordination of rehabilitation after industry activity ends?
3. Should a particular leasing period be mandated for the area, and if so, how long should the period be?

Environmental Quality Management

If ANWR is developed, Congress would face three kinds of environmental quality management issues: resource management, pollution, and waste disposal. Congress could choose to leave these matters to administrative agencies under authorities of existing laws, a preference of many in the oil industry. But many others believe Congress should impose a higher standard of environmental protection because the area is in a wildlife refuge or because of the fragility of the Arctic environment.

Gravel and water resources are essential for oil exploration and development. Potential legislative issues include protection of water resources necessary for animals, especially fish; regulation of water use and gravel extraction; and setting fees for and allocating any revenues from exploiting these resources. Air and water pollution primarily raise questions of subtle, long-term ecological effects. Potential legislative issues include the adequacy of existing standards, research needs, and assurance that the standards are met. Waste disposal includes three major waste streams: drilling fluids, toxic wastes, and nontoxic bulk wastes. Legislative issues include the adequacy of current waste disposal requirements, the development of alternatives to landfills, and also liability concerns that can make consolidation of disposal facilities unattractive to oil companies.

General Land Management

The main Federal law governing leasing and production of petroleum on Federal land is the 1920 Mineral Leasing Act. It remains to be seen whether Congress will see this law and its resulting regulations and procedures, other Federal environmental laws, and relevant Alaskan law as adequate for 1002 development. If Congress decides that the 1002 area should operate under a unique legal status, Congress will have to determine what elements of the process from exploration to reclamation should deviate from standard practices.

The 1002 area has a small human population whose needs may be addressed specifically in ANWR legislation. The village of Kaktovik (about 200 people) and the lands of the Kaktovik Inupiat Corporation (KIC) lie along the coast. There is also a U.S. military Distant Early Warning (DEW) station near Kaktovik, with dozens of employees. The DEW network also has several unoccupied sites of former or uncompleted developments scattered in the 1002 area. Together with Kaktovik, the DEW site operates a garbage dump and a runway.

Animals and Plants: the Purpose of a Refuge

Under ANILCA, one of the purposes of ANWR is to "conserve fish and wildlife populations and habitats in their natural diversity." Opponents of development argue that the entire, balanced complex of caribou, polar and grizzly bears, wolves, falcons, wildflowers, and so on, is worth preserving intact. Resource development, in their view, would prevent such conservation, if not of entire species, then of the ecosystem's diversity. Sport hunters stress the importance of the habitats for migratory game birds taken in both Canada and the United States. Issues before Congress in this area include:

1. Should the entire area be designated wilderness to protect "populations and habitats in their natural diversity"? (See H.R. 39 and S. 1804.)
2. Should special protection be given to certain species such as caribou, bears, wolves, musk oxen, snow geese, etc.? If so, should protection take the form of habitat protection and/or management restrictions? (See Section 202(b) of H.R. 3601.)
3. Should some species (e.g., wolves) be reduced to enhance populations of other species (e.g., caribou, musk oxen) that may be reduced by development? Or should special measures be taken to prevent reduction of predators?
4. Should the location of major support facilities (e.g., service centers and ports) be restricted to reduce the impact on sensitive species (e.g., polar bears, snow geese)?

Port and Offshore Activity

While Section 1003 of ANILCA prohibits energy production in ANWR until authorized by Congress, it does not cover the role the 1002 area might play as a land base for State or Federal offshore activity. Both

the United States and Alaska are proceeding with offshore leasing adjacent to the 1002 area. Even if Congress does not act to open ANWR (thus preventing development), it may wish to consider controlling the use of the 1002 area as a support center, port, or pipeline corridor for offshore development.

Management of Support Services: Avoiding Past Mistakes

Activities of the independent support service industries in the Prudhoe Bay area, particularly at Deadhorse, have been widely criticized. (These firms are generally employed by, rather than part of, major oil companies.) At Deadhorse, the State leases land to small businesses that provide support services to the oil industry. Services include repair, cleaning, laundry, aircraft supply, etc. Issues include:

1. Should Congress specify the location of support facilities or require them to be located outside the Refuge?
2. Should Congress set financial standards or require bonds for participation in ANWR services to minimize abandoned service sites?
3. Should Congress require a unified service center such as the one at Kuparuk field (west of Prudhoe Bay) for ANWR?
4. Should Congress mandate that garbage be hauled out of ANWR?

To date, no bills supporting development directly address these questions.

Access: Roads and Legal Conflicts

For Congress, a key access issue is the logistical conflict between the area's management as an industrial site versus management as a refuge devoted not only to wildlife conservation but also to recreation (including sport fishing and hunting), subsistence uses, among other functions. This conflict would become more intense with the increasing human populations and road networks from development. In contrast to the free but difficult access at ANWR, access to the State-owned Prudhoe Bay complex is strictly (if not always effectively) controlled. Visitors' and workers' belongings are searched for firearms, alcohol, and drugs. None of these requirements now applies to the 1002 area. Moreover, hunting, even for subsistence, is forbidden at Prudhoe and limited in other developed areas. Similar restrictions are not found in the 1002 area, and may conflict with the purposes of the Refuge. Specific access issues which Congress may address include:

1. Should firearms be prohibited in the 1002 area for workers? For recreational visitors?
2. If firearms are allowed, should no-shooting buffer zones be required around facilities and structures? If so, how much of the area would remain open to subsistence and recreational hunting?
3. Should developed areas be closed to recreational visitors? If not, should such visitors be allowed to use industry roads? To cross them?

4. Will the increased accessibility of the area lead to excessive hunting pressure? Should public access to the area be restricted?
5. What additional personnel would be needed to enforce these prohibitions?

Subsistence Use

Natives of Kaktovik, on the north coast of the 1002 area, are the major users of the resources of the coastal plain, although they depend primarily on marine resources. Subsistence hunters in the United States and Canada also take caribou from the Porcupine Herd. Kaktovik Natives oppose both leasing in the primary caribou calving area and a restriction on discharging firearms. Congress may wish to consider the following issues regarding subsistence use:

1. Should the current rights of Native users be restricted as to either access or hunting? Should sport hunting be restricted to maintain subsistence opportunities if game populations diminish?
2. Are polar bears, which are currently legally taken only by Natives, at special risk from a potentially increasing Native population and improved Native mobility? If so, does the legally unrestricted Native take need new examination by Congress in the 1002 area?
3. What voice will subsistence users have in new regulations as 1002 development (if any) evolves?
4. What provision, if any, should be made to minimize impacts of development on Native culture?

Areas of Special Environmental Significance

The wildlife debate has focused mainly on the migratory Porcupine Caribou Herd (PCH). However, other species, such as polar and grizzly bears and wolves, may be at greater risk, in the view of some. Congress may consider special protection of the most important habitats (e.g., wilderness designation, delayed exploration, or a special regulatory regime). At this time, the areas most often mentioned for some special status include:

1. the major calving area of the PCH;
2. the area around Sadlerochit Spring (a warm spring which flows all winter);
3. the areas nearest the coast where substantial bird populations occur, and where many female polar bears make their dens; and
4. the area south and west of Angun Point which includes a portion of the snow geese's fall feeding area.

Of those bills supporting at least some development, only H.R. 3601 would explicitly provide for special treatment of certain areas. The two wilderness bills (H.R. 39, S. 1804) obviously would provide complete protection.

Revenue Allocation

If oil is present, ANWR development revenues from bonuses, rents, and royalties, as well as sales of gravel and water, could generate billions of dollars for the landowners. Peak annual royalties alone might reach from \$200 million to \$2.5 billion, followed by declining revenues for 30-50 years. If DOI's proposed land trade with Native corporations proceeds, these corporations (as owners of ANWR subsurface rights) would receive significant revenues from the development of their lands. (See Land Exchange, below.) If Alaska owns as much of the submerged lands as it claims, it could receive directly a substantial fraction of the revenues. (See Submerged Lands, below.) Whatever the Federal fraction of the income, Congress must decide:

1. Should Alaska continue to receive 90% of certain revenues from Federal leases on federally owned lands; and considering the terms of the Alaska Statehood Act, could Congress change Alaska's share?
2. Should any Federal revenues from ANWR be used for land acquisition in Alaska or elsewhere as part of the mitigation for reduced habitat values in a developed 1002 area? If so, how should the revenues be allocated?

Two bills, S. 735 and H.R. 3601, address the allocation of revenues from ANWR. Among other things, they would allocate certain fractions of the revenue to various conservation programs.

Legal Issues

Certain issues are being addressed not only in legislation, but also in various courts.

Land Exchange ("Megatrade")

DOI has preliminarily negotiated land exchanges with some Alaskan Native groups, trading oil and gas rights in the 1002 area for land or surface rights belonging to the Natives within seven other refuges in Alaska. (The proposal has become known as "the Megatrade.") The Secretary appears to be relying on Section 1302 of the ANILCA (16 U.S.C. 3101, 3192) for authority. This section authorizes the exchange even of lands within conservation areas for purposes of the act, if certain requirements are met. Critics deny that Section 1302 authorizes these exchanges. Interior Secretary Hodel has agreed not to proceed with the exchanges until Congress authorizes them legislatively, although he insists that he has the authority to do so.

In addition to considering the legality of the proposed exchange, Congress may wish to consider other questions.

1. Is this trade in the economic interest of the United States and the State of Alaska? Or is it otherwise in the public interest?

2. How might the trade add to or detract from an orderly lease management scheme in the 1002 area?
3. What additional rights would the Federal Government obtain on the acquired lands that it does not already possess?
4. How well did DOI insure that the trade was in fact an equal value trade?
5. In light of the legal restrictions and possible title problems on some of the lands in the seven Refuges, was the DOI appraisal of their value accurate?

H.R. 2629 and S. 1493 would forbid these trades unless specifically authorized by law.

Submerged Lands Beneath Navigable Waters

The United States and Alaska dispute the ownership of submerged lands beneath navigable waters within and offshore of ANWR. Depending on how the legal issues are decided, Alaska may own significant inholdings within ANWR. If these inholdings are opened to leasing, not only would management of the remaining Refuge lands be complicated, but substantial revenues from any oil on those inholdings would accrue to Alaska, rather than the United States. H.R. 2629, which has passed the House, and S. 576 would address these issues.

A case currently before the Supreme Court, United States v. Alaska, involves whether certain lands immediately offshore ANWR are owned by the Federal Government and are included in the Refuge. The case does not address other issues.

A second case -- Alaska v. United States -- recently filed in the Federal District Court for Alaska, challenges the current practices of the Bureau of Land Management (BLM) in Alaska for the surveying of lands and bodies of water. The State asserts that these practices wrongfully deprive Alaska of additional submerged lands it owns. These BLM practices are set out in the Manual of Surveying, and in apparent contradiction with the lawsuit, Alaska has been simultaneously urging that Congress ratify these practices legislatively as the most fair approach. (See H.R. 2629 and S. 576.)

A pivotal factor in these suits will be the test used for determining navigability for purposes of deciding title questions. The Federal District Court for Alaska, in another recent decision also captioned Alaska v. United States, devised a generous test of navigability for title purposes. The case currently is on appeal by Ahtna, Inc., a Native regional corporation which, with the United States, was a defendant.

If a generous test of navigability for title purposes prevails, and any pre-statehood actions of the Federal Government in withdrawing the lands later comprising ANWR are held to be insufficient to have reserved title to the United States, Alaska may well own significant inholdings within the coastal plain. If so, Congress will face additional legal issues involved in regulating or precluding State mineral development:

1. Can Congress preclude Alaska's development of its inholdings without owing compensation under the Fifth Amendment?
2. How should Congress regulate any Alaskan inholdings?
3. Can and should Congress approve through legislation the current surveying practices of BLM?

(For further information, see CRS Report 87-673 A, Legal Issues Related to the Ownership of the Submerged Lands within and off the Coast of the Arctic National Wildlife Refuge.)

Long-Term Issues

If no commercial quantity of oil is found in the 1002 area, substantial recovery from exploratory activities should take only a few years. If major quantities are found, development including natural gas extraction would probably last for decades or even a century. Substantial recovery might then take further centuries in the harsh Arctic environment. Thus, Congress may be debating rehabilitation that might not begin until 2060 or 2090. Few existing laws contemplate such long-term planning for a cleanup whose cause may not ever occur. Congress may consider various proposals on the long-term fate of the area:

1. Should industry pay a tax or fee to create a trust fund for long-term clean up, as opposed to one for such short-term problems as oil spills and hazardous waste spills?
2. Alternatively, should industry be required to pay for performance bonds to ensure clean up? How would such a long-term bond work?
3. What ultimate rehabilitation goal(s) should apply? Should the area be returned insofar as possible to the pristine pre-development state after oil is extracted? After gas extraction? After offshore energy extraction?
4. What additional information is needed to plan for so distant an event?

LEGISLATION

H.R. 39 (Udall)

Designates the Arctic Coastal Plain (1002 area) as wilderness. Introduced Jan. 6, 1987; referred to Committee on Interior and Insular Affairs.

H.R. 1082 (D. Young)

Authorizes the Secretary of the Interior to lease lands in the Coastal Plain of ANWR for oil and gas exploration, development, and production. Introduced Feb. 11, 1987; referred to Committees on Interior and Insular Affairs, and on Merchant Marine and Fisheries.

H.R. 2629 (D. Young)

Amends ANILCA to clarify the conveyance and ownership of submerged lands and to forbid the transfer of subsurface rights in ANWR without congressional approval. Introduced June 8, 1987; referred to Committees on Interior and Insular Affairs, and on Merchant Marine and Fisheries. Reported Aug. 3, 1987 (H.Rept. 100-262, Part I). Passed House, amended, Aug. 3, 1987.

H.R. 3601 (W. Jones)

Relating to the enhancement of the Nation's fish and wildlife resources, the National Wildlife Refuge System, and for other purposes. Introduced Nov. 3, 1987; referred to Committees on Merchant Marine and Fisheries, and on Interior and Insular Affairs.

S. 576 (Murkowski)

Amends ANILCA to clarify the conveyance and ownership of submerged lands. Introduced Feb. 23, 1987; referred to Committee on Energy and Natural Resources.

S. 735 (Bentsen)

Amends the Land and Water Conservation Fund Act to distribute revenue from oil and gas resources in units of the National Wildlife Refuge System; directs the Secretary of the Treasury to distribute such monies according to a formula, if the Congress fails to act. Introduced Mar. 12, 1987; referred to the Committee on Energy and Natural Resources.

S. 1217 (Murkowski)

Authorizes the Secretary of the Interior to lease public lands in the 1002 area for oil and gas exploration, development and production. Also authorizes the Secretary of State to begin talks with Canadian Government on the transportation of energy resources in the Arctic region. Introduced May 15, 1987; referred to Committee on Energy and Natural Resources.

S. 1493 (Bradley)

Requires approval by law of any land exchange in ANWR. Introduced July 14, 1987; referred to Committee on Energy and Natural Resources.

S. 1804 (Roth)

Amends the National Wildlife Refuge Administration Act to designate the Section 1002 area as wilderness. Introduced Oct. 21, 1987; referred to Committee on Environment and Public Works.

FOR ADDITIONAL READING

U.S. Library of Congress. Congressional Research Service. Arctic National Wildlife Refuge: Oil, gas, and wildlife, by M. Lynne Corn and John Schanz. [Washington] Oct. 23, 1987.

CRS Issue Brief 87026 (archived)

- Legal issues related to the ownership of the submerged lands within and off the coast of the Arctic National Wildlife Refuge, by Pamela Baldwin. [Washington] 1987. 36 p.
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- The proposed St. Matchew Island land exchange: Authority of Secretary of the Interior to exchange lands under the Alaska National Interest Lands Conservation Act, by Pamela Baldwin. [Washington] June 21, 1982. 39 p.
- Whether Congress unilaterally may amend a mineral lease revenue distribution formula that appeared in the Alaska Statehood Act, by Thomas J. Nicola. [Washington] 1987. 12 p.
CRS Report 87-63 A
- World oil and the ANWR potential, by Robert L. Bamberger and Carl E. Behrens. [Washington] 1987. 14 p.
CRS Report 87-438 ENR
- U.S. Department of the Interior. Fish and Wildlife Service, Geological Survey, and Bureau of Land Management. Arctic National Wildlife Refuge, Alaska, coastal plain resource assessment. Report and recommendation to the Congress of the United States and Final Legislative Environmental Impact Statement. Washington, 1987.
208 p.

THAT (JBL) ...
THAT'S NEARLY LEAD... BUT THOUGHT
YOU MIGHT WANT TO SEE PAGES 9-10
SUMMARIZE THEIR OIL COMPANY OFFICE PRESENT
OF INTEREST (?) IS VICE PRESIDENT'S SALARY ON
Pg 44

[Signature]

Koniag, Inc.

4300 "B" Street, Suite 407
Anchorage, Alaska 99503

PROXY STATEMENT
For Annual Meeting
To Be Held On December 5, 1987

October 8, 1987

PRINCIPAL DEFINED TERMS USED IN THIS PROXY STATEMENT

- ANCSA:** Alaska Native Claims Settlement Act.
- ANILCA:** Alaska National Interest Lands Conservation Act.
- ANWR:** Artic National Wildlife Refuge.
- AQUA/TERRA:** Aqua/Terra Consulting, Ltd. of Great Falls, Virginia.
- CHEVRON:** Chevron U.S.A., Inc.
- CHEVRON GROUP:** Chevron, Standard Alaska Petroleum Company and BP Alaska Exploration, Inc.
- DIRKSEN:** Dirksen Appraisal Company of Anchorage, Alaska.
- DIRKSEN REPORT:** Dirksen's August 1, 1987 report reviewing the FWS Appraisal.
- DOI:** United States Department of Interior.
- EXCHANGE:** Koniag's proposed exchange of Koniag Exchange Lands for Oil and Gas EDP Interests under the Exchange Agreement.
- EXCHANGE AGREEMENT:** The agreement providing for the Exchange.
- EXCHANGE LAND VALUE:** Negotiated amount of \$77,442,711 attributed to the Koniag Exchange Lands.
- FWS:** United States Fish and Wildlife Service.
- FWS APPRAISAL:** The November 27, 1985 appraisal by FWS of all lands owned by Koniag within KNWR (including lands not part of the Koniag Exchange Lands).
- IMPLEMENTING REGULATIONS:** Regulations promulgated pursuant to the Opening Legislation to regulate petroleum exploration, development, and production in the Coastal Plain of ANWR.
- KARLUK LANDS:** The surface estate of approximately 34,186 acres that Koniag is seeking authority to convey to the Karluk IRA Council.
- KNC:** Karluk Native Corporation.
- KNWR:** Kodiak National Wildlife Refuge.
- KONIAG:** Koniag, Inc.
- KONIAG ANWR LANDS:** The tracts in ANWR selected by Koniag to which the Oil and Gas EDP Interests pertain.
- KONIAG ANWR LEASES:** The leases which Koniag would issue to the Chevron Group and Phillips concerning the Oil and Gas EDP Interests.
- KONIAG EXCHANGE LANDS:** The surface estate of 112,564 acres in KNWR that Koniag would convey to the United States Government under the Exchange Agreement.
- LAA:** The Lease Acquisition Agreement dated December 17, 1985 between Koniag and the Chevron Group.
- LARSEN BAY LANDS:** The surface estate of approximately 17,676 acres that Koniag is seeking authority to convey to the Traditional Tribal Council for Larsen Bay.
- LEASE AGREEMENTS:** The Lease Acquisition Agreement and the Phillips Agreement collectively.
- LEIS:** The Legislative Environmental Impact Study which DOI intends to perform relating to the Exchange.
- MERGER:** The 1980 merger of KNC and NNPI with Koniag.
- NNPI:** Nu-Nachk Pit, Inc.
- OIL AND GAS EDP INTERESTS:** Oil and gas exploration, development, and production rights held by the United States Government in certain lands in ANWR.
- PHILLIPS:** Phillips Petroleum Company.
- PHILLIPS AGREEMENT:** The Agreement dated July 1, 1987 between Koniag and Phillips Petroleum Company.
- REDUCTION:** The agreed reduction of the Chevron Group's future leasehold rights in the Oil and Gas EDP Interests to an undivided 51%.

KONIAG, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on December 5, 1987

The Annual Meeting of the Shareholders of Koniag, Inc. ("Koniag") will be held at 10:00 a.m. on Saturday, December 5, 1987, at Banquet Room, Kodiak Buskin River Inn, Kodiak, Alaska, for the following purposes:

1. The adoption of certain propositions:
 - a. **Proposition I:** To authorize Koniag to exchange its interest in the surface estate of approximately 112,564 acres of land within the Kodiak National Wildlife Refuge for certain oil and gas exploration, development and production rights held by the United States Government in certain lands in the Arctic National Wildlife Refuge. Some or all of these rights in turn would be leased to Chevron U.S.A., Inc., Standard Alaska Production Company, and BP Alaska Exploration, Inc. and to Phillips Petroleum Company, in return for minimum cash payments to Koniag totalling approximately \$58,300,000 and certain contingent payments, including Koniag's right to receive royalties from the production of any oil and gas from those lands. Agreements that have already been signed with these oil companies would be ratified.
Additionally, the Board of Directors would be granted the absolute discretion to amend the agreements with the oil companies and the United States Government except that any material changes to the interests granted to Koniag under the exchange agreement with the United States Government would be subject to certain conditions.
 - b. **Proposition II:** To authorize Koniag to transfer to the tribal organizations for Karluk and Larsen Bay or to entities designated by them, upon the fulfillment of certain conditions (including the enactment of special legislation), certain lands currently owned by Koniag that are adjacent to these villages.
 - c. **Proposition III:** To authorize, by means of an advisory vote, Koniag to expend funds to investigate, develop and seek Congressional authorization for a proposal to create a shareholder distribution permanent fund, which would be funded with a portion of any revenues which may be generated by interests acquired by Koniag in the Arctic National Wildlife Refuge.
2. To elect three (3) directors to serve a term of three (3) years.
3. The transaction of such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on October 7, 1987, as the Record Date. Shareholders of record on the books of Koniag on that date will be entitled to vote at the meeting and any adjournment thereof.

