

ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

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STATE OF ALASKA

By: \_\_\_\_\_  
Commissioner of Natural Resources

By: \_\_\_\_\_  
Attorney General

STATE OF ALASKA            )  
  ) ss:  
THIRD JUDICIAL DISTRICT    )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 1993, by The Commissioner of Natural Resources of the State of Alaska.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My commission expires: \_\_\_\_\_

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STATE OF ALASKA )  
 ) ss:  
THIRD JUDICIAL DISTRICT )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_, Attorney General for the State of Alaska.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My commission expires: \_\_\_\_\_



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SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement"), dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 1993, by and between THE STATE OF ALASKA ("Secured Party"), being the Secured Party hereunder, and TESORO ALASKA PETROLEUM COMPANY ("Debtor"), is entered into with reference to the following:

RECITALS

A. Debtor is indebted to Secured Party under a Settlement Agreement dated December 15, 1992, attached hereto as Exhibit A and incorporated by reference (the "Settlement Agreement"), in the original principal amount of NINETY SEVEN MILLION SIXTY THOUSAND FIVE HUNDRED ONE DOLLARS (\$97,060,501.00) and as further set forth in the Settlement Agreement.

B. The Settlement Agreement is secured among other things by a Deed of Trust and a Bond. The Deed of Trust, this Security Agreement, the Non-Standard Financing Statement and Bond are hereby known as the Security Documents. The Security Documents encumber the real property described on Exhibit B attached hereto and the improvements situated thereon (collectively the "Real Property"), and the collateral further described herein.

C. Secured Party is willing to enter into the Settlement Agreement in reliance in part on the execution of this Security Agreement.

NOW, THEREFORE in consideration of the above recitals and of the mutual covenants, representations and warranties contained herein and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Debtor and Secured Party agree as follows:

1. Grant of Security Interest. Debtor hereby grants to Secured Party a security interest in the property described in Paragraph 2 below (collectively and severally the "Collateral") to secure payment and performance of the obligations to Secured Party described in Paragraph 3 below (collectively and severally the "Obligations").

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2. Collateral. The Collateral shall consist of the following (the terms used herein are as defined in the Alaska Uniform Commercial Code):

a. All improvements now or hereafter attached to or placed, erected, constructed or developed on the tract of land described on Exhibit "B" attached hereto and made a part hereof for all purposes (the "Premises"), situated in the Kenai Recording District, Third Judicial District, Alaska

b. All fixtures, furnishings, equipment, spare parts, supplies, inventory (but excluding all crude oil, refined product, partially refined product, and all hydrocarbons, additives and other ingredients to be incorporated in the refined product) and articles of personal property (the "Personal Property") now or hereafter attached to or used in or about the Improvements or Premises or that are necessary or useful for the complete and comfortable use, operation, and occupancy of the Improvements for the purposes for which they were or are to be attached, placed, erected, constructed or developed, or which Personal Property is or may be used in or related to the planning, development, or operation of the Improvements, and all renewals of or replacements or substitutions for any of the foregoing, whether or not the same are or shall be attached to the Premises or Improvements.

c. All water and water rights, timber, crops, and mineral interests pertaining to the Premises.

d. All building materials and equipment now or hereafter delivered to and intended to be installed in or on the Premises or the Improvements.

e. All plans and specifications for the Improvements.

f. All Debtor's rights (but not its obligations) under any contracts relating to the Premises, the Improvement or the Personal Property, but excluding any contract rights under any contract containing a prohibition against assignment of or the granting of a security interest in the rights of any party thereunder.

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g. All Debtor's rights (but not its obligations) under any documents, construction contracts, architectural agreements and general intangibles, other than contract rights under any contract containing a prohibition against assignment of or the granting of a security interest in the rights of any party thereunder, and arising from or by virtue of any transactions related to the Premises, Improvements or Personal Property.

h. All permits, licenses, leases, franchises, certificates, and other rights and privileges obtained in connection with the Premises, the Improvements and the Personal Property.

i. All proceeds arising from or by virtue of the sale, lease or other disposition of the Premises, the Improvements or the Personal Property.

j. All proceeds (including premium refunds) of each policy of insurance relating to the Premises, the Improvements or the Personal Property.

k. All proceeds from the taking of any of the Premises, the Improvements, the Personal Property or any rights appurtenant thereto by right of eminent domain or by private or other purchase in lieu thereof, including change of grade of streets, curb cuts or other rights of access, for any public or quasi-public use under any law.

l. All right, title and interest of Debtor in and to all streets, roads, public places, easements and rights-of-way, existing or proposed, public or private, adjacent to or used in connection with, belonging or pertaining to the Premises.

m. All of the leases, rents, royalties, and issues, from the Premises, the Improvements or the Personal Property, including without limitation, cash or securities deposited pursuant to leases to secure performance by the lessees of their obligations thereunder.

n. All rights, hereditaments and appurtenances pertaining to the foregoing.

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o. Other interests of every kind and character that Debtor now has or at any time hereafter acquires in and to the Premises, Improvements, and Personal Property described herein and all property that is used or useful in connection therewith, including rights of ingress and egress and all reversionary rights or interests of Debtor with respect to such property.