IMPORTANT: THE ENCLOSED PROXY PERMITS YOU TO VOTE WITHOUT ATTENDING THE MEETING. WE URGE YOU TO COMPLETE, DATE AND SIGN THE PROXY AND RETURN IT IN THE ENCLOSED, STAMPED ENVELOPE AS SOON AS POSSIBLE.

IF YOU MAIL IN THE PROXY, YOU CAN STILL REVOKE IT AT ANY TIME BEFORE OR AT THE MEETING AND VOTE IN PERSON AT THE MEETING AS LONG AS YOU FOLLOW THE INSTRUCTIONS FOR REVOCATION CONTAINED IN THE ACCOMPANYING PROXY STATEMENT.

ALL PROXIES MUST BE RECEIVED AT THE ANCHORAGE, ALASKA OFFICE OF JAMES PRESTON, C.P.A., ON OR BEFORE 5:00 P.M., DECEMBER 2, 1987. IN ORDER TO ASSURE THEIR BEING VOTED.

ANY PROXIES RECEIVED AFTER THAT TIME WILL NOT BE VOTED AT THE MEETING.

DATED this 8th day of October, at Anchorage, Alaska.

KONIAG, INC.

Michael Pagano

Michael Pagano
Secretary/Treasurer

TABLE OF CONTENTS

	Page
REVOKING PROXIES	3
VOTING	3
SUMMARY OF PROPOSITIONS	4
BACKGROUND TO PROPOSED TRANSACTIONS	4
SUMMARY OF PROPOSITION I—PROPOSED EXCHANGE AND LEASE AGREEMENTS	6
Introduction	6
Summary of Proposed Exchange with DOI	6
Summary of Lease Agreements with Oil Companies	9
Summary of Risk Factors	10
SUMMARY OF PROPOSITION II—PROPOSED CONVEYANCES TO KARLUK AND LARSEN BAY	11
SUMMARY OF PROPOSITION III—SHAREHOLDER DISTRIBUTION PERMANENT FUND PROPOSAL	12
EXTENT OF SUMMARY	12
PROPOSITION I—PROPOSED EXCHANGE AND LEASE AGREEMENTS ..	13
STATEMENT OF PROPOSITION I	13
EXCHANGE	13
Background of Proposed Exchange	13
Proposed Exchange	14
1. Koniag Exchange Lands	14
2. Receipt of Oil and Gas EDP Interests	15
3. Congressional Action	16
4. Tract Selection Process	16
5. Valuation of Koniag Exchange Lands	17
6. Termination of Exchange Agreement	19
7. Miscellaneous	20
LEASE AGREEMENTS	20
Background of Lease Agreements	20
Lease Acquisition Agreement	20
1. Obligations of Koniag	20
2. Obligations of Chevron Group	21
3. Termination of the LAA	21
4. Issuance of Leases	22
5. Terms of Koniag ANWR Leases	22

	<u>Page</u>
6. Payments by Chevron Group	22
Phillips Agreement	24
1. Obligation of the Parties	24
2. Termination of Phillips Agreement	24
3. Terms of Koniag ANWR Leases	24
4. Payments by Phillips	24
Fairness of Consideration Under Lease Agreements	24
Use of Proceeds by Koniag	25
Certain Transactions	26
AUTHORIZATION TO BE GRANTED	27
LITIGATION AFFECTING PROPOSED EXCHANGE AND LEASE AGREEMENTS	27
1. <i>Trustees for Alaska, et al. v. William Horn, et al.</i> , Civ. Action No. A87-118 (Civil)	27
2. Sealaska Arbitration	28
RISK FACTORS	29
FINANCIAL EFFECTS OF THE PROPOSED EXCHANGE AND LEASE AGREEMENTS	31
1. Effects on Financial Statements	31
2. Income Tax Considerations	32
RIGHTS of DISSENTING SHAREHOLDERS	33
PROPOSITION II—PROPOSED CONVEYANCES TO KARLUK AND LARSEN BAY	33
STATEMENT OF PROPOSITION II	33
BACKGROUND	34
PROPOSED AUTHORITY TO CONVEY	34
1. Scope of Proposed Authority to Convey	34
2. Recipients of the Conveyances	35
3. Conditions of Issuance of Conveyances	35
4. Reverter Provisions in the Conveyances	36
5. Lack of Consideration	36
FINANCIAL EFFECTS OF THE PROPOSED CONVEYANCES	36
1. Effect Upon the Financial Statements	36
2. Income Tax Considerations	37
VOTE REQUIRED	37
CERTAIN TRANSACTIONS	38

	<u>Page</u>
PROPOSITION III—SHAREHOLDER DISTRIBUTION PERMANENT FUND—ADVISORY VOTE	38
STATEMENT OF PROPOSITION III	38
BACKGROUND	38
DESCRIPTION OF CONCEPT	38
VOTE REQUIRED	39
ELECTION OF DIRECTORS	40
CUMULATIVE VOTING	40
NOMINEES OF THE BOARD OF DIRECTORS	40
NOMINATION BY SHAREHOLDER PETITION	41
NOMINATIONS AT THE ANNUAL MEETING	41
DIRECTORS WHOSE TERMS WILL CONTINUE	42
REMUNERATION	44
CERTAIN TRANSACTIONS	44
BOARD COMMITTEES	45
INFORMATION CONCERNING KONIAG'S ACCOUNTANTS	45
OTHER BUSINESS	46
SOLICITATION OF PROXIES	46

MAPS

FIGURE 1. AREAS TO BE CONVEYED UNDER PROPOSITIONS I AND II	5
FIGURE 2. ARCTIC NATIONAL WILDLIFE REFUGE (ANWR)-1002 AREA: TRACTS IDENTIFIED BY NATIVE CORPORATIONS FOR EXCHANGE	7

EXHIBITS

LETTER FROM AQUA/TERRA CONSULTING GROUP, LTD. TO KONIAG, INC., DATED SEPTEMBER 24, 1987	EXHIBIT A
LETTER FROM DIRKSEN APPRAISAL COMPANY TO KONIAG, INC., DATED SEPTEMBER 24, 1987	EXHIBIT B

KONIAG, INC.

4300 "B" Street, Suite 407
Anchorage, Alaska 99503

PROXY STATEMENT

This Proxy Statement and accompanying Form of Proxy are being furnished by the Board of Directors of Koniag, Inc. ("Koniag") in connection with the Board of Director's solicitation of proxies for use at the Annual Meeting of Shareholders of Koniag to be held on Saturday, December 5, 1987, at 10:00 a.m. at the Banquet Room of the Kodiak Buskin River Inn, Kodiak, Alaska, and at any adjournment or adjournments thereof. At this meeting, or any adjournment or adjournments thereof, the shareholders of Koniag will vote on the following:

1. **PROPOSITION I.** To authorize Koniag to exchange its interest in the surface estate of approximately 112,564 acres of land within the Kodiak National Wildlife Refuge for certain oil and gas exploration, development and production rights held by the United States Government in certain lands in the Arctic National Wildlife Refuge. Some or all of these rights in turn would be leased to Chevron U.S.A., Inc., Standard Alaska Production Company, and BP Alaska Exploration, Inc. and to Phillips Petroleum Company in return for minimum cash payments to Koniag totalling approximately \$58,300,000 and certain contingent payments, including Koniag's right to receive royalties from the production of any oil or gas from those lands. Agreements that have already been signed with these oil companies would be ratified. Additionally, the Board of Directors would be granted the absolute discretion to amend the agreements with the oil companies and the United States Government except that any material changes to the interests granted to Koniag under the exchange agreement with the United States Government would be subject to certain conditions.
2. **PROPOSITION II.** To authorize Koniag to transfer to the tribal organizations for Karluk and Larsen Bay or to entities designated by them, upon the fulfillment of certain conditions (including the enactment of special legislation), certain lands currently owned by Koniag that are adjacent to these villages.
3. **PROPOSITION III.** To authorize, by means of an advisory vote, Koniag to expend funds to investigate, develop and seek Congressional authorization for a proposal to create a shareholder distribution permanent fund, which would be funded with a portion of any revenues which may be generated by interests acquired by Koniag in the Arctic National Wildlife Refuge.
4. To elect three (3) directors to serve a term of three (3) years.
5. To transact such other business as may properly come before the meeting.

BECAUSE THE PROPOSED EXCHANGE WITH THE UNITED STATES GOVERNMENT AND THE LEASE AGREEMENTS WITH THE OIL COMPANIES, AND THE CONVEYANCES TO THE TRIBAL ORGANIZATIONS OF KARLUK AND LARSEN BAY WILL NOT PROCEED UNLESS HOLDERS OF TWO--THIRDS OF THE VOTING SHARES OF KONIAG VOTE IN FAVOR, A FAILURE TO VOTE ON THESE MATTERS (EITHER IN PERSON OR BY PROXY) HAS THE SAME EFFECT AS A VOTE AGAINST THE RELEVANT TRANSACTIONS. FOR INFORMATION CONCERNING THE VOTE REQUIRED FOR THE OTHER ITEMS ON THE MEETING AGENDA, SEE BELOW.

Only those shareholders of record on the books of Koniag at the close of business on October 7, 1987, will be entitled to vote at the meeting.

If the accompanying form of proxy is properly executed and returned, the shares represented thereby will be voted by the persons named as proxy holders or their designees, in the manner specified by you on the proxy. In the absence of instructions to the contrary, the shares will be voted in the following manner:

1. *On Proposition I—to authorize Koniag to exchange its interest in the surface estate of approximately 112,564 acres of land within the Kodiak National Wildlife Refuge for certain oil and gas exploration, development and production rights held by the United States Government in certain lands in the Arctic National Wildlife Refuge and to ratify agreements providing for the leasing of some or all of those rights to Chevron U.S.A., Inc., Standard Alaska Production Company, and BP Alaska Exploration, Inc. and to Phillips Petroleum Company: the shares will be voted in favor of granting the authorization and ratifying the agreements.*
2. *On Proposition II—to authorize Koniag to transfer to the tribal organizations for Karluk and Larsen Bay or their designees, upon the fulfillment of certain conditions (including the enactment of special legislation), certain lands currently owned by Koniag that are adjacent to these villages: the shares will be voted in favor of the authorization.*
3. *On Proposition III—an advisory vote to authorize Koniag to investigate, develop and seek Congressional approval of a proposal to create a shareholder distribution permanent fund which would be funded with a portion of any revenues which may be generated by the interests acquired by Koniag in the Arctic National Wildlife Refuge: the shares will be voted in favor of the development of a proposal for such fund.*
4. *For election to the Board of Directors: The shares will be voted cumulatively for the nominees listed in the proxy statement and named in the form of the proxy: William F. Hartman, Evelyn Mullan, and Michael Pagano, in the manner determined by the proxy holder to elect as many of such nominees as possible.*
5. *On any other matters which may be properly brought before the meeting: the shares will be voted in the proxy holder's discretion.*

Copies of this Proxy Statement and forms of proxies are being mailed to the shareholders of Koniag on or about October 8, 1987.

Proxies must be signed, dated and delivered to Jim Preston, C.P.A., 130 West International Airport Road, Suite 103, Anchorage, Alaska 99518 no later than 5:00 p.m. on December 2, 1987.

PLEASE SIGN, DATE AND MAIL THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON.

REVOKING PROXIES

Any shareholder who signs a proxy may revoke the proxy by taking either of the following actions:

1. Signing either (i) another proxy or (ii) a written notice revoking the proxy, dated as of a later date than the proxy to be revoked, and delivering by mail or otherwise such later dated proxy or notice revoking the proxy to the following address so that it is *received* on or before 5:00 p.m. on December 2, 1987:

James Preston, C.P.A.
130 West International Airport Road
Suite 103
Anchorage, Alaska 99518

2. Appearing at the meeting in person and casting a ballot.

VOTING

As of the Record Date for the Annual Meeting, there are 225,100 Class A and 148,000 Class B shares of Common Stock outstanding. A combined total of 365,275 Class A and Class B shares are entitled to vote at the Annual Meeting. Pursuant to Section 7(h) of the Alaska Native Claims Settlement Act, the remaining shares, which are not held by Alaska Natives, are not entitled to be voted. On each issue to be voted upon, except the election of directors, shareholders are entitled to one vote for each share of common stock. In the election of directors the shareholders have the right to cumulate their votes. For a more complete explanation of cumulative voting, see "Election of Directors—Cumulative Voting."

The following schedule indicates the vote required to adopt each of the items on the Agenda:

<u>ISSUE</u>	<u>VOTE</u>
1. Proposition I Land Exchange/Lease Agreements	2/3 of all outstanding voting shares
2. Proposition II Karluk and Larsen Bay Conveyances	2/3 of all outstanding voting shares
3. Proposition III Shareholder Distribution Permanent Fund Advisory Vote	a majority of those shares voting on the Proposition
4. Election of Directors	the three candidates receiving the three highest number of votes provided their combined votes equal a majority of the votes cast

SUMMARY OF PROPOSITIONS

The following pages of this Proxy Statement summarize each of the propositions to be voted upon. Following these summaries is a more detailed description of each of the issues. In deciding how you should vote, please read these summaries and then carefully examine the additional information provided in the remainder of this Proxy Statement for your consideration.

Background to Proposed Transactions

In 1980, the shareholders of Afognak Native Corporation, Akhiok-Kaguyak, Inc., Karluk Native Corporation ("KNC"), Leisnoi, Inc., Nu-Nachk Pit, Inc., (the Village Corporation for Larsen Bay) ("NNPI") and Old Harbor Native Corporation (collectively the "Village Corporations") approved a merger of these Village Corporations with Koniag. Under the merger, Koniag acquired the assets of the Village Corporations and each shareholder of the merged Village Corporations received additional stock in Koniag. The assets of these Village Corporations included approximately 300,000 acres of lands which were conveyed or to be conveyed under the Alaska Native Claims Settlement Act ("ANCSA") in the Kodiak National Wildlife Refuge ("KNWR"). Subsequently, shareholders on behalf of Afognak Native Corporation, Akhiok-Kaguyak, Inc., Leisnoi, Inc., and Old Harbor Native Corporation sued to set aside the merger with respect to their respective Village Corporations.

While this litigation was pending, the then administration of Koniag entered into discussions with the United States Department of Interior ("DOI") regarding the conveyance by Koniag to the United States Government of approximately all of the lands in KNWR (approximately 300,000 acres) which Koniag had acquired under the merger. Legislation was introduced in Congress which provided for the acquisition of these lands by the United States Government in exchange for its issuance of "OCS Bid Credits" in an amount equal to the value of the lands. The OCS Bid Credits were to be accepted by the United States in payment of lease bonuses and other amounts due under federal leases of oil and gas interests in outer continental shelf lands. In 1982, Koniag entered into an agreement with Chevron U.S.A., Inc. ("Chevron") for the sale of such OCS Bid Credits (See "Proposition I—Lease Agreements—Certain Transactions"). In 1983, after the management of Koniag had changed, the Board of Directors withdrew its support of the OCS Bid Credit Legislation which resulted in the legislation being withdrawn from consideration by the Senate after it had passed the House of Representatives.

The new management of Koniag also entered into a court approved settlement agreement of the litigation regarding the merger. Under that settlement, the merger between Koniag and the four corporations represented by the plaintiffs was set aside and the assets of these four Village Corporations were returned to them. The merger between Koniag, KNC and NNPI (the "Merger"), which was not challenged in the litigation, was not affected by the settlement. As the result of this Merger, Koniag either owns or has the right to receive conveyance under ANCSA to 125,520 acres of land in KNWR. See "Proposition I—Exchange—Background."

AREAS TO BE CONVEYED UNDER PROPOSITION I. & II.

- Lands to be Exchanged with the United States (Prop. I.)
- Lands to Karluk (Prop. II)
- ▨ Lands to Larsen Bay (Prop. II.)

NOTE:
Because of the small map scale all three
categories above contain lands
already quit claimed in
January, 1986.

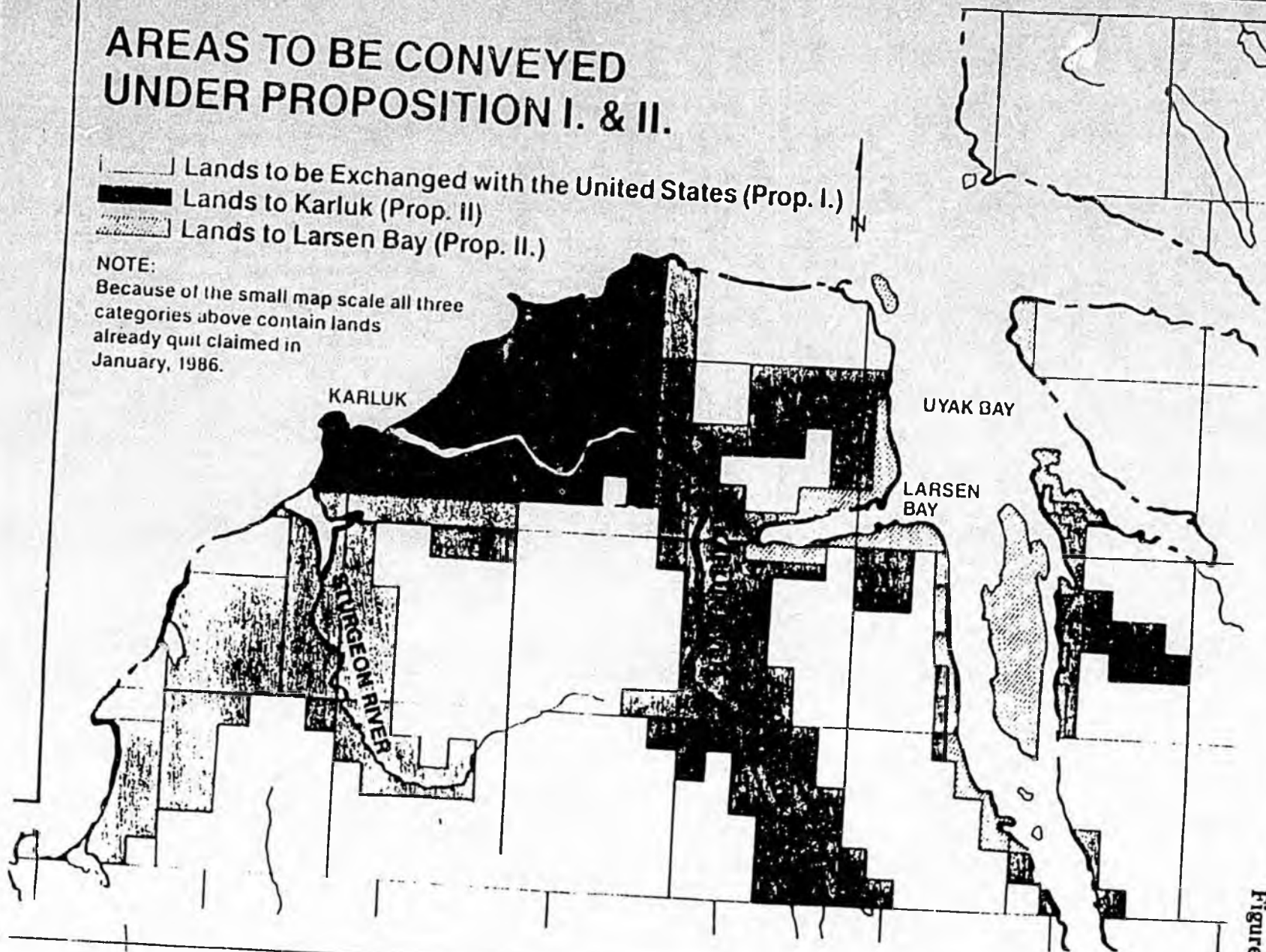


Figure 1

SUMMARY OF PROPOSITION I—PROPOSED EXCHANGE AND LEASE AGREEMENTS.

Introduction

~~Koniag and DOI have reached an agreement in principle (hereinafter "Exchange Agreement") providing for Koniag to exchange 112,564 acres of land owned by or to be conveyed to the KNWR for certain rights to explore, develop and produce the oil and gas which may be under certain lands in the Arctic National Wildlife Refuge ("ANWR") (such rights hereinafter "Oil and Gas EDP Interests" and such proposed exchange hereinafter "Exchange").~~ Koniag has also negotiated certain agreements with Chevron, Standard Alaska Petroleum Company ("Standard") and BP Alaska Exploration, Inc. ("BPAE") (Chevron, Standard and BPAE hereinafter the "Chevron Group") and with Phillips Petroleum Company ("Phillips") under which Koniag would grant to the Chevron Group and Phillips the right to lease the Oil and Gas EDP Interests from Koniag. As payment for granting those rights to the Chevron Group and to Phillips, Koniag would receive payments in the amount of approximately \$58,300,000 in cash and a 20% royalty interest in any oil or gas produced from the lands in ANWR which are subject to Koniag's Oil and Gas EDP Interest. The royalty interest would have no value if no oil or gas were produced from these lands.