3. Obligations. The obligations secured by this Security Agreement shall consist of any and all debts, obligations and liabilities of Debtor to Secured Party arising out of, connected with, or related to the following (collectively the "Obligations"):

- 3.1 the Settlement Agreement;
- 3.2 the Deed of Trust securing the Settlement Agreement; and
- 3.3 all amendments or extensions or renewals of the above.

4. Representations and Warranties. Debtor hereby represents and warrants to Secured Party that:

- 4.1 Debtor is the owner of the Collateral (or, in the case of after-acquired collateral, at the time Debtor acquires rights in the collateral, will be the owner thereof);
- 4.2 Debtor has full power, right and authority to execute and deliver this Security Agreement and to grant the assignments and security interest in the Collateral and Debtor has taken all necessary legal and other action to authorize the execution and delivery of this Security Agreement;
- 4.3 all Collateral is in good repair except for normal wear and tear;
- 4.4 all permits and licenses with respect to the Collateral and/or to the Real Property are in full force and effect;
- 4.5 in granting the security interest in the Collateral, Debtor is not violating any indenture, agreement, law or regulation to which Debtor is a party or by which it is bound;
- 4.6 all items of Collateral are located only in the state of Alaska;

1                   4.7     all information heretofore or herein supplied to Secured Party by or  
2 on behalf of Debtor with respect to the Collateral is true and correct as of the date given;  
3

4                   4.8     the foregoing representations and warranties survive the completion  
5 and termination of this Security Agreement; and  
6

7                   5.       Additional Covenants. Debtor hereby covenants and agrees as follows:  
8

9                   5.1     Debtor will do all acts necessary to maintain, preserve and protect the  
10 Collateral and will not use nor permit any Collateral to be used unlawfully or in violation  
11 of any provision of this Security Agreement, or any applicable statute, regulation or  
12 ordinance or any policy of insurance covering the Collateral;  
13

14                   5.2     Debtor shall take all steps necessary to maintain all licenses and  
15 permits in full force and effect;  
16

17                   5.3     Debtor will not cause or permit any waste or unusual or unreasonable  
18 depreciation of the Collateral;  
19

20                   5.4     Debtor will keep the Collateral free of all levies and security interests  
21 or other liens or charges except 1) as exist upon the execution of this Security Agreement,  
22 as set forth in the title insurance policy, issued by TransAlaska Title Insurance Agency, Inc.  
23 Order No. 445892, Policy No. 105298, 2) liens for taxes not yet delinquent, 3) liens to secure  
24 senior debt as defined in Exhibit 7 of the Settlement Agreement, and 4) other liens arising  
25 in the ordinary course of business which do not materially reduce the value of the Collateral  
26 or interfere with the operations of the Alaska Refinery;  
27

28                   5.5     Debtor will appear in and defend any action or proceeding which may  
29 affect its title or Secured Party's interest in the Collateral;  
30

31                   5.6     Debtor will pay promptly when due all taxes, assessments, charges,  
32 encumbrances and liens now or hereafter legitimately imposed upon or affecting any item  
33 of Collateral;  
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35                   5.7     Debtor will insure the Collateral, with Secured Party named as an  
36 additional insured, in form and amounts, with companies, and against risks and liabilities,  
37 satisfactory to Secured Party; the form, amounts and companies of the coverage identified  
38 in Exhibit C to the Security Agreement are deemed satisfactory;

EXHIBIT 3 TO THE SETTLEMENT AGREEMENT DATED 12/15/92

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5.8 Debtor will not surrender or lose possession of, sell, encumber, lease, rent or otherwise dispose of or transfer (other than to Secured Party) any Collateral or right or interest therein except as otherwise specifically set forth herein and except for transactions in the ordinary course of business, disposition of obsolete or worn out assets, and transactions which do not in the aggregate result in disposition of collateral with a fair market value in excess of THREE MILLION AND NO/100 DOLLARS (\$3,000,000.00);

5.9 Debtor will take such action to procure, execute and deliver from time to time such documents and instruments as Secured Party may request in order to (i) perfect the security interest given by this Security Agreement, (ii) administer or enforce this Security Agreement or the Collateral or any part thereof, and (iii) assess and confirm Secured Party's rights, powers and remedies under this Security Agreement;

5.10 Debtor will at any reasonable time, upon demand by Secured Party, exhibit to and allow inspection of the Collateral by Secured Party (or its representatives);

5.11 Debtor will comply in all material respects with all laws, regulations and ordinances relating to the possession, operation, maintenance and control of Collateral; and

5.12 Debtor shall not remove any items of Collateral which constitute fixtures from their present locations, or remove any item of Collateral from the state of Alaska without prior written notice to Secured Party and consent thereto, unless allowed under Paragraph 5.8.

6. Authorized Action by Secured Party. Debtor hereby irrevocably appoints Secured Party its attorney-in-fact to do at any time subsequent to an Event of Default, any act which Debtor is obligated by this agreement to do (but Secured Party shall not be obligated to nor shall it incur any liability to Debtor or any third parties for failure to do so) and to protect the collateral.

7. Event of Default. At the option of Secured Party, the following shall constitute an "Event of Default" under this Security Agreement:

7.1 An Event of Default pursuant to Paragraph 12 of the Settlement Agreement, Exhibit A hereto.

7.2 Breach of any material provision of this Security Agreement.

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7.3 Occurrence of a Default under any Security Document.

7.4 Discovery that any material representation or warranty given herein was false or inaccurate in any material aspect at the time given.

8. Remedies Upon Default. Upon the occurrence of any Event of Default, Secured Party shall have the rights specified in the Alaska Uniform Commercial Code and any other rights provided by law by virtue of this Security Agreement or by virtue of a judgment.

8.1 In addition, Secured Party may:

8.1.1 foreclose or otherwise enforce Secured Party's security interest in any manner permitted by law, or provided for in this Security Agreement;

8.1.2 apply to any court of competent jurisdiction for an order appointing a receiver to take possession of any Collateral or requiring the delivery of Collateral to Secured Party, all without notice to Debtor and without prior hearing;

8.1.3 sell, lease or otherwise dispose of any Collateral at one or more public or private sales, whether or not such Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as Secured Party may determine;

8.1.4 enter onto the Premises where any item of Collateral is located and take possession thereof with or without judicial process;

8.1.5 demand that Debtor assemble the Collateral to the extent reasonably practicable, and make the Collateral available to Secured Party at a place designated by Secured Party; and

8.1.6 purchase the Collateral at any public sale.

8.2 It is understood and agreed that any sale of the Collateral by Secured Party shall be conclusively (unless the sale is tainted by fraud or bad faith) deemed a "public" sale for the purposes of the Alaska Uniform Commercial Code and "commercially reasonable" if the sale is an auction conducted by a licensed auctioneer in accordance with his customary procedures or if the following procedure is followed: (i) the sale is held in a

1 public place in the judicial district where the Real Property is situated, between the hours  
2 of 9:00 a.m. and 5:00 p.m. on any business day, (ii) Debtor is given written notice of the sale  
3 and the identity of the party conducting the sale at least fourteen (14) days prior to the sale;  
4 (iii) the sale is advertised in the public notice section of a newspaper of general circulation  
5 in the judicial district where the Real Property is situated, twice per week for a period of  
6 at least three (3) weeks preceding the sale, (iv) the Collateral is sold either individually or  
7 as a unit within the discretion of the party conducting the sale, (v) except for a credit bid  
8 by Secured Party, payment on all bids is made in cash or by certified check immediately  
9 upon termination of the sale, and (vi) the Collateral is sold to the highest qualified bidder  
10 who is able to complete the purchase;

11  
12 8.3 However, nothing herein shall be deemed an agreement that (i) a sale  
13 must be conducted in the above manner to be considered "public" or "commercially  
14 reasonable" or (ii) that any such sale must be held; and

15  
16 8.4 Debtor shall remain obligated for any deficiency remaining after  
17 foreclosure upon the Collateral.

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19 9. Application of Proceeds of Sale. The proceeds of sale of the Collateral,  
20 or any portion thereof, sold upon default pursuant to Paragraph 8 hereof shall be applied  
21 by Secured Party as follows:

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23 9.1 First, to the reasonable expense of collecting, retaking, holding,  
24 preparing for sale, selling and the like and (to the extent provided by law) the reasonable  
25 attorneys' fees and legal expenses incurred by Secured Party;

26  
27 9.2 Thereafter, to the satisfaction of the indebtedness of Debtor to Secured  
28 Party under the Settlement Agreement and the Security Documents. If said proceeds are  
29 insufficient to satisfy all of said obligations, Secured Party, in its sole discretion, can decide  
30 the manner in which and the obligation to which said proceeds shall be applied; and

31  
32 9.3 The satisfaction of indebtedness secured by any subordinate security  
33 interest in the Collateral if (i) written notice and demand therefor is received prior to  
34 distribution of the proceeds and (ii) reasonable proof of such interest or interests is  
35 reasonably furnished to Secured Party.

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37 10. Waivers and Authorizations.

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10.1 Debtor waives any right to require Secured Party to:

10.1.1 proceed against any guarantor or any other person;

10.1.2 proceed against or exhaust any Collateral; or

10.1.3 pursue any other remedy in Secured Party's power;

10.2 Debtor waives any defense arising from any disability, discharge or other defense of any other person, from any cause whatsoever except payment in full of the outstanding debt due under the Settlement Agreement and Security Documents;

10.3 Debtor hereby waives any right to enforce any remedy which Secured Party now has or may hereafter have against any other person and hereby waives any benefit of and any right to participate in any Collateral, guaranty or security now or hereafter held by Secured Party; and

10.4 Debtor, in its capacity under this Security Agreement but not in its capacity under the Settlement Agreement or the Bond, further authorizes Secured Party, without notice or demand and without affecting its liability hereunder or on the indebtedness, from time to time:

10.4.1 to renew, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of any indebtedness secured hereby or any part thereof, including any increase or decrease of the rate of interest thereon;

10.4.2 to take and hold other security, for the payment of the indebtedness secured hereby or any part thereof, and exchange, enforce, waive and release the Collateral, or any part thereof, or any such other security; and

10.4.3 to apply the Collateral or other security as Secured Party, in its sole discretion, may determine, and upon default direct the order or manner of sale thereof.