Under Alaska law, any exchange or lease of all or substantially all of a corporation's assets which is not made in the ordinary course of business must be submitted to the shareholders for approval by two-thirds of the outstanding shares. While the Board of Directors believes that the Exchange Agreement and lease agreements may not involve all or substantially all of Koniag's assets, it has determined, because of the significance of these transactions to Koniag and its shareholders, to condition the Board's approval of the transactions on their approval by two-thirds of the outstanding voting shares. If less than two-thirds of all of the outstanding voting shares of Koniag fail to vote in favor of authorizing the Exchange Agreement and ratifying the lease agreements, Koniag will not carry out the Exchange Agreement and the lease agreements will terminate. Because passage is determined by two-thirds of the total shares eligible to vote, and not just those voting, *the failure of a shareholder to return a proxy or to vote on this Proposition, if in attendance, will have the same effect as a vote against the Proposition.*

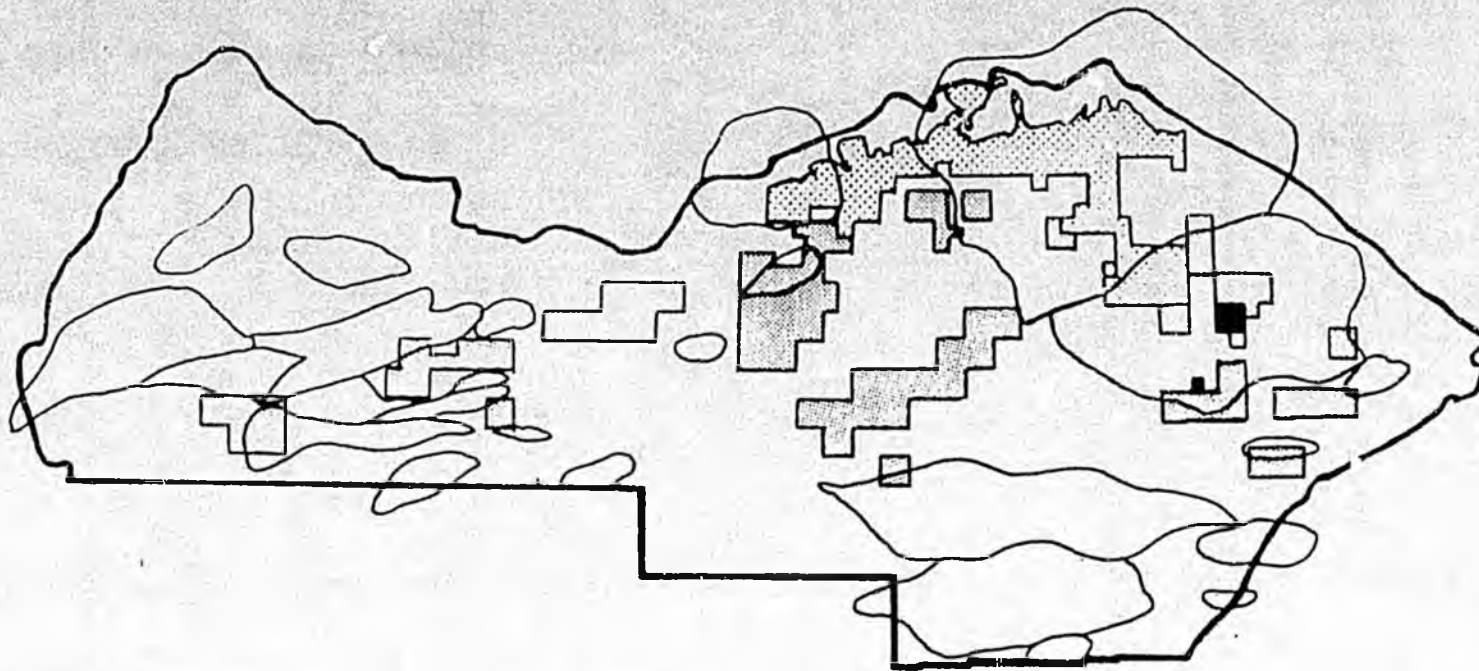
Summary of Proposed Exchange With DOI

Koniag, along with other Native Regional and Village Corporations (including Old Harbor Native Corporation and Akhiok-Kaguyak, Inc., within the Koniag region), has been in negotiations with DOI regarding the possible exchange of lands owned by the corporations for the right to explore for oil and gas under certain lands in the Coastal Plain of ANWR and to develop and produce any oil and gas which may be found there. The objective of these negotiations has been that the Koniag lands and the Oil and Gas EDP Interests to be exchanged should be of approximately equal value.

While a formal exchange agreement between DOI and Koniag has not been executed, Koniag and DOI have agreed in principle on the Exchange Agreement regarding the terms of the Exchange, the lands to be conveyed by Koniag to the United States and the Oil and Gas EDP Interests that Koniag would receive if the Exchange were completed.

— Under the Exchange Agreement, Koniag would convey to the United States Government the surface estate of 112,564 acres in KNWR (hereinafter "Koniag Exchange Lands"). These lands are shown on the map designated as Figure 1. While the Exchange Agreement would require Koniag to convey title to the Koniag Exchange Lands, Koniag

**ARCTIC NATIONAL WILDLIFE REFUGE - 1002 AREA
TRACTS IDENTIFIED BY NATIVE CORPORATIONS FOR EXCHANGE**



-  Existing Kaktovik Inupiat Corp. Conveyance
-  Koniag Identified Tracts
-  Other Native Corporation Identifications
-  Seismically Mapped Structures

0 MILES 20

0 KILOMETERS 32

DATA SOURCE
BUREAU OF LAND MANAGEMENT
JULY 1987

Figure 2

would retain an easement on these lands which would preserve for the residents of Karluk and Larsen Bay access to the lands conveyed for essentially the same hunting, fishing and subsistence uses they now enjoy. (See "Proposition I—Proposed Exchange—Koniag Exchange Lands.") Excluding the lands to be exchanged, Koniag would retain approximately 51,862 acres of the land acquired from KNC and NNPI under the Merger, after it has satisfied its responsibilities to make the conveyances under Section 14(c) of ANCSA and the Plan of Merger. These retained acres are the subject of Proposition II proposing their conveyance to the tribal governments of Karluk and Larsen Bay or their designees. See "Proposition II—Proposed Conveyances to Karluk and Larsen Bay."

After extensive negotiations, Koniag and DOI arrived at an attributed value of \$77,442,711 for the lands to be conveyed by Koniag, which attributed value may be more or less than the fair market value of the lands. See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands." To assist in its negotiations with DOI, Koniag obtained valuations of the Koniag Exchange Lands from the United States Fish and Wildlife Service ("FWS") and from consultants retained by Koniag. FWS had a conflict of interest in performing its valuation since it is a part of DOI, which is proposing to acquire the Koniag Exchange Lands. In any case, the valuations are of limited usefulness. See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands."

Through a tract identification process completed in early July, 1987, Koniag (with the assistance of the Chevron Group and the concurrence of Phillips) identified tracts of land in ANWR comprising approximately 3,186 acres, the Oil and Gas EDP Interests in which Koniag will receive if the Exchange is completed. See Figure 2 and "Proposition I—Proposed Exchange—Tract Selection Process."

The Oil and Gas EDP Interests were valued by DOI at \$77,394,000, based upon the lands' potential for oil and gas development. See "Proposition I—Proposed Exchange—Receipt of Oil and Gas EDP Interests." DOI had a conflict of interest in performing this valuation since it is using the rights that it is valuing to pay for the lands being obtained from Koniag. There is no assurance that there is any oil and gas beneath the lands to which the Oil and Gas EDP Interests pertain. See "Proposition I—Risk Factors" and "Proposition I—Proposed Exchange—Receipt of Oil and Gas EDP Interests."

The Exchange will not occur unless Congress takes action to approve legislation which authorizes further oil and gas exploration, development and production in the Coastal Plain of ANWR and which approves the Exchange Agreement itself. This process could take several years. See "Proposition I—Proposed Exchange—Congressional Action." Hearings on opening ANWR to oil and gas exploration, development and production have already occurred. However before DOI can propose to Congress that it approve the Exchange, DOI must perform a Legislative Environmental Impact Study ("LEIS"). Work on the LEIS has been suspended at the present time and it would take approximately six months or more to complete the LEIS once the work is resumed. Until such time as the LEIS is completed, formal agreements implementing the Exchange Agreement will not be executed by the Secretary of the Interior. There is also presently pending a lawsuit brought by certain environmental groups seeking to stop the Exchange process, including the preparation of the LEIS, until after Congress has decided whether or not to permit further oil and gas operations in ANWR. Koniag has intervened in this lawsuit and at the present time its outcome cannot be predicted. See "Proposition I—Litigation Affecting the Exchange." *

Summary of Lease Agreements With Oil Companies

In 1985, when Koniag first began discussions with DOI regarding the Exchange, it became apparent that Koniag did not have the expertise to select tracts in ANWR which had the best oil and gas potential, and that the negotiation process could be long and expensive. Consequently, the Board of Directors decided to enter into an agreement with an oil company which would provide the expertise and financial support necessary to negotiate the Exchange and which would grant to the oil company the right to lease from Koniag some or all of the Oil and Gas EDP Interests obtained in the Exchange. After a series of negotiations with the Chevron Group as well as other companies, Koniag entered into an agreement with the Chevron Group in December of 1985. The Chevron Group was ultimately selected for two reasons: first, at the time of the agreement, its proposal provided the most bonus monies (i.e., up-front payments not based upon a share of production) as well as royalty share to Koniag and, second, the members of the Chevron Group were the only companies that had any data from a well drilled in the Coastal Plain of ANWR, and thus it was believed that they could give Koniag the best advice on land selection in ANWR. As the negotiations with DOI progressed it became apparent that Koniag would receive Oil and Gas EDP Interests on less land than it originally had anticipated. Because of the structure of the agreement with the Chevron Group, this would result in Koniag receiving lower lease bonuses than was acceptable to the Board of Directors. As the result of further negotiations with the Chevron Group, the Chevron Group agreed to reduce its future leasehold rights to an undivided 51% interest and permit Koniag to enter into another transaction with respect to the remaining 49% interest. After negotiations with other oil companies, in July, 1987, Koniag entered into an agreement with Phillips ("Phillips Agreement"). See "Proposition I—Lease Agreements—Background of Lease Agreements."

Under the Lease Acquisition Agreement with the Chevron Group, as amended by provisions for the reduction (the "Reduction") of the Chevron Group's interest to 51% ("LAA"), the Chevron Group paid Koniag \$1,000,000 upon the execution of the LAA in 1985 (which amount includes an overpayment of \$490,000 arising from the Reduction). Koniag has also received \$633,254 (which amount includes an overpayment of \$310,294 arising from the Reduction) from the Chevron Group as interest on an assumed principal balance of an escrow account. The Chevron Group is to make additional payments of \$1,020,000 upon the occurrence of certain events, a portion of which amount will be credited against the lease bonuses. See "Proposition I—Lease Acquisition Agreement—Payments by Chevron Group." If Congress authorizes the opening of ANWR and approves the Exchange Agreement on conditions satisfactory to the Chevron Group, the Chevron Group will pay Koniag the sum of \$1,842,630 as lease bonuses before the application of any credits or adjustments. Of this amount, \$276,395 will be paid upon the issuance of leases by Koniag to the Chevron Group of the Oil and Gas EDP Interests, and \$1,566,235 upon the Chevron Group's approval of the regulations issued by DOI governing operations. If the Chevron Group receives the right to drill an exploratory well in connection with its leases from Koniag and there is at least two years between the time the authorization to drill could be obtained and the time of a first lease sale by the United States Government of unleased lands within six miles of such well, the amount of the lease bonuses will be increased by ten percent (10%). If the Chevron Group actually drills a well before a lease sale it will pay Koniag the sum of \$1,530,000. Koniag is also entitled to receive an overriding royalty interest and payments from production of varying amounts from certain other interests which may be acquired by the Chevron Group. See "Proposition I—Lease Acquisition Agreement—Payments by Chevron Group."

Under the Phillips Agreement, Phillips paid to Koniag the sum of \$1,000,000 upon execution. Phillips will make a further payment to Koniag of \$7,250,000 upon Phillips' approval of legislation enacted by Congress opening ANWR and approving the Exchange Agreement, a payment of \$27,500,000 upon the issuance by Koniag of leases of the Oil and Gas EDP Interests to Phillips and a payment of \$19,250,000 upon the third anniversary of the issuance of such leases. The total amount of payments due Koniag from Phillips is \$55,000,000. See "Proposition I—Phillips Agreement—Payments by Phillips."

If leases are issued, they will be held 51% by Chevron Group and 49% by Phillips with Chevron being the operator of any such leases. Under the leases Koniag will be paid a royalty of 20% of the value of all oil and gas produced (based upon a field price or, if there is none, determined by a formula) or, at its election, Koniag may take in kind 20% of the oil and gas produced. At the time the lessees under the leases have received from production an amount equal to the total of certain costs and expenses, and interest thereon, related to the leases granted by Koniag, Koniag can elect to convert its 20% royalty interest to 30% of the net profits from the operations under the lease; at the time the lessees have received twice such costs and expenses, Koniag can elect to convert its 20% royalty interest or 30% net profits interest, as the case may be, in the operations under the lease to a 40% net profits interest. At the present time it has not yet been determined whether the costs and expenses of the Chevron Group and Phillips will be accounted for separate or in the aggregate in determining when this right is exercisable. Once a conversion is made to a net profits interest, Koniag cannot return to a royalty calculation. See "Proposition I—Lease Acquisition Agreement—Terms of Koniag ANWR Leases" and "Proposition I—Phillips Agreement—Koniag ANWR Leases."

The proceeds received to date under the LAA and the Phillips Agreement (collectively the "Lease Agreements") have been used to defray the cost of negotiations of the Exchange Agreement, and the operations of Koniag. The Board of Directors has not developed a long term plan for the use or investment of the total proceeds other than the proposal being submitted herewith for a Shareholder Distribution Permanent Fund. See "Proposition I—Lease Agreement—Use of Proceeds by Koniag."

Pursuant to Proposition I, the Board of Directors will be authorized to enter into such amendments of the Lease Agreements as it determines to be advisable. Except as specified in the next sentence, it will also have the right to authorize such amendments of the Exchange Agreement as it determines advisable. However, it will be able to authorize material amendments to the terms of the Oil and Gas EDP Interests to be granted under the Exchange Agreement only in response to a request of the Secretary of the Interior arising from the findings of the LEIS or to legislation which is enacted by Congress.

For further information on the tax and accounting treatment of the Exchange and Lease Agreements, see "Proposition I—Financial Effects of the Proposed Exchange and Lease Agreements."

Summary of Risk Factors

There are a number of potential risks associated with the Exchange Agreement and the Lease Agreements. These include: (i) uncertainties concerning the valuations of the Oil and Gas EDP Interests and the Koniag lands to be exchanged for them (and the DOI and FWS conflicts of interest with respect to their value); (ii) the possibility that DOI will fail to execute the Exchange Agreement; (iii) the possibility that Congress will fail either to open ANWR to oil and gas development or to authorize the Exchange Agreement; (iv) the possibility that such legislation, if enacted, might not be acceptable to the Chevron Group or Phillips; (v) the possibility that the regulations promulgated under the legislation which

opens the Koniag ANWR Lands to oil and gas development might not be acceptable to the Chevron Group; (vi) the possibility that revenues received from the Oil and Gas EDP Interests may be subject to the provisions of Section 7(i) of ANCSA pursuant to an arbitration by Sealaska Corporation against Koniag; (vii) the possibility that litigation by environmental groups may delay or prevent exploration of the Oil and Gas EDP Interests; (viii) the risk that no oil or gas will be found that can be produced and transported economically and in accordance with applicable environmental and other regulations; (ix) the possibility that the economic return from any oil and gas discovery may not be sufficient to warrant conversion by Koniag of its royalty interest to a net profits interest under the leases of the Oil and Gas EDP Interests; (x) the possibility that Phillips and the Chevron Group may terminate the leases of the Oil and Gas EDP Interests before any exploration occurs; and (xi) the risk that Koniag may be responsible for performing final reclamation activities on the Koniag ANWR Lands if they are not performed by Phillips and the Chevron Group. These risks as well as others are discussed in more detail in the section entitled "Risk Factors" which should be carefully reviewed.

SUMMARY OF PROPOSITION II—PROPOSED CONVEYANCES TO KARLUK AND LARSEN BAY.

The second proposition submitted for shareholder approval is the authorization for Koniag to convey approximately 34,186 acres of land in the vicinity of Karluk, Alaska to the Karluk Indian Reorganization Act Council or its designee and approximately 17,676 acres of land in the vicinity of Larsen Bay, Alaska to the Traditional Tribal Council of Larsen Bay or its designee. The lands in question were received by Koniag as the result of the Merger with KNC and NNPI, the Village Corporations for Karluk and Larsen Bay. Based on an estimate by Dirksen that extrapolates from (and relies on the methodology of) the appraisal performed by FWS, which appraisal did not include most of these lands, the lands have an estimated "highest and best use" value of approximately \$8,450,000 (excluding any impact of Section 22(g) of ANCSA and any consideration of the exchange value of the lands to DOI). See "Proposition II—Proposed Authority to Convey—Scope of Proposed Authority to Convey." The conveyances would be made without Koniag receiving any consideration for them.

The conveyances are proposed to be made only after certain conditions have been met: (i) the consummation of the Exchange with DOI (which consummation cannot occur without the approval of Proposition I by the Koniag shareholders) and (ii) the passage of federal legislation satisfactory to Koniag granting to Koniag the authority to make the conveyances and resolving certain other issues, including tax considerations. See "Proposition II—Proposed Authority to Convey—Conditions Upon Issuance of Conveyances."

The Board of Directors has been advised by legal counsel that it is unclear whether, in the absence of special legislation, Koniag has legal authority to transfer the lands in question without receiving fair market value payment in return.

The Board of Directors believes that the conveyances would result in better relationships between Koniag and the former shareholders of KNC and NNPI. It would also provide the opportunity for these former shareholders, acting through their tribal governments or their designees, to have approximately the same level of control over the lands which are adjacent to their villages as are enjoyed by the shareholders of other Village Corporations in the Koniag region. The land which may be conveyed shall revert to Koniag if certain events occur. See "Proposition II—Proposed Authority to Convey—Reverter Provisions."

For a discussion of the risks involved in making such conveyances and their financial and tax consequences, see "Proposition II—Financial Effects of the Proposed Conveyances."

Because the conveyances could be considered a transfer of a significant amount of Koniag's assets, and thereby affect the value of the shareholders' interests in Koniag, and because the conveyances could be claimed to disproportionately benefit certain Koniag shareholders (those residing in Karluk and Larsen Bay), the Board of Directors believes that it should not proceed with them, nor seek the necessary legislative authority for them, unless they are authorized by the vote of two-thirds of the outstanding voting shares of Koniag entitled to vote at the Annual Shareholders Meeting.

SUMMARY OF PROPOSITION III—SHAREHOLDER DISTRIBUTION PERMANENT FUND PROPOSAL.

The third matter to be submitted to the shareholders is an advisory vote being requested by the Board of Directors for guidance as to whether to commit further time and money to the development of a formal proposal for the creation of a shareholder distribution permanent fund and, if the Board deems it advisable, the promotion of special legislation authorizing the creation of the fund. The fund's purpose would be to make annual distributions to the present shareholders and their heirs, irrespective of whether or not they may be shareholders of Koniag after 1991. If a majority of the shares voting on the proposition favors its adoption, the Board of Directors will seek to develop a proposal for such a fund for submission for formal approval by the shareholders. **NO FUND WILL BE ESTABLISHED AT THIS TIME. IT IS PRESENTLY CONTEMPLATED THAT ANY SUCH FUND WOULD BE CREATED ONLY AFTER A SHAREHOLDER VOTE APPROVING A FORMAL PROPOSAL.**

The Board of Directors believes that if the Exchange occurs, a portion of the monies received by Koniag from the Lease Agreements could be used to set up the fund. The fund could be further capitalized by contributing to it a significant undivided interest (which may be less than 50%) in Oil and Gas EDP Interests so that a portion of any royalty or net profit interest which might be generated would be owned by and flow directly to the fund. It is the present Board of Directors' intention that the fund be managed by professional financial managers and that the fund be independent of Koniag and the control of any Board of Directors after its creation.

There are significant legal and tax consequences to be considered and policy determinations to be made before a formal proposal can be prepared and submitted. Special legislation may be required in order to achieve the fund's intended benefits. If the Board deems it advisable such legislation would be sought as part of the legislation authorizing the Exchange. The Board of Directors does not want to proceed with the development of such a concept and the pursuit of such legislation unless such further action is authorized by a majority of the shareholders voting on the proposition.

Because of tax and legal considerations, it may not be possible to develop a viable proposal for the creation of such a fund. **IN VOTING UPON THIS PROPOSITION AND THE OTHERS SUBMITTED ON THE AGENDA, YOU SHOULD NOT RELY UPON THE ESTABLISHMENT OF THE FUND IN DETERMINING HOW TO CAST YOUR VOTES.**

EXTENT OF SUMMARY

The foregoing briefly summarizes the issues upon which the Shareholders are requested to vote at the Annual Meeting. The summary is qualified in its entirety by the more detailed description contained elsewhere in this Proxy Statement.

PROPOSITION I—PROPOSED EXCHANGE AND LEASE AGREEMENTS

STATEMENT OF PROPOSITION I

Proposition I states:

IT IS NOW RESOLVED by the shareholders of Koniag, Inc. (i) that the Board of Directors of Koniag, Inc. be and hereby is authorized and empowered to authorize the execution and performance by Koniag, Inc. of an exchange agreement ("Exchange Agreement") with the United States Government for the exchange of the interest in the surface estate of approximately 112,564 acres of land owned by or to be conveyed to Koniag, Inc. within the Kodiak National Wildlife Refuge for certain oil and gas exploration, development and production rights held by the United States Government in certain lands in the Arctic National Wildlife Refuge, and that all acts taken by the Board with respect to the Exchange Agreement are hereby ratified, (ii) that that certain Lease Acquisition Agreement dated December 17, 1985, by and between Koniag, Inc. and Chevron U.S.A., Inc., Standard Alaska Production Company, and BP Alaska Exploration, Inc. ("LAA") and that certain Agreement dated July 1, 1987, by and between Koniag, Inc. and Phillips Petroleum Company ("Phillips Agreement"), and any amendments to either be and hereby are ratified, and (iii) that the Board of Directors be and hereby is authorized and empowered to authorize the execution of any amendments to the Exchange Agreement, the LAA or the Phillips Agreement; provided, however, that any material amendments to the Exchange Agreement with respect to the interests to be conveyed to Koniag, Inc. by the United States Government may be authorized only if in response either to a request made by the Secretary of the Interior arising from the findings of the legislative environmental impact statement or to legislation enacted by Congress.

EXCHANGE

Background of Proposed Exchange

As a result of the Merger between Koniag and KNC and NNPI, Koniag succeeded to the rights of these Village Corporations under ANCSA to certain land entitlements. Among these rights was the right to receive conveyances from the United States Government of approximately 125,520 acres of land in KNWR, which lands had been selected by KNC and NNPI prior to the Merger, and which include some of the most critical habitat for brown bear in KNWR, being described by some as the heart of KNWR.

In 1985, the present management of Koniag, upon authorization from the Board of Directors, began discussions with DOI regarding the acquisition by the United States Government of a portion of the lands in KNWR which had been or would be acquired by Koniag as the successor-in-interest to KNC and NNPI. Any significant development of the lands proposed to be exchanged would directly conflict with the traditional use of them by the shareholder residents of Karluk and Larsen Bay. Because these lands were part of KNWR before their conveyance under ANCSA, they are subject to the provisions of Section 22(g) of ANCSA, which provides for the reservation to the United States Government of a right of first refusal if such lands are ever sold and for a requirement that the lands be subject to the laws and regulations governing use and development of KNWR. Pursuant to the implementing regulations, such lands may be used and developed so long as such uses will not materially impair the values for which the refuge was established. Because the lands proposed to be exchanged by Koniag comprise some of the most important brown bear habitat in KNWR, FWS in its draft Comprehensive Conservation Plan for KNWR ("CCP") proposed a system of protection levels to be imposed on the Koniag Exchange Lands which would result in fairly stringent limitations being placed on the activities which could occur on these lands. Many of the lands were proposed to be classified in a manner to preclude any development of them which would disturb their surface or result in any structures being erected upon them. While the final CCP dropped the concept of pre-established protection levels or zones, it nevertheless retained the concept that any use or development of these lands would be extremely limited.

Thus, given the potential restrictions on Koniag's use of the lands, the Board of Directors determined that if the existing rights of the residents of Karluk and Larsen Bay to use the lands for traditional purposes could be preserved, the exchange of these lands for other property with a greater development potential would be in the best interests of all of the shareholders.

Concurrent with these discussions with DOI, DOI was preparing a legislative environmental impact statement for Congress on the question of further oil and gas exploration, development and production in the Coastal Plain of ANWR. A study of the wildlife resources and mineral potential of the Coastal Plain was mandated by Section 1002 of the Alaska National Interest Lands Conservation Act ("ANILCA") enacted in 1980. As part of that report, a seismic study was performed which was funded by twenty-two members of the oil and gas industry including the Chevron Group and Phillips. A draft report was subsequently released in November 1986, and the final report was sent to Congress in April 1987. The Secretary of the Interior has recommended leasing the entire Coastal Plain for the exploration, development and production of oil and gas with appropriate stipulations to protect the environment.

The Coastal Plain of ANWR is located on the northeastern edge of Alaska, bordered by the Beaufort Sea. Its mineral potential was described in the report to Congress as follows:

The 1002 area [Coastal Plain of ANWR] is the Nation's best single opportunity to increase significantly domestic oil production. It is treated by geologists as the most outstanding petroleum exploration target in the onshore United States. Data from nearby wells in the Prudhoe Bay area and in the Canadian Beaufort Sea and Mackenzie Delta, combined with promising seismic data gathered on the 1002 area, indicate extensions of producing trends and other geologic conditions exceptionally favorable for discovery of one or more supergiant fields (larger than 500 million barrels). (Arctic National Wildlife Refuge, Alaska Coastal Plain Resource Assessment, Report and Recommendation to the Congress/Final Legislative Environmental Impact Statement, April, 1987. Prepared by the U.S. Fish and Wildlife Service, in cooperation with the U.S. Geological Survey and the Bureau of Land Management, Department of the DOI.)

However, notwithstanding such belief of DOI, there is no assurance that there is in fact oil and gas in the 1002 area, or on any of the lands in which Koniag may acquire an interest.

The Koniag/DOI negotiations for an exchange were subsequently joined by Doyon Limited (a Regional Corporation for the Interior of Alaska), Gana-a'Yoo Limited (a Doyon region Village Corporation), the Native Lands Group (a partnership comprised of Cook Inlet Region Inc., Aleut Corporation, and eleven Village Corporations) as well as Old Harbor Native Corporation and Akhiok-Kaguyak Inc., which are two Village Corporations in the Koniag region. These exchanges would allow DOI to acquire Native lands in environmentally significant areas and allow Alaska Natives to acquire potentially valuable rights to explore, develop and produce any oil and gas which might be found on certain lands in ANWR.

Proposed Exchange

1. *Koniag Exchange Lands*

The Koniag Exchange Lands consist of approximately 112,564 acres of surface estate of land in KNWR primarily in the areas of Karluk River and Sturgeon River drainages. The Koniag Exchange Lands are shown on the map designated as Figure 1 in this Proxy Statement. Koniag will convey to the United States Government the Koniag Exchange Lands for which a conveyance has been issued by the United States Government under ANCSA, and will relinquish its right to receive title to the Koniag Exchange Lands which have yet to be conveyed to it. The Koniag Exchange Lands have not yet been surveyed and, therefore, the actual acreage may vary slightly after a final survey is performed.

An essential feature of the proposed exchange is the retention by Koniag of an easement covering all Koniag Exchange Lands which will grant to the residents of Karluk and Larsen Bay the right of access to enter upon and cross the Koniag Exchange Lands for the purpose of engaging in customary and traditional uses of wild, renewable resources for direct personal or family

consumption of food, shelter, fuel, clothing, tools or transportation; for making and selling of handicraft articles out of non-edible byproducts of fish and wildlife resources taken for personal or family consumption; for barter, or sharing for personal or family consumption; and for customary trade ("Subsistence Access Easement"). The Subsistence Access Easement is intended to permit the residents of Karluk and Larsen Bay to continue their existing use of the Koniag Exchange Lands for subsistence and traditional purposes. The Subsistence Access Easement, however, does not guarantee the right to take wildlife. That right is now, and will continue to be, regulated by state and federal law; even if Koniag were to retain title to the Koniag Exchange Lands, it would not be able to enlarge upon the rights granted under those laws.

2. Receipt of Oil and Gas EDP Interests

In exchange for the Koniag Exchange Lands, the DOI will convey to Koniag all right, title and interest of the United States Government in and to the Oil and Gas EDP Interests pertaining to lands identified by Koniag in ANWR ("Koniag ANWR Lands"), including the right to explore and prospect for oil and gas, to drill wells, to produce oil and gas from the wells, and generally to do all things necessary toward the recovery of any oil and gas discovered on the Koniag ANWR Lands. The Koniag ANWR Lands are shown on the map designated as Figure 2 in this Proxy Statement, the legal descriptions of which are Sections 3, 4, 9 and 10, T.6 N., R.37 E., Umiat Meridian, and Section 31, T.6 N., R.37 E., Umiat Meridian. DOI will also grant to Koniag the right to use the surface of the Koniag ANWR Lands for the recovery and production of the oil and gas acquired by Koniag. These rights also include certain rights of access across other lands in ANWR, the right to remove and use sand and gravel from ANWR lands at a reasonable price and certain limited water rights, if such rights should be found to exist. All of these Oil and Gas EDP Interests granted to Koniag are subject to certain environmental stipulations which will govern the activities of Koniag or its oil company lessees in ANWR, and are subject to such other terms and conditions as Congress may require generally in any legislation which authorizes further oil and gas activities in ANWR. The environmental restrictions are attached as Appendix 4 to the Exchange Agreement and will be superseded by any regulations adopted by DOI in conjunction with the issuance and supervision of federal leases in ANWR, and which govern oil and gas activities in ANWR generally.

The Oil and Gas EDP Interests in the Koniag ANWR Lands are subject to the claims of the State of Alaska for title to lands beneath navigable water bodies. Koniag knows of no water bodies on the Koniag ANWR Lands which have been determined to be navigable or with respect to which the State has asserted a claim. If such a claim is asserted and is upheld by the courts, then the State of Alaska would own that portion of the Koniag ANWR Lands beneath the navigable water body and Koniag would not own any interest in the oil or gas which may be within such State-owned lands nor would it have a claim against the United States Government for conveying less than all of the interests in the Koniag ANWR Lands.

The Oil and Gas EDP Interests are not granted in perpetuity but will terminate upon the completion of the reclamation of the Koniag ANWR Lands; this reclamation must commence within two years following the last of (i) December 31, 2030; (ii) the 25th anniversary of the date of first commercial oil or gas production from the Koniag ANWR Lands; or (iii) the cessation of production from such lands if certain further oil and gas activities are not commenced within two years of such cessation.

The Koniag ANWR Lands comprise two tracts of land in ANWR totalling 3,186 acres and the Oil and Gas EDP Interests in these tracts have a value determined by DOI to be \$77,394,000. This valuation determination was made by DOI based upon its assessment of the lands' value for oil and gas. This valuation was not subject to negotiation. Since DOI was valuing both the Oil and Gas EDP Interests and the Koniag Exchange Lands (see "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands"), it is apparent that acceptance of the DOI assessment and value should be subject to a degree of caution. DOI, however, has represented that in valuing the Oil and Gas EDP Interests it has applied the same methodology which it would utilize in other situations in dealing with these interests on behalf of the United States. PLEASE TAKE NOTE that the Board of Directors has not sought any independent evaluation of the fairness of the value which the DOI placed on the Oil and Gas EDP Interests in the Koniag ANWR Lands. In

transactions involving dollar amounts as large as those involved in the Exchange, a corporation would typically have an investment banking institution evaluate and issue an opinion as to the fairness of the consideration involved in the transaction. However, the Board of Directors has been advised by Tom Cantwell, a geological consultant, that the cost of acquiring the available unprocessed geophysical data for the Coastal Plain would be approximately \$3,400,000 and that the cost of analyzing such data would be an additional \$500,000 to \$1,000,000. Because of the cost and difficulty in acquiring and analyzing the geological and geophysical data to make such evaluation, the Board of Directors instead has obtained from DOI its representation that, in determining the value of the Oil and Gas EDP Interests, DOI utilized the same methodology which it customarily follows in valuing oil and gas interests for the purpose of establishing the minimum acceptable bid in a federal lease sale of such interests, and that the DOI valuation of the Oil and Gas EDP Interests is equal to such minimum acceptable bid plus an amount equal to the net present value of the estimated anticipated royalty interest which customarily would have been reserved to the United States Government under a federal lease (which royalty interest is less than that to be reserved to Koniag under the Lease Agreements), which interest will not be reserved in the transfer of the Oil and Gas EDP interests to Koniag. In addition, as described below, Koniag has structured its Lease Agreements with the Chevron Group and Phillips to assure Koniag that it will receive a minimum of approximately \$58,300,000 if the transactions contemplated in this Proposition I are consummated. Receipt of this \$58,300,000 is not contingent on any discovery of oil or gas, and the Board has separately assessed these transactions on the assumption that this amount may comprise the total payment received by Koniag.

THE DOI HAS MADE NO REPRESENTATIONS OR WARRANTIES AS TO THE EXISTENCE, LOCATION, PRODUCIBILITY, QUANTITY OR QUALITY OF OIL AND GAS RESOURCES IN OR UNDER ANY OF THE KONIAG ANWR LANDS. THEREFORE, KONIAG, AND TO THE EXTENT PROVIDED IN THE LEASE AGREEMENTS, THE CHEVRON GROUP AND PHILLIPS, WILL BEAR THE ENTIRE RISK AS TO THE EXISTENCE, LOCATION, PRODUCIBILITY, QUANTITY OR QUALITY OF OIL AND GAS RESOURCES IN OR UNDER THE KONIAG ANWR LANDS.

3. *Congressional Action*

If the Exchange Agreement is executed by the Secretary of the Interior (see "Proposition I—Risk Factors"), it will be submitted to Congress for ratification and approval. Until and unless legislation is enacted which ratifies and approves it (such legislation hereinafter as "Exchange Legislation"), the Exchange will not be carried out by the United States Government and Koniag.

The Exchange is further conditioned upon Congress enacting legislation which opens the Koniag ANWR Lands for further exploration, development and production of oil or oil and gas ("Opening Legislation"). Whether Opening Legislation will be enacted and, if so, whether the legislation will be in a form satisfactory to Koniag, is presently unknown. At the present time, all of the Coastal Plain, including the Koniag ANWR Lands, is closed to any further oil and gas exploration and to all oil and gas development and production. Congress is presently holding hearings on the DOI recommendation to open the Coastal Plain of ANWR, including the Koniag ANWR Lands, to further oil and gas exploration, development and production.

4. *Tract Selection Process*

On June 16, 1987, Koniag entered into the ANWR Tract Identification Agreement with the DOI and certain other Native Corporations ("Tract Agreement"), which provided for the mechanism pursuant to which Koniag identified Koniag ANWR Lands.

The selection of the Koniag ANWR Lands was made by Koniag upon the recommendation of the Chevron Group and with the concurrence of Phillips. While there were a number of tracts which were available for selection by Koniag and which had been nominated for consideration by

Koniag (such nominations having been made with the advice of the Chevron Group), Koniag was limited as to the tracts it could select in this process in that it could not select tracts which had a cumulative value in excess of the value of the Koniag Exchange Lands. NEITHER THE CHEVRON GROUP NOR PHILLIPS MADE ANY REPRESENTATIONS OR WARRANTIES AS TO THE EXISTENCE, LOCATION, PRODUCIBILITY, QUANTITY OR QUALITY OF OIL AND GAS RESOURCES IN OR UNDER ANY OF THE KONIAG ANWR LANDS. THEREFORE, INsofar AS KONIAG'S 20% ROYALTY INTEREST IS CONCERNED, KONIAG WILL BEAR THE ENTIRE RISK AS TO THE EXISTENCE, LOCATION, PRODUCIBILITY, QUANTITY OR QUALITY OF OIL AND GAS RESOURCES IN OR UNDER THE KONIAG ANWR LANDS.

PLEASE TAKE NOTE that a copy of the Tract Agreement can be reviewed at the business offices of Koniag during regular business hours. A copy of the Tract Agreement will be sent to you upon request.

5. *Valuation of Koniag Exchange Lands*

The major factor bearing upon the fairness of the consideration to be received by Koniag from DOI is the value attributed to the Koniag Exchange Lands as the result of extensive negotiations between Koniag and DOI. This attributed value of the Koniag Exchange Lands ranges between \$170 per acre and \$850 per acre, covering a total of 112,564 acres, with a total overall attributed value of \$77,442,711 ("Exchange Land Value"). Of the Koniag Exchange Lands, 101,013 acres had attributed values ranging between \$552 per acre and \$850 per acre and the remaining 11,551 acres had attributed values ranging from \$170 per acre to \$510 per acre. In determining these attributed values Koniag and DOI have also deducted (i) a negotiated value for the retained Subsistence Access Easement equal to 2% of the gross value and (ii) a negotiated value reflecting the impact of the restrictive provisions of Section 22(g) of ANCSA equal to 13% of the gross value.

PLEASE TAKE NOTE, THE FOLLOWING DISCUSSION OF THE VALUATIONS OF THE KONIAG EXCHANGE LANDS SHOULD BE REVIEWED WITH CAUTION. As discussed below, the reliability of appraisals and other valuations in determining the market value of unique resources is always subject to question. This is especially true with respect to the Koniag Exchange Lands which are not susceptible to traditional valuation techniques and which are subject to governmental regulations whose impact has yet to be determined. An example of this, as also discussed below, is the opinion of **Dirksen Appraisal Company** that the impact of the application of Section 22(g) of ANCSA on the market value of the Koniag Exchange Lands could result in a 10% to 90% decrease in the market value of the lands. Despite these substantial uncertainties with respect to the valuations, the following discussion is included because this information was available to the Board of Directors in its deliberations and because decisions of the Alaska courts involving ANCSA corporations indicate that such appraisals may be helpful to shareholders in evaluating proposals.

The DOI caused employees of FWS to appraise the value as of November 27, 1985 of all lands owned by Koniag within KNWR including some lands which are not part of the Koniag Exchange Lands ("FWS Appraisal"). It was represented to Koniag during the course of the negotiations that the FWS Appraisal was performed using a market data approach to estimate value, and included an aerial inspection of the Koniag Exchange Lands. Under a market data approach, value is assessed by analyzing sales of similar, recently sold properties in order to arrive at the most probable sales price of the property being appraised. An abbreviated development approach was also used to estimate the value of some of the land identified as suitable for the development of recreational cabin sites. That approach focuses on the projected income from the property once it is developed. Neither approach gave any value to the unique habitat attributes of the land or the value to the public generally for having the land as part of the refuge system. Under the FWS Appraisal the estimated average value per acre is \$172.17 for a total of \$19,380,000 for the Koniag Exchange Lands. The FWS Appraisal also estimated that the effects of Section 22(g) of ANCSA would reduce the value of the Koniag Exchange Lands to \$10,320,000. Because Section 22(g) limits the uses to which the Koniag Exchange Lands may be put, an analysis of the lands' market value which is based on the value of the lands for different uses would be directly affected by Section 22(g). Land which has

land uses and upon which development is restricted, generally, will have a lower value than land without such restrictions and limitations.

After reviewing the FWS Appraisal, Koniag hired Aqua/Terra Consulting, Ltd. of Great Falls, Virginia ("Aqua/Terra") to value the public interest values of the Koniag Exchange Lands. Aqua/Terra issued a report prepared by Robert A. Jantzen, President of Aqua/Terra Consulting, Ltd. and former Director of FWS. Aqua/Terra does not perform appraisals, but has extensive experience as a wildlife habitat specialist. Aqua/Terra was not, at the time of its contract with Koniag, and is not presently, a contractor of the United States Government. Aqua/Terra also retained the services of Richard J. Hensel, former refuge manager of KNWR, in preparing and analyzing data related to the contributions to the economy derived from the Koniag Exchange Lands. Aqua/Terra was selected by Koniag based upon the recommendation of the Fish and Wildlife Foundation, a public foundation created for the purpose of acquiring lands for inclusion in the national refuge system.

The Aqua/Terra Report recommended consideration of three components in valuing the Koniag Exchange Lands: (i) the real estate value as determined by the market data approach; (ii) the value of the natural resources taken from or produced on the lands that directly affect the economy of the region and state, which are not reflected in the appraised value; and (iii) the value of the intangible benefits to the public from ownership, such as scenery, wilderness, preservation of brown bear habitat and uniform management of KNWR and its wildlife population. Focusing on the second factor, it was the opinion of Aqua/Terra that the value of this factor was at least \$51,830,648, which was arrived at by an analysis of revenues generated from the Koniag Exchange Lands by commercial salmon fisheries, sports fisheries, bear and deer hunting activities and trapping. The study offered no opinion as to the value of the third component. The Aqua/Terra Report suggested the value of Koniag's 125,661 acres in KNWR, which included all of the Koniag Exchange Lands, fell somewhere between \$72,000,000 and \$154,000,000; the former amount was derived by adding together the findings of the FWS Appraisal and the Aqua/Terra Report, and the latter amount was derived by additionally taking into account the otherwise unvalued intangible benefits to the public of such ownership (scenery, wilderness, bear habitat, refuge management, etc.), using an arithmetic extrapolation from an analysis of the acquisition price of the Pribilof Bird Cliffs by the United States Government under Section 1417(b) of ANILCA. In arriving at these values, the Aqua/Terra Report did not consider the effects of the application of Section 22(g) on the Koniag Exchange Lands.

Koniag also retained the Dirksen Appraisal Company of Anchorage, Alaska ("Dirksen") to review the FWS Appraisal. Dirksen is headed by Paul P. Dirksen, SRPA-MAI who has extensive experience in appraising properties on Kodiak Island and in Alaska generally. Dirksen is independent of Koniag but has performed from time to time appraisals of property owned by Koniag in conjunction with possible sales of such property. Dirksen has been a contractor of the U.S. Government from time to time, and holds U.S. Government contracts at the present time. Dirksen issued a report dated August 1, 1987 of its review of the FWS Appraisal ("Dirksen Report"). That review, which did not constitute an appraisal, included a physical inspection of the Koniag Exchange Lands, the utilization of the same assumptions of highest and best use made in the FWS Appraisal and a review and analysis of the methodology used in the FWS Appraisal. The Dirksen Report stated that, based upon the FWS Appraisal's assumptions of highest and best use, the FWS Appraisal overstated the market value of the Koniag Exchange Lands by 40% to 45%, and that the impact of Section 22(g) of ANCSA would result in a further reduction in value that could range from a low of 10% to a high of 90% depending upon the lands involved and the ultimate resolution of the degree of control which FWS can exercise over the Native inholdings in the Refuge under such provision. Thus, the Dirksen Report concluded that the FWS Appraisal methodology should have resulted in a fair market value determination of \$12,863,000 to \$13,210,000, subject to further reductions to reflect the impact of Section 22(g). The Dirksen Report argued, however, that the FWS Appraisal erred in its determination of highest and best use, because the highest and best use of the land was for wildlife habitat. The Dirksen Report further noted that while the use of wildlife habitat values could result in an increase in the market value of the Koniag Exchange Lands, these

same wildlife habitat values are likely to be protected under Section 22(g) of ANCSA, and thus the groups which provide a market for habitat lands would not be likely to pay for rights already protected.

PLEASE TAKE NOTE that there have been no valuations of the Koniag Exchange Lands other than the appraisal and reports discussed above. The Board of Directors of Koniag has determined that further appraisals or valuations would not materially assist the Board in evaluating the fairness of the negotiated value placed on the Koniag Exchange Lands. The Board's determination was based upon, among other things, recognition of the inherent difficulties in valuing the lands, including the scarcity of market data, the absence of income generated from customarily recognized sources on the lands, and the effect of various governmental restrictions including Section 22(g) of ANCSA.