11. **Binding Agreement: Assignment.** This Security Agreement and the terms, covenants and conditions hereof, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that Debtor shall not be permitted to assign this Security Agreement or any interest herein or any obligation

1 hereunder. Nothing herein shall preclude Secured Party from assigning this Security  
2 Agreement.  
3

4 11.1 Until all Obligations shall have been paid in full, all rights, powers and  
5 remedies granted to Secured Party hereunder shall continue to exist and may be exercised  
6 by Secured Party at any time and from time to time irrespective of the fact that the  
7 indebtedness, or any part thereof, may have become barred by any statute of limitations or  
8 that the personal liability of Debtor may have ceased.  
9

10 12. Transfer of Collateral. Upon the transfer of all or any part of the  
11 indebtedness of Debtor, Secured Party may transfer all or any part of the Collateral and  
12 shall be fully discharged thereafter from all liability and responsibility with respect to such  
13 Collateral so transferred, and the transferee shall be vested with all the rights and powers  
14 of Secured Party hereunder. With respect to any Collateral not so transferred, Secured  
15 Party shall retain all rights and powers hereby given.  
16

17 13. Cumulative Rights. The rights, powers and remedies given to Secured  
18 Party by virtue of this Security Agreement shall be in addition to all rights, powers and  
19 remedies given to Secured Party by virtue of any statute or rule of law and all such rights  
20 may be exercised successively or concurrently. Any single or partial exercise of any right,  
21 power or remedy hereunder shall not preclude the further exercise thereof, and every right,  
22 power and remedy of Secured Party shall continue in full force and effect.  
23

24 14. No Waiver. Secured Party shall not by any act or omission be deemed  
25 to have waived any rights, powers or remedies hereunder unless such waiver be in writing  
26 and signed by Secured Party and then only to the extent specifically set forth therein; a  
27 waiver of one event shall not be construed as a bar to or waiver of such right or remedy on  
28 a subsequent event. In accordance with the terms of this paragraph, the acceptance by  
29 Secured Party of delinquent payments under the Settlement Agreement Documents shall  
30 not waive any rights of Secured Party hereunder or thereunder.  
31

32 15. Expenses and Fees. Debtor agrees to pay all reasonable costs and  
33 expenses incurred by Secured Party in the enforcement and exercise of the rights and  
34 powers granted to Secured Party under this Security Agreement. Said expenses shall  
35 include reasonable attorneys' fees and expenses whether or not legal action is instituted by  
36 Secured Party and shall include reasonable attorneys' fees and expenses incurred in  
37 connection with proceedings under the United States Bankruptcy Code to enforce Secured

1 Party's rights, to protect Secured Party's secured position or to obtain the permission of the  
2 bankruptcy court to enforce Secured Party's rights.  
3

4 16. Notice. All notices, demands or requests from one party to another  
5 shall be sent as provided in Paragraph 11 of the Settlement Agreement.  
6

7 17. Severability. In the event that any provision, or portions thereof, of  
8 this Security Agreement is held to be unenforceable or invalid by any court of competent  
9 jurisdiction, the validity and enforceability of the remaining provisions or portions thereof  
10 shall not be affected thereby.  
11

12 18. Governing Law. This Security Agreement shall be construed in  
13 accordance with, and governed by, the laws of the state of Alaska.  
14

15 19. Interpretation. Each party has had the benefit of assistance of counsel  
16 in drafting the Security Documents. Any ambiguities will not be construed against either  
17 party for the reason of their having supplied the language at issue. In the event of conflicts  
18 in the provisions and clauses in the Security Documents, the following priority of clauses  
19 best establishes the intent of the parties: the Settlement Agreement, the Deed of Trust, and  
20 this Security Agreement, with the Settlement Agreement being given the most weight.  
21 Words of common usage in the Settlement Agreement and Security Documents will be  
22 interpreted the same.  
23

24 20. Authority to Execute. Each of the parties hereto warrants that it has  
25 full right and authority to execute this Security Agreement and acknowledges that it has  
26 executed this Security Agreement voluntarily.  
27

28 21. Amendment. This Security Agreement may be altered, amended or  
29 repealed, in whole or in part, only by written consent of all of the parties hereto.  
30

31 22. Captions. The captions contained in this Security Agreement are for  
32 the convenience of the parties and shall not be deemed or construed as in any way limiting  
33 or extending the language of the provisions of which said captions may refer.  
34

35 23. Termination. This Security Agreement shall terminate when all the  
36 Obligations have been fully paid and performed, at which time Secured Party shall redeliver  
37 to Debtor or release its interest in such of the Collateral (if any) as shall not have been sold  
38 or otherwise applied by Secured Party pursuant to the terms hereof.







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EXHIBIT A

SETTLEMENT AGREEMENT

THIS AGREEMENT is dated for reference purposes December 15, 1992, by and between Tesoro Alaska Petroleum Company ("Tesoro Alaska"), Tesoro Petroleum Corporation ("Tesoro Petroleum") and the State of Alaska ("State"). Tesoro Alaska and Tesoro Petroleum are referred to collectively as Tesoro.