PLEASE ALSO TAKE NOTE that a copy of the relevant portions of the FWS Appraisal, the Aqua/Terra Report, and the Dirksen Report, can be reviewed at the business offices of Koniag during regular business hours. A copy of these reports and appraisals will be sent to you upon request.

6. Termination of Exchange Agreement

The consummation of the Exchange Agreement requires its authorization by the shareholders of Koniag, the enactment of Opening Legislation and the enactment of Exchange Legislation. After execution of the Exchange Agreement, either party shall have the right to cancel it at any time after December 31, 1993, upon thirty days' written notice to the other party if the Opening Legislation or the Exchange Legislation has not been enacted. Koniag may also cancel the Exchange Agreement upon written notice to the Secretary of the Interior prior to December 31, 1993, and the enactment of either Opening Legislation or Exchange Legislation, upon the payment to DOI of its costs in negotiating the proposed exchange. The amount of these costs has not been determined at this time. During the time the Exchange Agreement is in effect, neither party can encumber the lands or interests to be conveyed under it or alter substantially the physical condition or otherwise effect a material change in the management of any lands or interests proposed to be exchanged or conveyed, except that Koniag has the right to place and remove all or part of the Koniag Exchange Lands in and from the Alaska Land Bank Program established by Section 907 of ANILCA.

Koniag further has the right to cancel the Exchange Agreement upon written notice to DOI (i) within sixty days of the enactment of Opening Legislation which is not in a form and content satisfactory to Koniag, or (ii) within sixty days of the enactment of Exchange Legislation which amends or seeks to amend any of the terms of the Exchange Agreement, which alters or seeks to alter any of Koniag's rights under the Exchange Agreement without Koniag's prior written consent or which includes provisions which are not addressed in the Exchange Agreement and which are not in form and content satisfactory to Koniag.

Koniag has the right to rescind the Exchange Agreement after it is consummated if, as the result of judicial, legislative or administrative action beyond the control of Koniag or its lessee under a Koniag ANWR Lease, either (i) the necessary permits and authorizations to drill a well or conduct operations in conjunction with such drilling are not issued or Koniag or its lessees are prevented from commencing to drill such well on or before the 270th day following its submission of all necessary permit applications, or (ii) Koniag or its lessees are prohibited from completing the drilling of such well within two winter drilling seasons. If Koniag so elects to rescind, it may require the United States Government in exchange for its interests in the Oil and Gas EDP Interests either to reconvey to it certain of the Koniag Exchange Lands or to convey to it such other federal lands or property as Koniag and DOI jointly determine. The value of the Koniag Exchange Lands to be reconveyed (or of the other federal lands or property if Koniag so elects) will be equal to the Exchange Value of the Koniag Exchange Lands less an amount equal to all monies received by Koniag under the Lease Agreements as reduced by Koniag's costs in negotiating the Exchange Agreement and in defending any litigation challenging its rights thereunder. The order in which the Koniag Exchange Lands would be reconveyed is to be set out in an appendix to the Exchange Agreement, was reached as the result of negotiations and leaves for last the reconveyance of the most valuable habitat lands. Rather than reconvey such lands, the United States has the right to purchase the Koniag Exchange Lands to be reconveyed for an amount equal to their Exchange Value.

At any time after the consummation of the Exchange Agreement, the Secretary may suspend Koniag's oil and gas activities if it is determined that those activities would cause major, long-term and irreparable harm to fish and wildlife, their habitat, the environment or human health, or that such suspension is in the interest of national security or defense. Such suspension may be for a period up to five years, at the end of which period the Secretary may either extend it for another period not to exceed five years or extinguish all of Koniag's interest in the Oil and Gas EDP Interests for just compensation. At any time during any period of suspension, Koniag can require the Secretary to either terminate the suspension or extinguish its rights for just compensation. If the parties are unable to agree as to what constitutes just compensation to be paid by the United States Government, then Koniag may bring an action to have a judicial determination of the amount it is to be paid. This right of the United States Government is similar to that provided by statute with respect to leases issued by it for oil and gas rights on the outer continental shelf and was required by DOI to be included in the Exchange Agreement because of the environmental sensitivity of ANWR.

7. Miscellaneous

PLEASE TAKE NOTE that a copy of the Exchange Agreement is available at the business offices of Koniag during regular business hours. A copy of that Agreement will be sent to you upon your request.

The United States of America, acting through the Secretary of the Interior, is the other material party to the DOI. There is no material relationship of the United States Government to Koniag or any of Koniag's officers or directors except as may arise from the provisions of ANCSA generally.

LEASE AGREEMENTS

Background of Lease Agreements

In the course of the early discussions with DOI regarding the Exchange, it became apparent to the Board of Directors that Koniag lacked the expertise and information necessary to select the Koniag ANWR Lands and that, because of Koniag's financial position at the time, it would also require additional funds to defray the costs of negotiating the Exchange and securing Congressional approval of it. In the spring of 1985, Koniag entered into negotiations with the Chevron Group. After a break in those negotiations, during which time Koniag solicited proposals from other oil companies, Koniag and the Chevron Group renewed their negotiations, which negotiations resulted in the execution of the LAA.

As negotiations with DOI progressed further, it also became apparent to the Board of Directors that as the result of the valuation process of the Koniag Exchange Lands and the interests in ANWR, the lease bonuses to be paid to Koniag under the LAA would be less than the value of the Koniag Exchange Lands determined by a market value approach. This would result in the risk of receiving consideration equal to such market value being directly related to the risk of the discovery of oil and gas in commercial quantities on the Koniag ANWR Lands. As the result of further negotiations with the Chevron Group, the parties agreed to amend the LAA to provide for the Reduction, which reduced the future leasehold rights of the Chevron Group to an undivided 51% interest, reducing its obligations under the LAA proportionately, and permitted Koniag to enter into another transaction with respect to the remaining 49% interest. On July 1, 1987, Koniag entered into the Phillips Agreement which granted to Phillips the right to acquire such 49% interest. The discussion of the LAA and Phillips Agreement as provided herein reflect the Reduction and the subsequent disposition of the 49% interest to Phillips.

Lease Acquisition Agreement

The following section addresses the material features of the LAA regarding the selection, exploration, development and production of the Oil and Gas EDP Interests to be acquired by Koniag under the proposed exchange.

1. Obligations of Koniag

Koniag agreed to use its best efforts consistent with its interests to negotiate an exchange agreement with DOI which would maximize the inclusion in the lands to which the Oil and Gas

EDP Interests pertain of those tracts that the Chevron Group had determined as having the greatest potential for the production of oil and gas. Throughout the process of negotiating the Exchange Agreement and securing passage of Opening Legislation and Exchange Legislation, Koniag is obligated to provide the Chevron Group with an opportunity to review and comment on the proposed agreements and legislation prior to Koniag's taking a position on such agreements and legislation. In selecting the Koniag ANWR Lands, Koniag was further obligated to take into account the conclusions and recommendations of the Chevron Group but it was under no obligation to select any of the lands so recommended unless it elected to do so. Upon the election of the Chevron Group, Koniag is obligated to issue leases to the Chevron Group granting it an undivided 51% of the Oil and Gas EDP Interests subject to certain terms and conditions ("Koniag ANWR Leases"). The remaining 49% of the Oil and Gas EDP Interests will be granted to Phillips. (See "Proposition I—Phillips Agreement-Koniag ANWR Leases").

2. *Obligations of Chevron Group*

The Chevron Group was obligated to provide Koniag with certain information regarding the lease bonuses that it was willing to pay Koniag for Koniag ANWR Leases of the various tracts which information was needed by Koniag to select the Koniag ANWR Lands. This information was provided as to the thirty tracts with the highest lease bonus values. The Chevron Group is also obligated to pay certain sums to Koniag upon the occurrence of various events (see "Proposition I—Lease Acquisition Agreement—Payments by Chevron Group"), and to take Koniag ANWR Leases upon the execution of the Exchange Agreement and the enactment of Opening Legislation and Exchange Legislation all in a form and content satisfactory to the Chevron Group.

3. *Termination of the LAA*

The LAA terminates upon the first to occur of the following events: (i) the conclusion of the term of the last of the Koniag ANWR Leases issued under the LAA; (ii) the effective date of the regulations promulgated pursuant to the Opening Legislation to implement the exploration, development, and production of the Coastal Plain of ANWR (the "Implementing Regulations") if such date is prior to the execution of the Exchange Agreement; (iii) if Koniag has received conveyance of the Oil and Gas EDP Interests and the Chevron Group has disapproved the Opening Legislation or Exchange Legislation, then during the following ten year period, upon the failure of the Chevron Group either to take Koniag ANWR Leases when offered or to exercise its rights of first refusal with respect to third party offers to lease the Oil and Gas EDP Interests; (iv) the failure of the Chevron Group to pay the balance of the lease bonuses due after the issuance of Koniag ANWR Leases, if the Chevron Group has disapproved the Implementing Regulations; (v) if Opening Legislation and Exchange Legislation are not enacted during the Congress into which such legislation is introduced and similar bills are not introduced in the subsequent session of Congress; or (vi) twenty years after the date of the LAA if the Implementing Regulations have not been promulgated or if the lease bonuses have not been paid in full by the Chevron Group.

The LAA may be terminated at the option of the Chevron Group upon any of the following: (i) the issuance of Implementing Regulations which are unsatisfactory to the Chevron Group; (ii) the rejection by the shareholders of Koniag of the proposal to authorize Koniag's execution of the Exchange Agreement and ratify the LAA; (iii) at successive intervals of three years after the effective date of the LAA if enactment of Opening Legislation, Exchange Legislation, and the promulgation of Implementing Regulations have not all three occurred by the time of each of the intervals.

The LAA may also be terminated if the parties agree in writing that there is no substantial likelihood that any of the Oil and Gas EDP Interests with respect to which the Chevron Group has an interest in acquiring a lease will be included in an Exchange Agreement.

Upon the termination of the LAA, Koniag shall retain all sums paid to it by the Chevron Group as of that date; provided, however, in the following two instances. Koniag is required to refund all sums received from the Chevron Group: (1) if the LAA or the Exchange Agreement is declared to be invalid by a final judicial order under which it is determined that Koniag did not observe the requisite procedures under its articles and bylaws in entering into the LAA; and (2) after five years from the effective date of the Implementing Regulations, if the Chevron Group has disapproved the Implementing Regulations, Koniag has not received a third party offer to lease the Oil and Gas

EDP Interests and the Chevron Group elects to terminate the LAA rather than pay the remaining lease bonus if such election is made upon the request of Koniag.

4. *Issuance of Leases*

Koniag will issue Koniag ANWR Leases to the Chevron Group upon the Chevron Group's approval of the Opening Legislation and the Exchange Legislation. These Koniag ANWR Leases will become effective upon receipt by Koniag of the Oil and Gas EDP Interests in the Koniag ANWR Lands. However, the Chevron Group will not have the right to conduct any operations involving the Koniag ANWR Leases prior to the payment of 100% of the lease bonuses due under the LAA.

5. *Terms of Koniag ANWR Leases*

The Koniag ANWR Leases will lease to the Chevron Group an undivided 51% working interest in the Oil and Gas EDP Interests in the Koniag ANWR Lands, including the right to explore for, develop, produce, take, own and market the oil and gas in and under the Koniag ANWR Lands, to drill wells thereon, and to conduct such other activities with respect to the Oil and Gas EDP Interests as are necessary to exercise the Chevron Group's rights under the Koniag ANWR Leases. Each of the Koniag ANWR Leases has a primary term of twelve years and will commence on the latest of the following events: (1) the conveyance of the Oil and Gas EDP Interests to Koniag from the United States Government; (2) the payment of the full lease bonus; and (3) the effective date of the Implementing Regulations. The primary term may be extended if, during the primary term, oil and gas is discovered in quantities sufficient to pay the operating costs on the lands subject to the lease, or for so long as there is production, or operations are being conducted, on the lands subject to the lease.

The Koniag ANWR Leases provide for Koniag to be paid, in addition to the lease bonus (see "Proposition I—Lease Acquisition Agreement—Payments by Chevron Group" and "Proposition I—Phillips Agreement—Payments by Phillips") a royalty of 20% of the value of the oil and gas produced from the lease. This royalty can be paid in kind or in cash at Koniag's option. If the royalty is paid in cash, the value of the oil and gas is based upon field price; if there is no actual field price, the Koniag ANWR Leases include a formula for calculating a price. Koniag has the right to convert its royalty to a 30% share of the net profits (as defined) from the production of oil and gas from the lease at the first time that the lessees have received total proceeds (as defined) from the oil and gas produced from the lease in an amount which is in excess of all of the expenditures made by the lessees regarding the lease plus interest thereon, and the right to convert its royalty or 30% net profits interest, as the case may be, to a 40% share of the net profits from the lease at the time the proceeds equal twice the expenditures plus interest. At the present time it has not yet been determined whether the costs and expenses of the Chevron Group and Phillips will be accounted for separately or in the aggregate in determining when this right is exercisable. Once Koniag has elected to convert its royalty interest to a share of the net profits, it may not convert its net profits share back to a royalty.

Koniag will also be paid an annual rental under the Koniag ANWR Leases in the amount of \$10 per acre for approximately 2,560 acres and \$5 per acre for approximately 623 acres.

6. *Payments by Chevron Group*

The Chevron Group under the LAA is obligated to make the following payments to Koniag:

- (a) \$1,000,000 which was paid upon the execution of the LAA. As a result of the Reduction, the Chevron Group is entitled to a credit against future payments of \$490,000.
- (b) Quarterly payments of interest to be computed at the prime rate on an assumed principal balance of an escrow account which was initially \$5 million and has been reduced to \$2,550,000 as a result of the Reduction. This escrow account has never been formally funded. To date, payments of interest in the amount of \$633,254 have been received. As a result of the Reduction, the Chevron Group is entitled to a credit against future payments of \$310,294.
- (c) Progress payments in the amount of \$255,000 each upon the occurrence of each of the following events: (i) the reaching of an agreement with DOI as to the lands to be

exchanged and the action of the Board of Directors to submit the Exchange Agreement and the LAA to the shareholders for approval and ratification; (ii) the approval of the Exchange by the shareholders and the execution of the Exchange Agreement by Koniag and the Secretary of the Interior; (iii) the transmittal to Congress of the report of the Secretary of the Interior recommending the Opening Legislation and Exchange Legislation which is approved as to form and content by Koniag (or, if Koniag does not so approve, the fulfillment of (iv)); (iv) passage by both the House and Senate during the same Congress of Opening Legislation and Exchange Legislation satisfactory as to form and content to Koniag. The Chevron Group may withhold payments of any of the progress payments required by (iii) or (iv) if it disapproves of the Opening or Exchange Legislation with respect to its form or content. The progress payments to be made upon the events described in (ii), (iii) and (iv) above are to be treated as advance payments of lease bonuses under (d) and drilling premium payments under (e). The Chevron Group will also be entitled to take as a credit against these progress payments the credits identified in (a) and (b) above:

- (d) \$276,395 upon the issuance of the Koniag ANWR Leases (no payment would be due after the credit for 50% of the progress payments described in (c) hereof) and \$1,566,235 upon Koniag's receipt of title to the Oil and Gas EDP Interests and approval by the Chevron Group of the regulations promulgated under the Opening Legislation or the election of the Chevron Group to waive such approval (\$1,460,129 after the balance of the progress payments credit). These amounts will also be subject to a further downward adjustment in the amount of the prior overpayments, if such overpayments have not been fully credited against the amounts due under (b) and (c) hereof;
- (e) A Drilling Premium Payment in the amount of \$184,236 if the Chevron Group has the right to drill an exploratory well under an issued Koniag ANWR Lease on any of the Koniag ANWR Lands and a minimum of twenty-four months would elapse between the date the authorization to drill a well could be obtained and unleased federal lands which are within six miles of such Koniag ANWR Lands are offered at a federal lease sale. Such payment will be made on the date such authorization could first be obtained irrespective of whether or not it is applied for. An additional Drilling Premium Payment of \$1,530,000 is to be paid as of the date of the first federal lease sale, if a well is actually drilled during the period specified in this subsection. Against these Drilling Premium Payments, the Chevron Group is entitled to receive a credit in the amount of \$382,500 for a portion of the Progress Payments it will make, as described in (c) hereof;
- (f) An overriding royalty interest of 0.51% of any oil and gas produced from any interest acquired by the Chevron Group in any lands within six miles of any lands subject to a Koniag ANWR Lease issued to the Chevron Group unless such interest was acquired from Arctic Slope Regional Corporation under an agreement dated February 6, 1984;
- (g) An overriding royalty interest of 0.255% of any oil and gas produced from a federal lease acquired by the Chevron Group in any land not recommended for selection by Koniag by the Chevron Group which is cornering or contiguous to any lands subject to a Koniag ANWR Lease if the Chevron Group has drilled to its objective depth an exploratory well on such Koniag ANWR Lease prior to the federal lease sale;
- (h) A Bonus Differential Payment equal to 51% of the amount by which the average per acre bonus of any lease acquired at a federal lease sale by the Chevron Group or any member thereof, of lands proposed by the Chevron Group for selection by Koniag, exceeds three times the average per acre bonus amount the Chevron Group would have paid Koniag had such land been selected by Koniag. Such Bonus Differential would be paid out of 20% of 100% of the Chevron Group's or any member's thereof, share of production from such federal lease. No Bonus Differential will be due, however, if an exploratory well has been drilled prior to such lease sale by the Chevron

Group within fifteen miles of any portion of such federal lease, and the Bonus Differential will be proportionately reduced if the interest acquired by the Chevron Group is less than 100% of the working interest.

~~Phillips Agreement~~

1. *Obligation of the Parties*

Koniag is obligated to lease to Phillips an undivided 49% working interest in the Oil and Gas EDP Interests. Phillips has agreed that Chevron will be the operator on all the Koniag ANWR Leases where the Chevron Group holds the balance of the working interest.

2. *Termination of Phillips Agreement*

The Phillips Agreement may be terminated by Phillips within thirty days of the enactment of the Opening Legislation and the Exchange Legislation, if such Legislation is unacceptable to Phillips in either form or content. All amounts paid by Phillips to Koniag prior to such termination shall be retained by Koniag.

Koniag has the right to terminate the Phillips Agreement if it elects to cancel the Exchange Agreement because it has determined that the consummation of the Exchange with DOI is not in its best interests. If such cancellation occurs after the enactment of the Opening or Exchange Legislation, Koniag shall refund to Phillips \$500,000 of the monies paid by Phillips to it. The Phillips Agreement shall also terminate if the shareholders of Koniag fail to approve the Phillips Agreement, in which event Koniag shall refund to Phillips all amounts paid by Phillips to Koniag as of that date.

3. *Terms of Koniag ANWR Leases*

If Phillips does not exercise its rights to terminate the Phillips Agreement, it shall be granted Koniag ANWR Leases, which leases shall be the same leases as those granted to the Chevron Group (see "Proposition I—Lease Acquisition Agreement—Terms of Koniag ANWR Leases"), except that Phillips' interest shall be reflected therein as being an undivided 49% of the working interest.

4. *Payments by Phillips*

Phillips is obligated to pay Koniag \$55,000,000 in accordance with the following schedule:

- (a) \$1,000,000 upon the execution of the Phillips Agreement;
- (b) \$7,250,000 upon the expiration of the thirty day period following the enactment of the Opening Legislation and Exchange Legislation and the receipt by Phillips of notice from Koniag to DOI that Koniag waives its right to cancel the Exchange Agreement. However, this amount and any further amounts will not be payable if Phillips terminates the Phillips Agreement within the thirty day period;
- (c) \$27,500,000 upon the issuance to Phillips by Koniag of the Koniag ANWR Leases;
- (d) \$19,250,000 upon the third anniversary of the issuance to Phillips by Koniag of the Koniag ANWR Leases.

Fairness of Consideration Under Lease Agreements

In the Board's view, the major factor in assessing the fairness of the consideration offered by Phillips and the Chevron Group is the value of the Koniag Exchange Lands. The proposed Exchange provides that Koniag will receive from DOI the Oil and Gas EDP Interests in exchange for the Koniag Exchange Lands. Koniag, in turn, will lease substantially all of the Oil and Gas EDP Interests to the Chevron Group and Phillips in exchange for a minimum amount of approximately \$58,300,000 plus contingent amounts that include Drilling Premium Payments and oil and gas royalties. The Exchange Agreement and the Lease Agreements comprise parts of a single transaction under which Koniag effectively is exchanging the Koniag Exchange Lands for rights under the Lease Agreements, and consequently the Koniag Board has focused its attention on whether the Lease Agreements fairly compensate Koniag for the Koniag Exchange Lands. In making this determination, the Board

has placed primary emphasis on the minimum compensation of approximately \$58,300,000 to be received under the Lease Agreements because of the uncertainty that the contingent amounts (including the oil and gas royalties and Drilling Premium Payments) will ever be realized and the difficulties in valuing certain of them.

As described above, there are substantial uncertainties in valuing the Koniag Exchange Lands. (See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands.") However, Dirksen has advised the Board of its view that any price for the Koniag Exchange Lands in excess of the FWS Appraisal would tend to be within reason, and Aqua/Terra has advised the Board of its view that a price of \$58,300,000 for the Koniag Exchange Lands is fair and reasonable to Koniag and its shareholders from a financial point of view. Copies of letters to the Board from Aqua/Terra and Dirksen are attached as Exhibits A and B. The Board has reviewed these letters, the FWS Appraisal, the Aqua/Terra Report and the Dirksen Report and is persuaded that approximately \$58,300,000 constitutes fair value for the Koniag Exchange Lands.

PLEASE TAKE NOTE that the Board of Directors has not sought any independent evaluation of the fairness of the consideration to be paid under the Lease Agreements, the value of the royalty interest or other contingent interests which Koniag will receive, or the value of any residual interest in the Oil and Gas EDP Interests which Koniag will receive if the Koniag ANWR Leases terminate before Koniag is required to return its interest in the Oil and Gas EDP Interests to the United States pursuant to the terms of the Exchange Agreement.

The Board's determination not to seek or obtain such an evaluation was based on, among other things, the scarcity and expense of obtaining and evaluating available geophysical, geological and similar data with respect to the ANWR Lands, the difficulty in evaluating the quantity, quality or type of oil or gas required to make exploration, production and development economically feasible, and the significant inherent risks in any oil and gas exploration in a field which has not yet been explored. See "Proposition I—Proposed Exchange—Receipt of Oil and Gas EDP Interests." The terms of both the LAA and the Phillips Agreement were respectively negotiated after discussions with a number of companies and reflect the most economically attractive terms which Koniag was able to secure at the respective dates they were negotiated. In reaching the decision to enter into these transactions, the Board of Directors considered not only the direct economic consideration to be paid to Koniag but also the information available to the Chevron Group as the result of its well in the Coastal Plain of ANWR, which information was not available to DOI or any other oil company and which the Board thought would enhance the Chevron Group's ability to make recommendations to Koniag with respect to its selection of tracts in ANWR.

Use of Proceeds by Koniag

The Board of Directors has invested the initial proceeds from the Lease Agreements with various investment managers or institutions to the extent that such proceeds have not been required to defray the costs of operations of Koniag, including the costs incurred by it in negotiating the Lease Agreements and the Exchange. Should the Exchange fail to be consummated or the Lease Agreements be terminated prior to the issuance of Koniag ANWR Leases, the proceeds received from the Lease Agreements would cover the present estimated out-of-pocket expenses which may be incurred by Koniag as the result of its participation in the Exchange process and the negotiation and performance of the Lease Agreements.

Because of the uncertainties about the consummation of the Exchange and the issuance of Koniag ANWR Leases, the Board of Directors has determined not to begin developing a plan for the use or investment of the total proceeds other than the preliminary efforts disclosed herein under Proposition III regarding consideration of a shareholder distribution permanent fund. At such time as Congressional approval and the issuance of the Koniag ANWR Leases appears likely, the Board intends to develop a plan for the use and investment of the proceeds under the Lease Agreements and Koniag ANWR Leases.

Certain Transactions

The names and addresses of the other parties with respect to the Lease Agreements are:

Phillips Agreement . . .	Phillips Petroleum Company 9055 East Tufts Parkway Denver, Colorado 80237
LAA	Chevron U.S.A. Inc Chevron Park 6001 Bollinger Canyon Road San Ramon, California 99583-2390
	Standard Alaska Production Company 5151 San Felipe P.O. Box 4587 Houston, Texas 77210
	BP Alaska Exploration Inc. 100 Pine Street, Suite 3100 San Francisco, California 94111

There is no material relationship between Phillips and Koniag, its subsidiaries, officers or directors except for the Phillips Agreement.

The only material relationships between the Chevron Group and its members, and Koniag, its subsidiaries, officers and directors, other than the LAA, are as follows:

- (a) On December 20, 1982, Koniag, Inc. and Chevron entered into the Certificates Agreement ("Certificates Agreement") under which Koniag was paid \$300,000 by Chevron and Chevron agreed to provide certain loan guarantees and other consideration for an assignment by Koniag of the OCS Bid Credits it would receive upon the passage of then pending legislation. The Certificates Agreement further provided that, should such legislation fail to be enacted, Chevron would have a right of first refusal until December 31, 1986, to negotiate with Koniag for the purchase of any rights, lands, minerals or other assets transferred to Koniag by the United States Government in consideration of Koniag's conveyance to the United States Government of the lands described in the legislation. While this obligation to negotiate arose only after the transfer of such interests by the United States Government, Koniag entered into discussions with Chevron and the Chevron Group concerning a lease of the Oil and Gas EDP Interests to be acquired under the Exchange because of Koniag's past business relationship with Chevron. After providing the Chevron Group with this initial opportunity, Koniag solicited proposals from, and negotiated with, other oil companies prior to recommencing negotiations with Chevron. The Chevron Group proposal was preferred because it offered the highest lease bonuses available at that time and because only the Chevron Group had drilling data from the Coastal Plain of ANWR (and, consequently, potentially superior information concerning the relative value of the tracts being offered).

All loans guaranteed by Chevron have been discharged by Koniag and Koniag has no further obligations under the Certificates Agreement.

- (b) As of June 1, 1974, Koniag entered into an agreement with Chevron (then known as Standard Oil Company of California) which granted to Chevron the right to lease up to 300,000 acres of certain lands available for selection by Koniag under ANCSA on the Alaska Peninsula, and which required Chevron to lease a minimum of 100,000 acres of these lands. Chevron transferred 25% of its interest to Getty Oil Company ("Getty"), now a subsidiary of Texaco, Incorporated. Three leases totalling 68,438 acres were issued, and they were subsequently surrendered on April 29, 1983 to Koniag. On July 25, 1984, the parties

amended the original agreement: under the amendment. Koniag was paid a non-refundable lease bonus on the remaining 31,562 acres, which Getty and Chevron were obligated to lease, and the time for the exercise by Getty and Chevron of their right to lease up to 300,000 acres was extended to December 31, 1989. This agreement is still in full force and effect.

- (c) On November 26, 1979, Koniag, NANA Regional Corporation and Scalaska, Inc. entered into a Joint Bidding Agreement with Standard and BPAE for the acquisition of leases in the joint federal-state Beaufort Sea lease sale. Pursuant to the terms of such agreement and the successful bids of the group, Koniag acquired a 1% interest in nine leases. Koniag subsequently sold its interest in one of the leases. Six of the leases were subsequently committed to a unit production agreement under state law (the Point Thompson Unit). BPAE transferred its interests in the leases in 1986. Koniag is presently seeking to divest itself of its remaining interests in the leases.
- (d) Judith Meidinger, a director and Chairman of the Board of Koniag, was President and the owner of Counselors Inc., which provided various services to the oil industry. Counselors Inc. previously held contracts for services to be provided by it to Standard and BPAE. Counselors Inc. also entered into contracts with certain oil industry associations, the members of which include members of the Chevron Group and Phillips. Mrs. Meidinger was involved in the initial negotiations with the Chevron Group but she was not directly involved in the final negotiations of the Lease Agreements or the Exchange.

PLEASE TAKE NOTE, copies of the LAA (excluding certain confidential information) and the Phillips Agreement are available at the business office of Koniag during regular business hours. A copy of these agreements will be sent to you upon your request.

AUTHORIZATION TO BE GRANTED

The adoption of Proposition I will authorize the Board of Directors (i) to authorize the execution and performance of an agreement, the terms of which are consistent with the Exchange Agreement; (ii) to exercise, on behalf of Koniag, the rights of Koniag under such executed agreement including the amendment of such agreement without additional shareholder authorization, except that material changes to the Oil and Gas EDP Interests can be made only if in response either to a request made by the Secretary of the Interior arising from findings of the LEIS to be prepared by DOI or to legislation enacted by Congress.

LITIGATION AFFECTING PROPOSED EXCHANGE AND LEASE AGREEMENTS

1. *Trustees for Alaska, et al. v. William Horn, et al., Civ. Action No. A87-118 (Civil).*

On March 19, 1987, a lawsuit which may affect the Exchange was begun in the United States District Court for the District of Alaska. The plaintiffs include Trustees for Alaska, American Wilderness Alliance, National Wildlife Refuge Association, Northern Alaska Environmental Center, The Sierra Club, The Wilderness Society and the National Audubon Society. The defendants are (i) William P. Horn, Assistant Secretary of the Interior for Fish, Wildlife and Parks, (ii) Donald P. Hodel, Secretary of the Interior, (iii) Frank Dunkle, Director, U.S. Fish and Wildlife Service, (iv) James Griffith, Acting Regional Director, U.S. Fish and Wildlife Service, (v) the DOI, and (vi) the United States Fish and Wildlife Service.

Because the plaintiffs' action, if successful, could delay or prevent the proposed exchanges or could result in the imposition of additional conditions for such exchanges, Koniag, along with certain other Native participants, has intervened in the lawsuit on the side of the defendants.

The complaint in the lawsuit asks for declaratory and injunctive relief. It claims that the defendants have violated and are violating Section 102 of the National Environmental Policy Act ("NEPA"), regulations implementing NEPA, the Administrative Procedure Act, ANILCA, ANCSA, and the Wilderness Act by "actively pursuing exchange negotiations involving the Coastal Plain of the Arctic National Wildlife Refuge and committing federal personnel and financial resources before Congress decides whether to allow oil and gas development in that area; and by proceeding with those negotiations on an expedited basis without preparing an environmental impact

statement and without complying with other procedures required by NEPA and the NEPA implementing regulations." The plaintiffs have asked for a preliminary and permanent injunction against "all further negotiations and deliberations regarding the proposed exchange unless Congress enacts legislation opening the area for oil and gas leasing, and until the proper procedures are followed."

The Secretary of the Interior and the other original defendants filed a motion to dismiss the complaint on April 14, 1987. The motion contends that plaintiffs lack "standing" to challenge defendants' authority to negotiate, that the defendants' actions are not yet "ripe" for a review by a court, that the Administrative Procedure Act gives the court no jurisdiction to stop the negotiations and that plaintiffs have not stated any good grounds for their lawsuit.

On April 22, 1987, the plaintiffs filed a motion for preliminary injunction, supported by other papers, claiming that the defendants are violating NEPA in two distinct ways: by prematurely committing government resources to negotiations before a final decision is reached by Congress; and (2) by not preparing an Environmental Impact Statement on the proposed exchange based upon public participation "as early and as frequently as possible." Plaintiffs also argue that the exchange negotiations violate ANILCA, ANCSA and the Wilderness Act. The government defendants have filed statements with the court indicating their intention to prepare a LEIS on the proposed exchanges.

Following briefing of the issues raised both by defendants' motion to dismiss (joined in by the Native Corporation intervenors) and plaintiffs' motion for a preliminary injunction (opposed by the Native Corporation intervenors as well as by the original defendants), the matter was argued on July 16, 1987. The judge indicated that he would decide the matter later. There is no definite date by which the judge must decide these motions. As of October 1, 1987, the judge had not rendered a decision on these motions.

Because of the early status of this litigation, the Board of Directors cannot predict its outcome.

2. *Sealaska Arbitration*

On July 16, 1987, Sealaska Corporation ("Sealaska"), an Alaska Native Regional Corporation, initiated an arbitration against Koniag. The arbitration is pursuant to the Settlement Agreement entered into as of June 29, 1982, between all of the Alaska Regional Corporations created under ANCSA ("Settlement Agreement") which provides for the manner in which revenues from the subsurface estate of lands conveyed to a Regional Corporation by ANCSA are to be shared pursuant to the provisions of Section 7(i) of ANCSA. Cook Inlet Regional Corporation is the only other corporation to have joined the Arbitration. The issues involved in the arbitration are whether revenues derived from the interests to be acquired by Koniag in the Exchange are subject to the revenue sharing provisions of Section 7(i) of ANCSA, and whether Koniag's refusal to provide the LAA to the officers of Sealaska constitutes a violation of the Settlement Agreement. Koniag refused to make the LAA available to the officers of Sealaska because of confidentiality provisions of the LAA, and has taken the position that the Settlement Agreement explicitly states that in the event of an exchange where the surface estate of lands acquired under ANCSA are exchanged for the subsurface estate of other lands, revenues derived from the subsurface estate so acquired are not subject to the provisions of Section 7(i). Koniag further maintains that agreements which relate solely to subsurface which is not subject to sharing under Section 7(i) should not be required to be disclosed. As part of the arbitration process, it is likely that the panel will determine if revenues derived from the interest acquired by Koniag in the Koniag ANWR Lands are required to be shared by Koniag pursuant to the provisions of Section 7(i). If such a finding is made, then approximately 65.5% of the revenues under the Lease Agreements, after deducting certain expenses as authorized by the Settlement Agreement, would be required to be paid by Koniag to the other eleven Regional Corporations in proportion to their original respective enrollments and approximately 2% of such net revenues would be paid to the Village Corporations in the Koniag region and to the at-large (Class B) shareholders of Koniag.

Koniag believes the Sealaska position that revenues received by Koniag under the Lease Agreements are subject to sharing under Section 7(i) is without merit. Section 7(i) applies only to revenues from timber and the subsurface estate conveyed to Regional Corporations under ANCSA.

It is Koniag's position that the revenues from the subsurface interests in the Koniag ANWR Lands are not subject to the provisions of Section 7(i) for several reasons. First, as discussed above, the Settlement Agreement specifically excludes from sharing any revenues derived from subsurface interests acquired in an exchange for surface lands. Second, because the Koniag Exchange Lands were originally Village Corporation lands which were acquired by Koniag through a merger and not from its land entitlements under ANCSA, and because Village Corporation lands are not subject to Section 7(i), the revenues from the Koniag Exchange Lands or from the interests received for them under the proposed exchange, are likewise not subject to sharing under Section 7(i). Sealaska has yet to inform Koniag of the basis for its position that such revenues are subject to sharing under Section 7(i).

The Board would reassess the advisability of the Exchange in the event that Sealaska were to prevail in the arbitration.

A copy of the Settlement Agreement is available at the business offices of Koniag, Inc. during regular business hours. A copy of that Agreement will be sent to you upon your request.

RISK FACTORS

There are a number of potential risks involved in the Exchange and the Lease Agreements.

The DOI is under no obligation to execute the proposed Exchange Agreement. The decision whether to execute that Agreement will be made only after the LEIS is prepared and public comments on it have been received. At the present time, DOI has not commenced the LEIS because of an understanding which the Secretary of the Interior reached with the Chairman of the Senate Energy Committee. The Chairman has expressed serious concerns about the Exchange and the other proposed exchanges and their impact on pending legislation to open ANWR to oil and gas activities. It is Koniag's understanding that further discussions are to be held, at which time, based on those discussions, DOI will make a determination whether to commence the LEIS or to delay further the process in light of the concerns of the Chairman. If a further delay is experienced, the Board will make a determination in light of the circumstances then existing as to the action it may take. Such action could include seeking introduction of legislation without the sponsorship of DOI.

While DOI has indicated its good faith commitment to the Exchange, information may be developed as part of the LEIS process which could result in the Koniag ANWR Lands not being available because of environmental concerns or because the Secretary has determined that there are adverse environmental consequences of the Exchange which preclude execution of the Exchange Agreement by DOI.

Because the Exchange Agreement is subject to the enactment of certain legislation, there exists a risk that Congress will either (i) not enact the required legislation, or (ii) enact Opening Legislation which so restricts development of the Koniag ANWR Lands so as to render the Oil and Gas EDP Interests noneconomic, or (iii) enact Exchange Legislation which seeks to modify or alter the terms of the Exchange Agreement. Koniag has the option to terminate the Exchange Agreement prior to its consummation if the legislation which is enacted is not satisfactory to it. However, once executed, the Exchange Agreement requires Koniag to preserve and not encumber the Koniag Exchange Lands until December 31, 1993, or until such time as Koniag has terminated the Exchange Agreement in accordance with its terms. The consequences of such termination with respect to the Lease Agreements are addressed in the respective sections dealing with the LAA and Phillips Agreement.

Under the terms of the LAA, the Chevron Group is not required to take leases from Koniag or pay Koniag the lease bonus amounts unless it approves the form and content of the Opening Legislation and Exchange Legislation. The obligation of the Chevron Group to pay the balance of the lease bonuses after any leases have been issued is contingent upon its approval of the regulations promulgated under the Opening Legislation. The failure of the Chevron Group to approve such regulations could result in the termination of the LAA, in which event Koniag would not receive any further revenues under the LAA. If such termination occurred after the expiration of Koniag's right to terminate the Exchange Agreement, then Koniag would retain the undivided 51% interest in the Koniag ANWR Leases which would have been held by the Chevron Group. Similarly, Phillips

has the opportunity to terminate the Phillips Agreement if it finds the form and content of the enacted Opening Legislation and Exchange Legislation to be unacceptable to it. If such termination occurs, Phillips has no obligation to pay any additional amounts to Koniag. Should either the Chevron Group or Phillips or both exercise their rights to terminate their respective agreements, the Board of Directors intends to consider the reasons for such termination and the advisability of Koniag proceeding with the Exchange. Should it then be determined to be advisable, the Board of Directors intends to take all reasonable actions to enter into an equivalent transaction with another company prior to the expiration of its rights to terminate under the Exchange Agreement. It is not known whether Koniag could enter into a timely transaction with another oil company for such interests as then may be available or the nature of the terms of any such subsequent transaction.

There are certain operational risks involved in the Koniag ANWR Leases, the most recognizable of which is the risk that there may not be any oil or gas under the Koniag ANWR Lands which could be produced economically. If there is no production, Koniag will not receive any royalty under the Koniag ANWR Leases. Although the Koniag ANWR Leases require the lessees under such leases to use reasonable diligence in drilling, producing and operating wells once a commercial discovery is made, either Phillips or the Chevron Group could determine not to explore and drill for oil or gas, and could leave the Koniag ANWR Lands in an unproductive state for substantial periods before the leases would terminate. In addition, environmental groups opposed to oil and gas operations could seek to enjoin them because of alleged environmental considerations. If such litigation does occur, it could, at a minimum, delay operations, resulting in higher costs (which would delay and/or reduce any net profits interest which Koniag may have), and could, if successful, prevent any operations from occurring.

Any discovery of oil and gas in commercial quantities on the Koniag ANWR Leases would not be capable of production until development and transportation facilities (including facilities located off the Koniag ANWR Lands) are in place. The construction of any such facilities could be delayed or prohibited due to environmental factors, by third party litigation, governmental permit requirements or for other reasons. Thus, any production from which Koniag may be entitled to royalties may not occur for a substantial period of time, if at all.

There is also no guarantee that the economic return from any oil and gas discovery which may be made would be such as to allow Koniag to exercise its right to convert its royalty interest to a net profits interest or that if the conditions to allow the conversion were met, the proceeds from such net profits interest would exceed those to be derived under the gross royalty provisions of the Koniag ANWR Leases.

The possibility also exists that the Koniag ANWR Leases may be terminated by Phillips and the Chevron Group before any exploration efforts are undertaken. If such termination occurs, it is not possible to determine now whether such interests owned by Koniag could be leased to a third party or the terms of any such subsequent lease.

Under the Exchange Agreement, Koniag is obligated to perform certain final reclamation activities with respect to the oil and gas activities undertaken by it or with its approval under the Exchange Agreement on the Koniag ANWR Lands or other lands in ANWR. While, under the Lease Agreements, these obligations are assumed by the Chevron Group and Phillips, Koniag will be responsible for their nonperformance but will have a claim against the Chevron Group and Phillips for any costs which it may incur.

The Exchange is also subject to the risk that revenues received by Koniag from the Oil and Gas EDP Interests may be subject to the provisions of Section 7(i) of ANCSA. See "Proposition I—Litigation Affecting Proposed Exchange and Lease Agreements." Koniag believes that this risk is not very high. If it were determined prior to the consummation of the Exchange that revenues from the Oil and Gas EDP Interests were subject to Section 7(i), the Board would reconsider its position on the Exchange Agreement and its advisability for Koniag.

As discussed previously (see "Proposition I—Proposed Exchange—Receipt of Oil and Gas EDP Interests"), there is substantial uncertainty as to the value of the Oil and Gas EDP Interests and the value of the contingent interests under the Lease Agreements. The Board of Directors believes

this risk is acceptable given that, in the Board's view, the consideration to be received under the Lease Agreements which is not dependent upon the discovery of oil and gas (approximately \$58,300,000) is a fair value for the Koniag Exchange Lands. There is also uncertainty as to the value of the Koniag Exchange Lands. (See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands.")

The Board of Directors believes that many of the risks identified herein are inherent in either the oil and gas industry or the legislative process. The Board has attempted to minimize these risks to Koniag by setting the deadline for the Chevron Group and Phillips to give notice of their acceptance of the legislation in advance of the expiration of Koniag's right to terminate the Exchange if the Opening Legislation or the Exchange Legislation is not acceptable. While under the Lease Agreements, Koniag will not receive an amount equal to the Exchange Value of the Koniag Exchange Lands unless there is production from the Koniag ANWR Lands, the lease bonuses to be paid under the Phillips Agreement are a minimum of \$55,000,000 and in the Board's view this amount, plus the potential for a 20% royalty, would be fair consideration for the Koniag Exchange Lands. Thus, if Phillips approves such Legislation, then, irrespective of the risks involved in the exploration, development and production of the oil and gas interests, the Board of Directors believes that Koniag will receive fair consideration for the Koniag Exchange Lands even if it has to bear the risk that no production of oil or gas may occur. If Phillips fails to approve such legislation, then Koniag could terminate its obligations under the Exchange Agreement and retain title to the Koniag Exchange Lands. In that event, the Chevron Group would have no express right under the LAA to require that Koniag not terminate the Exchange Agreement. If Koniag did terminate the Exchange Agreement, it would still remain obligated by certain provisions of the LAA concerning confidentiality of information proprietary to the Chevron Group and certain rights of the Chevron Group to acquire a portion of any interest which Koniag may subsequently acquire in certain lands within ANWR. If such termination of the Exchange Agreement did occur, the costs of negotiating the Exchange Agreement and the Lease Agreements would have been defrayed by the monies received by Koniag under the Lease Agreements prior to that time.

During the negotiations, Koniag had an opportunity to include in the Exchange Agreement provisions which would grant it the right to rescind the Exchange if it failed to discover certain quantities of oil and gas within a specified period. This right of rescission would have granted Koniag the same rights afforded it by its right to rescind if it is unable to drill and complete a well as discussed in "Proposition I—Proposed Exchange—Termination of Exchange Agreement" above. However, in consideration for such right, the United States would have retained 1.75% of the total production which would have been paid out of Koniag's royalty interest in the Koniag ANWR Leases, reducing Koniag's royalty share by 3.75%. In order to exercise such right of rescission, Koniag would have been required to obtain the agreement of Phillips and the Chevron Group to surrender their leases. Given the guaranteed minimum compensation of approximately \$58,300,000 to Koniag under the Lease Agreements, the limited conditions under which the right of rescission would be exercisable by Koniag and the cost of the right, the Board of Directors believed the cost to Koniag of this right of rescission would exceed the benefits and therefore elected not to include it in the Exchange Agreement.