RECITALS

Tesoro Alaska and the State are parties to four Agreement(s) for the Sale and Purchase of Oil (collectively the "RIK Agreements"), two of which were entered into as of March 10, 1980, and two of which were respectively entered into as of February 26, 1982, and December 9, 1983. The RIK Agreements provide for the sale to Tesoro Alaska of oil which the State takes in kind as its royalty from oil produced by State lessees ("ANS Lessees") of Alaska North Slope ("ANS") Prudhoe Bay oil fields;

The RIK Agreements provide, generally, that Tesoro Alaska's purchase price for the oil is the same amount the State would have received from its ANS Lessees, had the State elected instead to take its royalty payment in money;

The RIK Agreements further provide that the purchase price for the oil is subject to retroactive price adjustments ("Price Adjustment Clauses") to reflect the outcome of litigation the State initiated in 1977 against ANS Lessees, originally

1 captioned State of Alaska v. Amerada Hess Corporation, et al.  
2 Juneau Superior Court Civil Action No. 77-847, and later captioned  
3 the ANS Royalty Litigation ("ANS Royalty Litigation"). In the ANS  
4 Royalty Litigation, the State contended the ANS Lessees misreported  
5 their royalty payments under the ANS Leases;

6 On November 25, 1986, Natural Resources Commissioner  
7 Esther C. Wunnicke issued findings (the "Wunnicke Findings")  
8 governing Tesoro Alaska's liability under the Price Adjustment  
9 Clauses. In December 1986, Tesoro Alaska initiated an action  
10 against the State in Anchorage Superior Court, Civil Action No.  
11 3AN-86-15298 ("RIK Litigation"). In the RIK Litigation, Tesoro  
12 Alaska judicially challenged the Wunnicke Findings and obtained a  
13 remand to the Department of Natural Resources. Commissioner Lennie  
14 Gorsuch issued findings on remand (the "Gorsuch Findings") which  
15 affirmed the Wunnicke Findings. Tesoro Alaska appealed the Gorsuch  
16 Findings in the RIK Litigation. Briefs are pending;

17 The ANS oil royalty claims in the ANS Royalty Litigation  
18 have recently been settled; and

19 Tesoro Alaska and the State desire by this Agreement: (a)  
20 to resolve and settle all claims asserted in the RIK Litigation;  
21 (b) to resolve and settle all claims for retroactive price  
22 adjustments applicable to oil purchased under the RIK Agreements  
23 through December 31, 1991; and (c) to provide for the payment of  
24 those retroactive price adjustments and the interest due thereon.

25 TESORO SETTLEMENT AGREEMENT/2  
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For and in consideration of the covenants and upon the terms and conditions set forth, the parties agree as follows:

1. Settlement of RIK Litigation. Tesoro Alaska and the State settle and resolve all claims asserted by Tesoro Alaska in the RIK Litigation. The parties shall stipulate to the dismissal of the RIK Litigation, each party to bear its own costs and attorney's fees. The dismissal shall be with prejudice as to all monetary claims relating to the RIK Agreements through December 31, 1991; provided that neither party shall be precluded, on res-judicata or collateral estoppel grounds, from raising, in any future action under or relating to the RIK Agreements, the same procedural and due-process claims and issues which were addressed in the RIK Litigation; but either party may cite the decisions rendered in the RIK Litigation as precedent for the court's guidance.

2. Retroactive Price Adjustment. The parties agree that the total amount of retroactive price adjustments applicable to oil purchased by Tesoro Alaska under the RIK Agreements through December 31, 1991, is the amount of \$141,901,946 ("Retroactive Price Adjustment"), including interest through December 31, 1992. Calculation of the Retroactive Price Adjustment is shown in Exhibit 1. The Retroactive Price Adjustment is the full amount (including interest through December 31, 1992) owed under the Price Adjustment Clauses of the RIK Agreements, as calculated by the State in

1 accordance with the Wunnicke Findings and the Gorsuch Findings. Of  
2 this amount, \$97,060,501 is for oil purchased and refined by Tesoro  
3 at its Alaska Refinery ("Tesoro Portion") and \$44,841,445 is for  
4 oil purchased by Tesoro and sold to Chevron U.S.A. Inc. ("Chevron  
5 Portion"). The Retroactive Price Adjustment, as stated above, is  
6 conclusive for all purposes, and not subject to challenge by either  
7 party.

8 3. Payment Provision - Tesoro Portion. In full  
9 satisfaction of Tesoro Alaska's liability to pay the Retroactive  
10 Price Adjustment, Tesoro will make payments to the State for the  
11 Tesoro Portion on the following schedule:

12 A. Lump Sum Payment

13 On January 19, 1993, Tesoro will pay the State Ten  
14 Million Two Hundred Seventy Three Thousand Nine Hundred Fifty Six  
15 Dollars (\$10,273,956).

16 B. Cents Per Barrel Payments

17 For each month of:

Tesoro will pay for each  
barrel of Refinery Throughput  
(as defined below):

18		
19	1993	16 cents
	1994	16 cents
20	1995	16 cents
	1996	24 cents
21	1997	24 cents
	1998	30 cents
22	1999	31 cents
	2000	32 cents
23	2001	33 cents
24	2002 and later	34 cents escalating, subject to subparagraph C below

25 TESORO SETTLEMENT AGREEMENT/4

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1           The cents per barrel payments for each month shall be  
2 paid by the 20th day of the following month. Tesoro shall make the  
3 payment without invoice from the State and shall include with its  
4 payment a statement showing the "Refinery Throughput" for the prior  
5 month.