FINANCIAL EFFECTS OF THE PROPOSED EXCHANGE AND LEASE AGREEMENTS

1. Effects on Financial Statements

Because the fair value of lands conveyed under ANCSA could not be determined at the time of conveyance and in keeping with generally accepted accounting principles, Koniag does not reflect on its balance sheet the value of the lands or rights to receive land which it received under ANCSA, or which it received as the result of the Merger and which were conveyed pursuant to ANCSA. The acquisition of the Oil and Gas EDP Interests in the Koniag ANWR Lands through the Exchange will have no effect on the balance sheet of Koniag, since the value of the Oil and Gas EDP Interests will be booked at the same value (*i.e.*, zero) as the value of the Koniag Exchange Lands as carried on the books of Koniag. The Exchange itself will also not result in the recognition of income to Koniag for book purposes. However, the lease bonuses and other amounts to be paid to Koniag under the Lease Agreements and Koniag ANWR Leases will be booked as income to Koniag when earned.

2. Income Tax Considerations

The Board of Directors has been advised by its auditors that it is not clear under the tax law what part, if any, of the Exchange will qualify as a tax-free exchange to Koniag until its final form is known. If the Exchange or some part thereof does not qualify for tax-free treatment, Koniag would recognize taxable gain or loss in an amount equal to the difference between Koniag's tax basis in the portion of the property and rights exchanged that do not qualify for tax-free treatment and the fair market value of the corresponding portion of the Oil and Gas EDP Interests. Koniag's basis in the portion of the Koniag Exchange Lands already conveyed to Koniag by the United States Government at the time of the Exchange will be equal to their fair value at the time of their receipt from the United States Government. It is unclear whether Koniag will have any basis in its rights to the land yet to be conveyed to Koniag by the United States Government and if so how that basis will be determined. DOI and Koniag have determined that the Exchange Land Value is \$77,442,711 and DOI has determined that the value of the Koniag ANWR Lands is \$77,394,000. Koniag has obtained several estimates of the fair market value of the Koniag Exchange Lands which vary significantly among themselves and from the Exchange Land Value. See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands." None of these valuations are, however, binding on the Internal Revenue Service. The fair market value of the Oil and Gas EDP Interests is also unclear. Depending on the amounts ultimately determined for the basis of the Koniag Exchange Lands and for the fair market value of the Oil and Gas EDP Interests, Koniag could recognize substantial amounts of income, no income at all, or a tax loss.

Koniag has also been advised by its auditors that the payments made by the Chevron Group under the LAA and by Phillips under the Phillips Agreement prior to issuance of the Koniag ANWR Leases will be treated as option payments and will not be income to Koniag until it is determined whether or not the Koniag ANWR Leases will be issued. In the event that payments made by the Chevron Group and Phillips prior to issuance of the Koniag ANWR Leases are considered option payments for federal income tax purposes, then at such time as the options are either exercised (by the execution of leases) or expire, Koniag would recognize taxable income. If the options expire, there would be no offsetting basis adjustment and the entire amount would be included in Koniag's taxable income. If the payments from the Chevron Group and Phillips are not option payments for federal income tax purposes, these payments will constitute income upon receipt by Koniag.

If the options are exercised and leases are entered into, Koniag will recognize income in the amount of the lease bonus payments received. Koniag will, however, be entitled to a depletion deduction which will offset in part or totally the lease bonus payments. The depletion deduction will be cost depletion and will be calculated on Koniag's basis in the Oil and Gas EDP Interests. If the Oil and Gas EDP Interests were received in a tax-free exchange, as mentioned above, their basis would be the same as Koniag's basis in the Koniag Exchange Lands. ANCSA properties (properties received pursuant to ANCSA) are entitled to an alternative basis, if greater, based on the fair market value of the subsurface estate on the date of first commercial development. It is undetermined at this point whether the Oil and Gas EDP Interests will qualify as ANCSA property. If they do, an alternative basis valuation will be obtainable, assuming it exceeds the original basis. If the Exchange is taxable, Koniag's basis in the Oil and Gas EDP Interests will be their fair market value on the date of the Exchange unless the ANCSA alternative basis provisions apply.

If there is no commercial development, Koniag will recognize taxable income at some point in the future based on depletion recapture for the amount taken as an offset to the lease bonus payments.

PLEASE TAKE NOTE that Koniag will not obtain a tax opinion from counsel in connection with the tax treatment of the Exchange and the Lease Agreements. Moreover, any change in the tax laws may adversely affect the tax treatment of the proposed Exchange and the Lease Agreements. As part of the Exchange Legislation, Koniag will seek clarification that the Oil and Gas EDP Interests will be accorded the same tax treatment as lands subject to ANCSA. In the event that the Board determines that the tax treatment of the Exchange Agreement and the Lease Agreements will result in adverse tax consequences which are not mitigated by the Exchange Legislation, the Board will reconsider the advisability of Koniag's participation in the Exchange.

The above section refers exclusively to federal tax consequences. Alaska's corporate income tax is based on federal taxable income and generally follows the federal rules. In general, therefore, Koniag's Alaska income tax liability should be determined by applying the applicable Alaska tax rate at the time of the transaction to the amount of any gain recognized for federal tax purposes.

RIGHTS OF DISSENTING SHAREHOLDERS

Under the State of Alaska's Business Corporation Act, if a sale or exchange of all or substantially all of the assets of a corporation other than in the usual and regular course of business is authorized by a vote of the shareholders, a shareholder who opposes such sale or exchange may exercise what are called "dissenters' rights" and require the corporation to buy the shareholder's shares at their fair market value. As indicated above, it is not clear whether the Exchange Agreement and Lease Agreements constitute an exchange of substantially all of the assets of Koniag. In addition, while there is no judicial authority on the applicability of dissenters' rights to Alaska Native Corporations in these circumstances, ANCSA prohibits the transfer or alienation of Native Corporation stock until January 1, 1992, except in certain limited situations not applicable hereto. In light of the foregoing, Koniag believes that shareholders who oppose the Exchange Agreement and Lease Agreements will not be entitled to receive payment for their shares if the Exchange is approved and the Lease Agreements are ratified. Consequently, these shareholders will remain shareholders of Koniag.

PROPOSITION II—PROPOSED CONVEYANCES TO KARLUK AND LARSEN BAY

STATEMENT OF PROPOSITION II

Proposition II states:

IT IS NOW RESOLVED by the shareholders of Koniag, Inc. that the Board of Directors of Koniag Inc., be and hereby is authorized and empowered to convey, without consideration, the surface estate of approximately 34,186 acres in the vicinity of Karluk, Alaska to the Karluk IRA Council or its designee, and the surface estate of approximately 17,676 acres in the vicinity of Larsen Bay, Alaska to the Traditional Tribal Council for Larsen Bay, an unincorporated association, or its designee; provided, however, the following conditions in the determination of such Board of Directors shall have been met prior to the issuance of any such conveyances: (a) the consummation of the proposed Exchange with the United States of lands in the Kodiak National Wildlife Refuge for certain oil and gas exploration, development and production rights in and to certain lands in the Arctic National Wildlife Refuge; and (b) the enactment of federal legislation satisfactory to Koniag authorizing Koniag to make such conveyances without consideration, eliminating any unintended adverse tax consequences arising from the conveyances and including such other terms and conditions as Koniag shall determine to be necessary or appropriate. The actual amount of the acreage to be conveyed will be subject to adjustment resulting from the fulfillment of Koniag's obligations under Section 14(c) of ANCSA. Should either of these recipients designate another entity to receive conveyance, that designated entity must be comprised of a membership which is limited to all former shareholders of the Village Corporation for that community, or their heirs and descendants, unless any federal legislation which may be enacted provides otherwise. Any conveyances made pursuant to this resolution will provide that upon the occurrence of any of the following events, title to the lands so conveyed will automatically revert to and vest in Koniag:

- (a) A final judicial determination by a court of competent jurisdiction that the proposed Exchange is invalid or which it sets aside for any reason;
- (b) A final judicial determination by a court of competent jurisdiction that the merger between Karluk Native Corporation, Nu-Nachk Pit, Inc., and Koniag is invalid or which sets it aside for any reason;
- (c) A final judicial determination by a court of competent jurisdiction that the conveyances authorized hereby were not properly authorized, constitute waste of the assets of the corporation or are invalid for any reason.

BACKGROUND

As the result of the Merger between Koniag and KNC and NNPI, Koniag succeeded to the rights of KNC and NNPI with respect to their assets as of the date of the Merger, including but not limited to their rights to receive land under the provisions of ANCSA. Koniag, as a shareholder of KNC and NNPI received one share of Class B Koniag stock for each share of Village Corporation stock held by them. Koniag Class B shareholders are entitled to receive direct distribution of Alaska Native Fund and Section 7(i) monies, in addition to any dividends declared by Koniag.

As the successor-in-interest to KNC and NNPI, Koniag has the right to receive title to 169,196 acres of land on Kodiak Island which had been selected by the two Village Corporations, as well as title to their respective interests in the Afognak Joint Venture which had been created pursuant to the provisions of ANILCA in exchange for certain land entitlements of the participants.

Under the terms of the Merger, the Karluk IRA Council was to receive 1,860 acres of land and the Larsen Bay Traditional Council, 2,030 acres. These lands were the equivalent of ten acres for each shareholder who was originally enrolled to KNC and NNPI respectively. After discussions with the two recipient entities as to the location of these lands, Koniag, as successor-in-interest to KNC and NNPI, made the required conveyances. The two tribal organizations had sought to have Koniag convey certain lands which had been identified by each of the former shareholders as his preferred location. While there was no obligation on the part of Koniag to honor such requests, it attempted to do so, except with respect to lands which had been identified in the areas designated by FWS as being potentially the most valuable for the Exchange. Koniag had been advised by FWS that if these lands were conveyed in satisfaction of Koniag's Merger obligations, the Exchange might not be possible.

All of the lands proposed to be exchanged with DOI as discussed in Proposition I are lands which Koniag acquired in the Merger with KNC and NNPI.

Because of the Merger, Karluk and Larsen Bay are the only Native villages on Kodiak Island where the majority of the lands surrounding the village are owned by Koniag. Any decision affecting the use or disposal of such lands is made by Koniag, which is under no legal obligation to consider the desires of the village residents. The present Board of Directors has sought to administer these lands, where possible, in accordance with the wishes of the residents of the villages. Because there is no legal obligation to do so, future Boards of Directors may choose to follow a different course. The Board of Directors believes that it is important that the Native residents of each village in the Kodiak region have a more direct voice in the management of lands adjacent to their villages than that which exists in Karluk and Larsen Bay. Because of this concern, the Board of Directors is requesting that it be granted the authority to convey certain lands to the respective Tribal councils or their designees for each village.

PROPOSED AUTHORITY TO CONVEY

1. Scope of Proposed Authority to Convey

Under the proposal, Koniag would be authorized to convey to the Karluk IRA Council the surface estate of approximately 34,186 acres as shown on the map designated as Figure 1 ("Karluk Lands"). Koniag would be authorized to convey to the Traditional Tribal Council for Larsen Bay the surface estate of approximately 17,676 acres as also shown on Figure 1 ("Larsen Bay Lands"). These lands have not yet been surveyed and therefore the actual acreage may vary slightly upon performance of a final survey. Approximately 10,160 acres of the Karluk Lands and the Larsen Bay Lands are located within the boundaries of KNWR and are subject to the restrictions of Section 22(g) of ANCSA. The balance of the Karluk Lands and the Larsen Bay Lands, approximately 41,702 acres, are located outside the boundaries of KNWR and are not subject to the provisions of Section 22(g). Of the lands proposed for conveyance, approximately 1,570 acres of the Karluk Lands and 1,567 acres of the Larsen Bay Lands are lands for which Koniag has the right to receive title and which have yet to be conveyed to Koniag. At the time that Koniag receives conveyance of these lands from the United States Government, Koniag would then convey such lands to the tribal councils if the other requirements for these conveyances have been met. The actual amount of land to be conveyed will be subject to the fulfillment of Koniag's obligations to make certain conveyances

to third parties under Section 14(c) of ANCSA. The number of acres stated here are net of all Section 14(c) claims of which Koniag is aware but negotiations are still in progress with the State of Alaska's Municipal Land Trustee as to the amount of acreage to be transferred by Koniag to it in trust for a municipal corporation which may be created at Karluk. If such negotiations are completely unsuccessful and Koniag is required to transfer the maximum amount of land required under Section 14(c)(3) of ANCSA, it would then be able to convey 33,326 acres to Karluk IRA Council.

The Board of Directors has not commissioned a formal appraisal of the lands to be conveyed. However, Dirksen did perform at Koniag's request an estimate of value based upon the same assumptions and methodology used by FWS to value the Koniag Exchange Lands. See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands". In a report dated September 15, 1987, Dirksen estimated the total value of the lands to be conveyed to the Karluk IRA and Larsen Bay Tribal Council to be \$8,442,000. This estimate is based upon a "highest and best use" analysis and does not reflect either the effect of Section 22(g) of ANCSA or the value that such lands might have in an exchange with DOI. Such estimates of value are subject to the same problems as previously identified in the discussion of valuation of the Koniag Exchange Lands (See "Proposition I—Proposed Exchange—Valuation of Koniag Exchange Lands") but are even less reliable (because most of these lands were not part of the lands appraised by FWS).

2. Recipients of the Conveyances

Koniag proposes to convey the Karluk Lands to the Karluk IRA Council or its designee; the Larsen Bay Lands would be conveyed to the Larsen Bay Tribal Council, an unincorporated association, or its designee. Depending upon the conditions set by legislation authorizing the conveyances (see "Proposition II—Proposed Authority to Convey—Conditions of Issuance of Conveyances"), tax considerations, political perceptions regarding tribal sovereignty and other factors, it may be appropriate for each of the tribal governments to establish and designate other entities to receive the conveyances. If the respective tribal councils designate other entities to receive title, then each such entity will be limited to a membership of all former shareholders of the respective Village Corporation, or their heirs and descendants, unless any authorizing legislation provides otherwise.

3. Conditions of Issuance of Conveyance

No conveyances of the Karluk Lands and the Larsen Bay Lands would be made until the Board of Directors has determined that the following conditions have been met:

- (a) The consummation of the Exchange and the receipt by Koniag of the Oil and Gas EDP Interests, which consummation cannot occur without the approval of Proposition I authorizing the Exchange;
- (b) Enactment of federal legislation satisfactory to Koniag which authorizes Koniag to convey, without consideration, the Karluk Lands and Larsen Bay Lands to the Karluk IRA Council and the Larsen Bay Tribal Council respectively, eliminates any unintended adverse tax consequences arising from the conveyances, and includes such other terms and conditions as Koniag shall determine to be necessary or appropriate.

The Board of Directors believes that the Karluk Lands and Larsen Bay Lands should not be conveyed until the Exchange has been consummated and, as a result thereof, Koniag has either received or will be legally entitled to receive sufficient funds (approximately \$58,300,000 less whatever amount may be allocated to the shareholder permanent distribution fund if such fund is created (see "Proposition III")) from the Lease Agreements to "replace" the capital of the corporation (shareholders equity) which had been lost in prior years.

The Board of Directors is further conditioning such conveyances upon the enactment of authorizing federal legislation satisfactory to the Board. At the present time it is unclear whether Koniag has the authority to make a transfer of this magnitude without monetary or other financial consideration. In addition, the tax treatment of the conveyances could be problematic in the absence of legislative relief, and there are other matters that need to be addressed legislatively. Consequently, no conveyances will be made until satisfactory legislation has been enacted.

4. Reverter Provisions in the Conveyances

Any conveyance issued pursuant to the authorization granted by this Proposition II shall provide that upon the occurrence of any of the following events, title to the lands conveyed will automatically revert to and vest in Koniag:

- (a) A final judicial determination by a court of competent jurisdiction that the Exchange is invalid or which sets it aside for any reason;
- (b) A final judicial determination by a court of competent jurisdiction that the Merger between KNC, NNPI, and Koniag is invalid or which sets it aside for any reason;
- (c) A final judicial determination by a court of competent jurisdiction that the conveyances of the Karluk Lands and the Larsen Bay Lands were not authorized, constituted waste of the assets of the corporation or were invalid for any reason.

The first reverter condition reflects the premise upon which the conveyances are being submitted for shareholder authorization. If the Exchange is set aside, title to the lands would revert to Koniag for such further action as the Board of Directors and shareholders may determine to be appropriate.

Since Koniag acquired title to the lands as the result of the Merger, the second reverter condition provides that upon a determination of the invalidity of that Merger, title to the lands would vest in Koniag. This condition allows Koniag to then be in a position to reconvey these lands to the reestablished Village Corporations from which it received them if a court so ordered. Since no compensation is to be received by Koniag for the proposed conveyance, this provision is necessary to avoid any risk that Koniag, having conveyed the lands to entities comprised of the former shareholders of the Village Corporations, could nonetheless be required, should the Merger be challenged successfully, to compensate the Village Corporations for the loss of their lands.

The third reverter condition, the reversion of title to Koniag if the conveyance is held to be invalid, unauthorized or constitute waste, is included to minimize the exposure and potential injury to Koniag if such a finding is made, by insuring that title to the lands would revert to Koniag and thus Koniag would be restored to its present position. This provision is necessary given the risk that the recipient of the conveyances might transfer title to a third party and thus may not be in a position to return title to Koniag in the event of such a judicial determination.

All of these provisions would be a condition of the title of any subsequent owners of the lands and would be applicable to them as well as the original recipients. These reverter provisions may affect the marketability of the lands by the tribal councils. This effect could extend beyond the period during which the reversionary conditions could occur because of transaction costs associated with evaluating the risk (at least until such time as title insurance becomes available).

5. Lack of Consideration

PLEASE TAKE NOTE, BECAUSE THE PROPOSED CONVEYANCES, IF MADE, WOULD NOT INVOLVE THE PAYMENT OF ANY MONETARY CONSIDERATION TO KONIAG, THE CONVEYANCES WOULD RESULT IN A DECREASE IN THE UNDERLYING VALUE OF THE KONIAG STOCK.

FINANCIAL EFFECTS OF THE PROPOSED CONVEYANCES

1. Effect Upon the Financial Statements

Because the Karluk lands and the Larsen Bay lands would be conveyed without financial or monetary consideration, their conveyance as authorized would result, if such lands were shown as an asset with a value for financial statement purposes, in a decrease in the reported value of the assets of Koniag by an amount equal to the fair market value of such lands as of the date of their conveyance under ANCSA, with corresponding decrease in the contributed capital or shareholder equity account. The effect of this accounting transaction would be to decrease the book value of each share of outstanding Koniag stock.

At the present time, however, Koniag does not carry on its books any value for the lands or rights to obtain land received pursuant to the provisions of ANCSA, including the Karluk Lands and the Larsen Bay Lands. Consequently, for financial statement purposes, no corresponding adjustment to shareholder equity will be shown on the financial statements of Koniag when the lands are conveyed.

It is possible that the conveyances may occur after January 1, 1992, at which time the stock of Koniag may be transferable. Because it is not possible to forecast the conditions under which such shares of Koniag stock may be sold, the existence of a market or the market value of such shares, it is not possible at this time to determine the effect of the proposed conveyance upon the market value of the Koniag stock if it becomes transferable.

2. Income Tax Considerations

The proposed conveyances could have adverse tax consequences to Koniag and its shareholders. Koniag will seek legislation to minimize or eliminate any such adverse tax consequences. However, under current tax laws the conveyance could be interpreted by the Internal Revenue Service to be equivalent to a preferential dividend to Koniag shareholders who are former shareholders of KNC and NNPI. Even though the properties would not be received by such shareholders directly, the distribution to the tribal councils for the benefit of these shareholders could be viewed by the Internal Revenue Service as a distribution of property with respect to stock. Should this occur, Koniag would be subject to a tax on the excess of the fair market value over the tax basis of the properties distributed.

From the shareholder perspective, the fair market value of the properties received by the tribal council could be treated as a distribution with respect to stock. If it is so treated, shareholders would be considered to have received a dividend to the extent of Koniag's current or accumulated earnings and profits (as calculated for federal income tax purposes) at the time of the distribution but not to exceed an amount equal to the fair market value of the properties. Koniag's earnings and profits cannot currently be precisely determined and could be as much as the entire amount of the distribution. Any distribution in excess of current or accumulated earnings and profits would reduce the shareholders' basis in their Koniag stock, and any amount remaining after such basis was reduced to zero would be treated as income from the sale of property.

As mentioned above, Koniag intends to pursue legislative relief to avoid these potential adverse tax consequences to itself and its shareholders. The actual tax consequences to both Koniag and the shareholders will depend on the status of the tax laws at the time of conveyance, the income position of Koniag, the value of the lands to be conveyed, the tax status of the recipients, and the legislative relief obtained.

PLEASE TAKE NOTE that Koniag will not obtain a tax opinion from counsel in connection with the tax treatment of the proposed conveyances. The Board does not intend to carry out the proposed conveyances should it determine that the conveyances would have materially negative tax consequences for Koniag or its shareholders and that these consequences have not been remedied by legislation satisfactory to Koniag.

The above section refers exclusively to federal tax consequences. Alaska's corporate income tax is based on federal taxable income and generally follows the federal rules. In general, therefore, Koniag's Alaska income tax liability should be determined by applying the applicable Alaska tax rate at the time of the transaction to the amount of any gain recognized for federal tax purposes. This discussion does not refer to any potential state tax liability of Koniag other than for corporate income tax. The potential state tax consequences to individual shareholders will depend on their personal situation and on the state in which they reside. Individuals should, therefore, consult their personal tax advisors about both the impact of federal taxes on their personal situations and about potential state tax liabilities.