6           "Refinery Throughput" means the total number of barrels  
7 measured and reported for each month of all feedstocks (not just  
8 ANS oil) charged to the "Alaska Refinery" crude distillation  
9 unit(s). The term "Refinery Throughput" shall have the same  
10 meaning as the term has in Tesoro's 1991 SEC Form 10-K and Tesoro's  
11 1991 annual report to shareholders. The "Alaska Refinery" means  
12 the land and all facilities including improvements, additions, and  
13 replacements, used in or related to the refining of crude oil,  
14 located at Nikiski, Alaska, more particularly described in the deed  
15 of trust attached as Exhibit 3.

16           The State shall have full right on reasonable notice to  
17 audit to determine the accuracy of all statements and the accuracy  
18 of the measurement or metering methods used to measure Refinery  
19 Throughput. If it is determined that the measurement or metering  
20 methods are not accurate, the measurement or metering methods shall  
21 be adjusted at Tesoro's expense. If the measurement or metering  
22 method under-reported the Refinery Throughput, Tesoro shall make a  
23 supplemental payment to the State of Alaska, and if the measurement  
24 or metering method over-reported the Refinery Throughput, the State

25 TESORO SETTLEMENT AGREEMENT/5  
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1 of Alaska shall credit Tesoro, in each case in an amount equal to  
2 the applicable cents per barrel charge times the Change in Refinery  
3 Throughput for the lesser of the period since the last test of the  
4 measurement or metering method or the last twelve months (the  
5 "Adjustment Period"). The "Change in Refinery Throughput" means  
6 the rate of error in the measurement or metering method times  
7 Refinery Throughput during the Adjustment Period and shall be  
8 deemed to be spread pro-rata over the Adjustment Period. The  
9 supplemental payment or credit shall be made within 30 days after  
10 the Change in Refinery Throughput is determined and made known to  
11 the party required to make a supplemental payment or credit and  
12 shall be accompanied by a payment of interest equal to the  
13 supplemental payment or credit times the Applicable Interest Rate  
14 times a fraction, the numerator of which is the number of days in  
15 the Adjustment Period and the denominator of which is 730. The  
16 Applicable Interest Rate shall be the average of the rates of  
17 interest announced by the Bank of America, N.T. and S.A., of San  
18 Francisco, California, as its prime rate for each day during the  
19 Adjustment Period. Interest shall be compounded daily.

20  
21 C. Final Payment and Monthly Payment Option

22 On the second business day of January 2002, Tesoro shall  
23 pay the State Sixty Million Dollars (\$60,000,000.00) unless Tesoro  
24 elects to continue the cents per barrel payments. If Tesoro does

25 TESORO SETTLEMENT AGREEMENT/6  
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1 not make the \$60 million payment in January 2002, Tesoro shall  
2 continue to make monthly cents per barrel payments which will  
3 increase by 1 cent each year, for each barrel of Refinery  
4 Throughput. For example, the rate for 2002 shall be 34 cents per  
5 barrel, the rate for 2003 will be 35 cents per barrel, and so on.  
6 The increasing cents per barrel payments will continue until Tesoro  
7 makes the \$60 million final payment. The \$60 million payment is a  
8 fixed amount and will not be reduced by cents per barrel payments.  
9 Exhibit 2 shows the annual amount of the cents per barrel payments  
10 at Refinery Throughput of 25 million barrels per year, which is  
11 approximately the current annual Refinery Throughput. Actual  
12 Refinery Throughput will vary and the payments will therefore vary.  
13 Total payments made under this Agreement may be more or less than  
14 the amount of the Tesoro Portion.

15 On and after the second business day of January 2002,  
16 Tesoro may from time-to-time partially pay the \$60 million bond in  
17 increments of \$15 million. If a partial bond payment is made, the  
18 cents per barrel payments shall be adjusted proportionately. For  
19 example, if a \$30 million bond payment is made on the second  
20 business day of January 2002, the cents per barrel payments for  
21 2002 shall be 17 cents, for 2003, 17.5 cents, and so on.

22 Tesoro shall notify the State by November 30, 2001 of the  
23 amount of bond payment it intends to make in January 2002. Tesoro  
24

25 TESORO SETTLEMENT AGREEMENT/7  
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1 shall also notify the State at least 30 days in advance of its  
 2 intention to make a partial bond payment.

3 D. Beginning December 31, 1993, Tesoro may prepay its  
 4 entire obligation under this Agreement by paying the "Prepayment  
 5 Amount" shown below plus any past due amounts, including interest,  
 6 owed but unpaid.

<u>At December 31 of:</u>	<u>Prepayment Amount (in millions)</u>
1993	\$80.2
1994	79.6
1995	79.0
1996	76.6
1997	74.0
1998	71.5
1999	70.0
2000	65.0
2001	60.0

13 The Prepayment Amount for any day other than year end  
 14 will be calculated using straight-line interpolation and a 365 day  
 15 year. For example, the Prepayment Amount for January 30, 1996,  
 16 will be calculated as follows:

17	Step 1:	Year-end 1995 Prepayment Amount	\$79,000,000
18		Year-end 1996 Prepayment Amount	<u>76,000,000</u>
		Difference	<u>\$ 2,400,000</u>
19	Step 2:	$\frac{\$2,400,000}{365} \times 30 \text{ days} =$	\$197,260
20			
21	Step 3:	Year-end 1995 Prepayment Amount	\$79,000,000
		Less: Amount from Step 2	<u>197,260</u>
22		Prepayment Amount @ January 30, 1996	<u>\$78,802,740</u>

1           4.       Payment Provision - Chevron Portion.   The Chevron  
2 Portion of the Retroactive Price Adjustment arises because Tesoro  
3 Alaska sold oil purchased under the RIK Agreements to Chevron  
4 U.S.A. Inc. ("Chevron") under Chevron Contract No. 127208, a copy  
5 of which has been furnished the State. The State will separately  
6 invoice Tesoro Alaska for the Chevron Portion, \$44,841,445 plus  
7 interest accrued from December 31, 1992. Tesoro Alaska will within  
8 5 business days invoice the same amount to Chevron, and request  
9 Chevron to make payment directly to the State.

10           Tesoro Alaska will cooperate with the State in recovering  
11 from Chevron the Chevron Portion of the Retroactive Price  
12 Adjustment. Tesoro Alaska will at the State's request assign to  
13 and relinquish unto the State all claims and entitlements, however  
14 characterized, under Chevron Contract No. 127208. Tesoro warrants  
15 that Chevron Contract No. 127208 is the entire contract between  
16 Tesoro and Chevron; that Exhibit 4 accurately states the number and  
17 date of purchase of all barrels purchased by Chevron under that  
18 contract; that there have been no representations or agreements,  
19 oral or written, modifying or amending that contract; that Tesoro  
20 has not made any representations, warranties, or promises to  
21 Chevron that its liability under that contract would be limited or  
22 different from the liability specified in the contract or would be  
23 less than the Chevron Portion (\$44,841,445 with interest through  
24 December 31, 1992); and that Tesoro has not released Chevron from

25 TESORO SETTLEMENT AGREEMENT/9  
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1 any liability under that contract, or reached an accord and  
2 satisfaction with Chevron as to any term of that contract.

3 If the State initiates an action against Tesoro Alaska to  
4 recover the Chevron Portion of the Retroactive Price Adjustment,  
5 Tesoro Alaska will, if requested by the State, and at Tesoro's own  
6 expense, file a third-party claim against Chevron, so as to protect  
7 and preserve the State's ultimate recourse against Chevron for  
8 recovery of the Chevron Portion of the Retroactive Price  
9 Adjustment. Tesoro Alaska's duties of cooperation shall not  
10 require Tesoro Alaska to take a leadership role in any litigation.  
11 The State shall at its expense prosecute the claim and control all  
12 aspects of the litigation. Tesoro Alaska will, as requested by the  
13 State, meet all deadlines and do all other things reasonably  
14 necessary to insure that the State's interests are protected. The  
15 State will reimburse Tesoro for third party and other out of pocket  
16 costs incurred by Tesoro to produce documents, to present  
17 witnesses, or to otherwise assist the State as requested by the  
18 State. Tesoro and the State agree each will bear its own costs and  
19 attorney's fees; not to seek to recover costs and attorney's fees  
20 from the other; and in the event of a court award of attorney's  
21 fees and costs against either, not to seek to recover such an award  
22 from the other.

23 The State's sole and exclusive recourse for recovery of  
24 the Chevron Portion of the Retroactive Price Adjustment, and all

25 TESORO SETTLEMENT AGREEMENT/10  
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1 interest now or hereafter accrued, is recovery (directly or  
2 indirectly) from Chevron of amounts due from Chevron. No other  
3 recourse shall exist against Tesoro.

4 5. Collateral. The \$60 million payment obligation  
5 shall be evidenced by a negotiable bond in the form attached as  
6 Exhibit 5. The bond, the cents per barrel payments (including any  
7 cents per barrel payments owed because the \$60 million payment is  
8 not made on the second business day of January 2002) and any  
9 interest owed under Paragraphs 3 or 13 will be secured by a deed of  
10 trust (including a U.C.C. security agreement) to the Alaska  
11 Refinery in the form attached as Exhibit 3. For purposes of the  
12 deed of trust, this Agreement shall be deemed to be a note.

13 6. Subordination. The rights of the State and  
14 obligations owed the State under this Agreement and the State's  
15 collateral interest in the Alaska Refinery shall be subordinate to  
16 no more than \$175 million in other obligations of Tesoro, at any  
17 one time outstanding, plus Expansion Debt as defined below, on the  
18 terms and to the extent provided in Exhibit 7. "Expansion Debt"  
19 means debt incurred by Tesoro which is used to finance all or part  
20 of any improvements, replacements, or additions, including land, to  
21 the Alaska Refinery.