VOTE REQUIRED

Because of the magnitude of the proposed conveyances of the Karluk Lands and Larsen Bay Lands and the fact that they could be said to disproportionately benefit certain Koniag shareholders, the Board of Directors has determined that authorization of the conveyances should be subject to a higher standard of shareholder consent than a majority vote. For this reason, the Board of Directors

has conditioned further Board action to seek the affirmative vote of at least two-thirds (2/3) of the Annual Meeting.

CERTAIN TRANSACTIONS

Other than as specified below, there is no meeting between the Larsen Bay Tribal Council and Koniag, its officers or directors except for those matters generally pertaining to the management of the Karluk Lands and the Larsen Bay Lands. Jimmy Johnson, a director of Koniag, is a former shareholder of NNPI and a resident of Larsen Bay and would benefit from the approval of the proposal. The other residents of Larsen Bay and former shareholders of NNPI.

PROPOSITION III—SHAREHOLDER DISTRIBUTION PERMANENT FUND—ADVISORY

STATEMENT OF PROPOSITION III

Proposition III states:

IT IS NOW RESOLVED by the shareholders of Koniag, Inc. that the Board of Directors is authorized and empowered to investigate and report to the shareholders of the corporation for the creation of a Shareholder Distribution Permanent Fund to be funded with a portion of the revenues which are derived from the development and production rights acquired by Koniag, Inc. and, if it deems it to be advisable, to seek enactment of special legislation to authorize the creation of the fund.

BACKGROUND

If the Exchange is consummated and Koniag, Inc. leases are issued under the Lease Agreements, Koniag will be paid significant amounts of money as lease bonuses. These monies (approximately \$58,300,000) are almost equal to three times the initial capitalization of Koniag under ANCSA from the Alaska Native Fund. It is the desire of the Board of Directors that a portion of these monies and of a portion of any royalty or other profit interest that Koniag may receive under the Koniag ANWR Leases be set aside in a separate entity for the purpose of generating income to be paid to the present shareholders of Koniag and their heirs. The creation of such a fund would allow all present shareholders of Koniag to share directly in any benefits which may be derived from the Exchange. In the past, Koniag has been unable to pay dividends. While it is the goal of the Board of Directors to manage Koniag so that it will be in a position to pay dividends to its shareholders, there can be no assurance that any such dividends will be paid. The Board of Directors wishes to assess the possibility of developing a structure for a Shareholder Distribution Permanent Fund, which if established and capitalized properly, could consistently generate distributions to the present shareholders and their heirs. The Board may also wish, in order to minimize the legal and tax issues associated with such a fund, to seek the enactment of special legislation authorizing its creation.

Because the development of a plan for a fund will require a substantial commitment of the Koniag staff and may require Koniag to seek the enactment of special legislation, the Board of Directors is soliciting an advisory vote of interest of the shareholders before causing the Corporation to proceed with the development of this proposal.

DESCRIPTION OF CONCEPT

The proposal would create a fund separate from Koniag, formed to protect and preserve the assets transferred to it, to invest and reinvest the original contributions and subsequent proceeds therefrom, and to distribute all or a portion of its net income each year to the beneficiaries of such fund. The fund would be a trust or other form of organization. The beneficial interests in the fund would be held by the present shareholders of Koniag and their heirs. This interest would be separate from their ownership of stock in Koniag so that a sale of the stock of Koniag, to the extent permitted by law, would not also result in a transfer of the shareholder's interest in the entity.

The reason for the use of a separate fund is to segregate a substantial amount of money and future income producing assets from the remaining assets of Koniag. The assets to be distributed to the fund would be irrevocably and permanently set aside for the purpose of producing income to be distributed on an annual basis to the existing shareholders of Koniag and their heirs. Koniag would retain no control over the new fund or the assets to be conveyed thereto. Separate trustees or other administrators would be named and would be independent of Koniag.

It is presently anticipated that as much as \$20 to \$25 million of the monies received by Koniag as bonuses under the Koniag ANWR Leases could be distributed to the fund, and that an undivided interest in the Koniag ANWR Leases and in the royalty income generated therefrom could also be distributed to the fund. The actual amount of funds and the actual amount of the undivided interest to be distributed to the fund would be subject to the determination of the Board and would be set out in a subsequent proposal seeking shareholder approval of the formation of the Fund.

Because of legal, financial, tax and policy considerations, further work, including the possible enactment of special legislation, must occur before a final proposal will be submitted to the shareholders for approval. If legislation is required, it is anticipated that it will be sought as part of the legislation authorizing the Exchange which may be introduced in Congress during the 100th Congress.

A FAVORABLE ADVISORY VOTE AUTHORIZING THE DEVELOPMENT OF A PROPOSAL WILL NOT GUARANTEE THE CREATION OF THE FUND OR CONSTITUTE ITS ESTABLISHMENT. While the Board of Directors will seek to develop a proposal to be submitted to the shareholders, further research may disclose legal, financial or tax considerations the impact of which would seriously jeopardize the benefits sought to be obtained.

BECAUSE THIS IS ONLY AN ADVISORY VOTE AND DOES NOT REQUIRE OR GUARANTEE THE CREATION OF SUCH FUND, YOU SHOULD NOT RELY UPON THE ESTABLISHMENT OF THE FUND IN DETERMINING HOW TO CAST YOUR VOTES ON THE OTHER PROPOSITIONS ON THE AGENDA.

VOTE REQUIRED

The proposition will be deemed approved, and further work on developing a proposal will proceed, if a majority of the shares voting on the proposition vote in favor of it.

ELECTION OF DIRECTORS

At the Annual Meeting, the Company's Shareholders will elect three Directors to serve for a term of three years and until their successors are elected and qualify.

The only voting securities of Koniag are its shares of Class A and Class B common stock (The "Common Stock").

CUMULATIVE VOTING

When voting for Koniag Directors, each Shareholder has the number of votes equal to the number of shares owned times the number of Directors to be elected. Three Directors will be elected at this Annual Meeting. If you own 100 shares of Common Stock, for example, you have 300 votes you can cast in the election for directors. With cumulative voting, you may cast your votes all for one person, or distribute them among as many candidates as you wish, in the amounts you wish. This method of voting was designed to protect the interests of minority shareholders.

The three candidates receiving the highest number of votes cast shall be elected, provided that they have a combined vote total equal to a majority of the votes cast. In the event they do not, further rounds of balloting will be held until this standard is satisfied.

NOMINEES OF THE BOARD OF DIRECTORS

The Company's Board of Directors has nominated the persons named below for election as Directors at the Company's Annual Meeting. Unless otherwise instructed by the shareholders in the proxy, the persons named as proxies in the enclosed proxy form intend to vote all shares represented by properly signed proxies for the nominees listed below. The proxy holders will vote such shares cumulatively in the manner they determine to provide for the election of the greatest number of such nominees. Although the Board of Directors believes that all of its nominees will be available to serve as Directors of Koniag, should any one or more of them be unable or unwilling to serve, or withdraw their name from consideration, it is intended that the proxies will be voted for the election of a substitute nominee or nominees designated by the Board of Directors.

The following table lists the names, addresses and ages of the nominees of the Board of Directors, and, if they were previously elected or appointed to serve as a director, the year in which they were appointed or elected.

<u>Nominee's Name & Address</u>	<u>Age</u>	<u>Annual Meeting First Elected/ Appt.</u>
William Forrest Hartman Box 733 Kodiak, AK 99615	56	1985
Evelyn Mullan 150 Farnsworth Soldotna, AK 99669	36	1985
Michael Pagano 8040 Fairwood Circle Anchorage, AK 99503	30	1981

William Forrest Hartman was born and raised in Kodiak. He has been employed as a civilian employee by the United States Coast Guard since March 1973, and presently works in the capacity of Heavy Equipment Operator Leader. Mr. Hartman is also a fisherman. He served in the U.S. Army from 1948 to 1952 and has served on the Shuyak Inc. Board of Directors since 1974, and is presently Vice President of Shuyak Inc. Mr. Hartman presently serves on the Finance Committee and the Scholarship Committee of the Board of Directors of Koniag. He has served on the Koniag Board

since May, 1985. Mr. Hartman is on the Executive Committee of the Afognak Joint Venture in which Koniag holds a 33% interest and which was indebted to Koniag in the amount of \$62,201 as of August 31, 1987.

Evelyn Mullan is a resident of Soldotna, Alaska, but has been actively involved in Native matters for many years in Ouzinkie. She was involved in the organization of the Tribal Council for Ouzinkie and served on it from 1982 to February 1985. She has also served on the Kodiak Area Native Association Board of Directors, as a Commissioner for the Kodiak Island Housing Authority, and as Vice Chairperson of the Local Advisory School Board of Ouzinkie. She is also a Director and Secretary of the Ouzinkie Native Corporation, which corporation received \$31,465 from Koniag during fiscal year 1986, pursuant to Section 7(j) of ANCSA. Mrs. Mullan was Secretary of Koniag in 1986.

Michael Pagano was born on Kodiak Island and is presently a resident of Anchorage, Alaska. He has served on the Board of Directors of Koniag since 1981 and has held the office of Secretary/Treasurer of Koniag since October 1986. He owns and operates a commercial set-net salmon fishing business on Uganik Bay during the summer months and attends college during the winter. In May, 1986, he received an Associate Degree in Applied Sciences in Business Administration from Anchorage Community College and presently intends to attend the University of Alaska this winter to continue his studies in Business Administration.

Mr. Pagano is presently a director of Leisnoi, Inc., which corporation received \$27,475 from Koniag during the fiscal year 1986, pursuant to Section 7(j) of ANCSA. He is the son of Frank Pagano and nephew of Judith Meidinger.

NOMINATION BY SHAREHOLDER PETITION

Pursuant to Article 2, Section 2.7c. of the Bylaws of Koniag, twenty-five shareholders signing a petition may nominate a candidate for the position of director. The Election & Rules Committee of Koniag, Inc. received the following nomination by shareholder petition for the Koniag, Inc. Board of Directors:

Nancy E. Anderson is a resident of Kodiak, Alaska. She is 58 years old. Mrs. Anderson graduated from Mt. Edgecumbe High School in 1948 and earned a degree in Business Education in 1975 from Kodiak Community College. During the past five years she has been employed as a secretary/receptionist for Natives of Kodiak, Inc. At the present time she is employed as a part-time chauffeur by Kodiak Cab Company and part time by Alaska Delta, Inc. doing general office work.

Mrs. Anderson served as a director of Koniag from 1974 to 1983. She has served as Vice Chairperson of the Board, and has served on the following committees of the Board of Directors: Bylaws, Personnel, Audit, Executive and Finance. Mrs. Anderson was a director of Koniag at the time of the merger and was a defendant in the litigation challenging the merger. As the result of a settlement with the plaintiffs in that litigation, Mrs. Anderson and the other individual defendants who were directors of Koniag at the time of the Merger, agreed not to serve on the Board of Directors of Koniag, or as an employee of Koniag, until after September 26, 1987. Mrs. Anderson was also obligated under that settlement to pay \$2,500 to the villages represented by the plaintiffs.

NOMINATIONS AT THE ANNUAL MEETING

Nominations may also be made by the shareholders from the floor at the annual meeting as allowed by the Bylaws, Article II, Section 2.7(e), of the Corporation.

DIRECTORS WHOSE TERMS WILL CONTINUE

<u>Name & Address</u>	<u>Age</u>	<u>Year</u>	<u>Year Current Term Expires</u>
Emil Christiansen, Sr. P.O. Box 63 Old Harbor, AK 99643	33	1985	1988
James ("Jimmy") Johnson P.O. Box 15 Larsen Bay, AK 99624	47	1985	1988
Judy Meidinger 2711 Valley Forge Cir. Anchorage, AK 99502	47	1983	1988
Peter J. Olsen P.O. Box 2723 Kodiak, AK 99615	26	1985	1989
Frank Pagano 2247 W. 46th Anchorage, AK 99503	60	1976	1989
Thomas H. Panamaroff P.O. Box 123 Kodiak, AK 99615	26	1986	1989

Frank Pagano was born in Kodiak. He is married to Ellen Simeonoff. They have three adult children. He served in the U.S. Army in the Korean War and is retired from the Alaska Army National Guard. In 1982, he retired from the United States Federal Aviation Administration (FAA). From August, 1982, to the fall of 1985, he was employed by Counselors Inc. From January 1, 1986 to April 1, 1987, Mr. Pagano was employed part-time by Leisnoi Inc. in the capacity as President, and part-time by Koniag as President. Since April 1, 1987, Mr. Pagano has been employed full-time by Koniag.

Mr. Pagano presently serves as President of Koniag, Inc., a position he has held since February, 1984. Mr. Pagano is also the President of Kodiak Island Seafoods, Inc., Kodiak Swiftsure Corp. and The Kazim Company, and is Chairman of the Board of Swiftsure Alaska, Inc. all of which are subsidiaries of Koniag. Mr. Pagano resigned from the Board in March, 1982, along with others, and expressed concerns regarding the management of Koniag and its failure to settle the litigation regarding the Merger. In response to his efforts to recall the former Board in 1982, the former Board and management filed a complaint with the Alaska Securities Commission against him and sued him and others for defamation. While the Alaska Securities Commission, based on the record presented by the former management of Koniag, found that his recall proxy solicitation violated the Alaska securities laws, the new management stipulated in the settlement of the appeal of the Commission's decision that based upon information available to Koniag but not produced by the former management, the validity of the Commission's findings were called into question. As the result of the settlement, Mr. Pagano was reimbursed by Koniag for his costs and attorneys' fees.

Mr. Pagano has served as a police officer for the City of Kodiak and has also been a commercial fisherman. His experience and background is in personnel administration, investigations and program management. During fiscal year 1986, Mr. Pagano was also a member of the Leisnoi Board and President of the Corporation. Mr. Pagano resigned as President of Leisnoi Inc. on April 1, 1987, and from the Board of Directors of Leisnoi Inc. on July 24, 1987. He is the father of Michael Pagano and the brother-in-law of Judith Meidinger.

Peter J. Olsen was born in Anchorage and raised in Kodiak. He graduated from Kodiak High School in 1979. He graduated from Oregon State University College of Forestry in the spring of 1984. From 1971 to 1978 he was employed as a commercial fisherman. From 1979 to 1983 he was employed by Afognak Native Corporation doing timber cruises for timber sales, administration and reforestation site preparation and forest planning. Since the summer of 1984, he has been employed by Afognak Native Corporation as a forester. Mr. Olsen is currently vice-president of Koniag, a position which he has held since December, 1985. Mr. Olsen is also a member of the State of Alaska Forestry Board.

The Afognak Native Corporation received \$47,617.46 from Koniag during fiscal year 1986 pursuant to Section 7(j) of ANCSA. In addition, pursuant to an agreement dated October 10, 1983, between Koniag and Afognak Native Corporation, Koniag agreed to pay Afognak Native Corporation the principal sum of \$250,000.00 in settlement of the litigation regarding the Merger. Payment is to be made over a ten (10) year period. During the last fiscal year, Koniag paid Afognak Native Corporation \$36,396.89 in principal and interest. Since the end of the last fiscal year and prior to the date of this Proxy Statement, Koniag has paid in full the outstanding balance of this settlement.

Thomas H. Panamaroff was born in Kodiak, Alaska, and is a long-time resident. He is a graduate of Kodiak High School and in 1983 received a Bachelor of Science Degree in Finance from the University of Oregon College of Business Administration with a major in Finance.

During the summers from 1972 through 1983 he seined salmon in commercial fisheries. During 1984 he served as Administrative Assistant to State Senator Bob Mulcahy of Kodiak, researching fisheries and resource-related legislation as well as assisting constituents with their concerns. From 1985 to the present he has been employed as the Administrative Assistant to State Senator Fred F. Zharoff, responsible for budget analysis, capital project requests of the communities in Alaska State Senate District N. and various other tasks assigned by the Senate. He has been a director of Koniag since October, 1986.

Emil Christiansen, Sr. is a resident of Old Harbor, Alaska. He graduated from Kodiak High School in 1973. Mr. Christiansen was appointed as a director by the Board on June 14, 1985 to complete the unexpired portion of the term of Emil Norton, who resigned in 1985. Mr. Christiansen is a self-employed fisherman and owner of a boat which he operates. He has been self-employed for more than five years.

Mr. Christiansen is indebted jointly with several of his brothers to Kodiak Island Seafood, Inc., a wholly owned subsidiary of Koniag, in the amount of \$3,569 as of October 1, 1987, which debt arose from the purchase by Mr. Christiansen, Mr. Carl Christiansen and Mr. Harold Christiansen of a Butler Building in Old Harbor. Mr. Christiansen is a director of Old Harbor Native Corporation, which corporation received \$31,095 from Koniag during fiscal year 1986, pursuant to Section 7(j) of ANCSA.

James ("Jimmy") Johnson is 47 years old and a resident of Larsen Bay, Alaska. He has been a director since 1985. He graduated from high school in 1958 and attended Mankato State College for three years. He has been involved in commercial fishing for thirty five years. Since April 1984, he has managed L.B. Utility Co.

Because of personal debts, Mr. Johnson filed for personal bankruptcy on January 21, 1985, and an order discharging his debts was entered September 17, 1985.

During fiscal year 1986 ending March 31, 1987, Mr. Johnson attended 28% of regularly scheduled and special meetings of the Board of Directors and committee meetings of committees on which he has served.

Judith Meidinger was born at Woody Island, Alaska, and has been a resident of Anchorage for 17 years. She has been most recently employed as President of Counselors Inc. (1981-1986) which provided management and community relations services to the oil industry of Alaska. Counselors Inc. has since ceased operations. She has also served as Executive Vice President of Alaska Native Foundation, Inc. (1978-1981) and Executive Director of Copper River Housing Authority (1976-1977). Mrs. Meidinger is presently serving as a member of the National Petroleum Council and as a member of the Trade Alaska Board of Advisers to the Governor of the State of Alaska.

Mrs. Meidinger is Chairman of the Koniag, Inc. Board of Directors, and she has served in this capacity since February, 1985. She is aunt to Michael Pagano and sister-in-law to Frank Pagano.

REMUNERATION

Remuneration For Fiscal Year Ending March 31, 1986

	<u>Gross Wages</u>	<u>Director's Compensation</u>	<u>Personal Benefits</u>
Uwe L. Gross (Executive Vice President and Chief Executive Officer)	\$101,052*	-0-	2,528
K.S. Kearney (Controller)	\$ 44,200	-0-	-0-
Frank Pagano (President and Director)	\$ 30,000	-0-	1,469
Judith Meidinger (Chairman of the Board and Director)		6,625	675
Evelyn Mullan (Secretary and Director)	-0-	4,800	368
Total Officers and Directors' Fees (12 persons)	\$210,146		

* Of this amount \$6,947 was paid to Mr. Gross for annual leave time which he was unable to use because of Koniag's business.

The Company maintained a non-contributory, defined benefit pension plan for its employees which was terminated April 20, 1985. The Company now maintains a simplified employee pension plan under which the contributions for all employees by the Company are discretionary each year.

The Company's Directors were paid \$200 per day during fiscal year 1986 for attending meetings of the Board of Directors or Committees of the Board and are currently paid \$275 per day. Those Directors required to travel to attend Board and Committee Meetings are also paid per diem in an amount which is equal to that permitted under federal guidelines for the locality.

CERTAIN TRANSACTIONS

Except as disclosed herein, none of the present management or Board Members is indebted to Koniag or any of its subsidiaries.

BOARD COMMITTEES AND CERTAIN OTHER COMMITTEES OF KONIAG

The Board of Directors designated the following committees during the fiscal year 1986, from April 1, 1986 to March 31, 1987:

<u>Executive Committee</u>	<u>Land</u>
Judith Meidinger	Emil Christiansen
Frank Pagano	Evelyn Mullan
Michael Pagano	Michael Pagano
Peter J. Olsen	Peter J. Olsen
<u>Bylaw/Personnel</u>	<u>Audit/Finance</u>
Judith Meidinger	Michael Pagano
Evelyn Mullan	William Hartman
James Johnson	Evelyn Mullan
Peter J. Olsen	Tom Panamaroff
<u>14(c) Committee</u>	<u>Election & Rules</u>
Sonny Chichenoff*	Howard Valley*
Julie Knagin*	Pat Harris*
Peter Olsen Sr.*	Tom Panamaroff
Richard Simeonoff*	

*These persons are shareholders but not directors of Koniag.

These committees perform the following functions:

<i>Executive Committee</i>	acts on behalf of full Board of Directors between regular meetings of the Board of Directors.
<i>Land</i>	monitors and makes recommendations regarding the lands held by Koniag as well as those to be conveyed pursuant to ANCSA.
<i>Bylaw/Personnel</i>	reviews board and management actions on adherence to and recommends changes to Bylaws; recommends personnel policies for management/staff.
<i>Audit/Finance</i>	considers and makes recommendations regarding budgets, financial advisors and financial matters; also makes recommendations regarding auditors, monitors annual audits and reviews of internal operations and finances.
<i>14(c) Committee</i>	makes determinations on behalf of Koniag as required by Section 14(c)(1), (2) and (3) of the Alaska Native Claims Settlement Act.
<i>Election & Rules</i>	monitors and enforces annual meeting election procedures.

INFORMATION CONCERNING KONIAG'S ACCOUNTANTS

Koniag's certified public accountants for the last fiscal year were Peat Marwick Main & Co. A representative of Peat Marwick Main & Co. will be present at the Annual Meeting with the opportunity, if he desires, of making a statement, and with the responsibility to respond to appropriate questions.

Peat Marwick Main & Co. examined the financial records of Koniag as well as its subsidiaries and performed the audit for fiscal year 1986. In addition to its audit work, Peat Marwick Main & Co. prepared the corporate tax returns and provided tax counseling. During fiscal year 1986, 48% of the total amount paid to Peat Marwick Main & Co. was for services which were not related to the audit.