22 Except as provided in the immediately preceding  
23 paragraph, other obligations of Tesoro for borrowed money, lease  
24 obligations which are required to be included as debt on the  
25 balance sheet of Tesoro under generally accepted accounting  
26 principles, and the deferred purchase price for property, plant and  
TESORO SETTLEMENT AGREEMENT/11

1 equipment, other than trade payables in the ordinary course of  
2 business, incurred after the effective date of this Agreement,  
3 shall be subordinate to all obligations (including, without  
4 limitation, cents per barrel payments, interest, and the \$60  
5 million bond) owed the State under this Agreement.

6 7. Document Preservation. Subject to the provisions of  
7 applicable Protective Orders governing confidentiality, the State  
8 will preserve until January, 1997 its documents, depositions, work  
9 product, expert reports, claims schedules and computer data  
10 (collectively "ANS Records") relating to the State's claims against  
11 the defendants in the ANS Royalty Litigation. The State will  
12 respond to discovery requests concerning the ANS Records in  
13 accordance with the applicable Civil Rules.

14 8. Financial Reporting - Tesoro will without request by  
15 the State provide the State copies of all press releases, all  
16 documents filed with the Securities and Exchange Commission  
17 including, without limitation, proxy statements and solicitations,  
18 SEC Forms 10K, 10Q and 8K, (but excluding Form S-8) Tesoro's Annual  
19 Report (if not part of SEC Form 10K), and all documents sent to  
20 Shareholders.

21 Tesoro shall also advise the State at the time the  
22 information is made available to the public of all Major Financing  
23 Transactions and, on request, provide documentation to the State.  
24 A "Major Financing Transaction" is the issuance of any stock, bond,  
25 debenture, or similar instrument, in a single or series of related  
26 transactions pursuant to which Tesoro will receive \$10 million or

TESORO SETTLEMENT AGREEMENT/12

1 more, the execution of any lease in which the total lease payments  
2 exceed \$10 million, or the execution of any note or other promise  
3 to pay in which the principal amount exceeds \$10 million. The  
4 State shall have the right to obtain additional documents which  
5 show the financial condition of Tesoro and to make requests from  
6 time to time for additional information reasonably related to the  
7 financial condition of Tesoro. The State agrees that it will hold  
8 in confidence and will not disseminate to any third party any  
9 information provided to it by Tesoro pursuant to this paragraph 8  
10 which is identified in writing by Tesoro as being confidential.  
11 The foregoing sentence shall not apply to any information that is  
12 publicly available through no fault of the State. This Financial  
13 Reporting provision is a compromise by the State of its request for  
14 a seat on the Tesoro Board of Directors and shall be broadly  
15 construed in favor of . . . . . to insure that the State has full  
16 knowledge of Tesoro's financial condition and affairs.

17 9. Release of Claims. Except as otherwise provided in  
18 this Agreement, Tesoro releases the State, and the State releases  
19 Tesoro from any and all claims known or unknown, asserted or  
20 unasserted, arising out of or relating to the RIK Agreements,  
21 (except claims concerning the calculation and payment of the amount  
22 owed for oil purchased after December 31, 1991) including, without  
23 limitation, Tesoro's claim that it is entitled to a refund of  
24 reservation fees under the RIK Agreement dated December 9, 1983,

25 TESORO SETTLEMENT AGREEMENT/13  
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1 and Tesoro's claim that it is or may be entitled to a refund for  
2 the Field Cost Allowance paid pursuant to the RIK Agreements. The  
3 State reserves all claims for payment of the Chevron Portion and  
4 the Tesoro Portion of the Retroactive Price Adjustment, subject to  
5 the provisions of this Agreement. This Agreement does not settle,  
6 compromise, or limit the rights of Tesoro Alaska and the State to  
7 assert claims and initiate and participate in proceedings  
8 concerning the TAPS Quality Bank.

9           10. Authority. Tesoro represents that its Board of  
10 Directors has approved the execution of this Agreement (which  
11 includes the attached bond, deed of trust, subordination agreement,  
12 financing statement and security agreement) as shown by attached  
13 Exhibit 6 and that the people signing this Agreement on its behalf  
14 are fully authorized to do so. Tesoro further represents that all  
15 things necessary to make this Agreement lawful, valid, and binding  
16 have been done and that the execution of this Agreement does not  
17 violate any law or other Agreement by Tesoro. The State represents  
18 that the people signing this Agreement on its behalf are fully  
19 authorized to do so, and that no further approvals are required.  
20 The Attorney General represents that legislative approval under the  
21 provisions of AS 38.06.055, and review and recommendation of the  
22 Alaska Royalty Oil and Gas Development Advisory Board under AS  
23 38.06.050, are not required.

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25 TESORO SETTLEMENT AGREEMENT/14  
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1           11. Notices. Written notices under this Agreement shall  
2 be given by mail, express courier, or FAX transmission, to the  
3 following designated representatives of the parties at the  
4 following addresses and FAX numbers, (or to such new  
5 representatives, addresses, or FAX numbers as are designated in  
6 writing by the party making a change):

7           If to the State:

8                   Commissioner of Natural Resources  
9                   400 Willoughby Avenue, Fifth Floor  
10                   Juneau, Alaska 99801  
11                   (FAX: 907/586-2754)

12                   and

13                   Director, Division of Oil and Gas  
14                   Box 10-7034  
15                   Anchorage, Alaska 99510  
16                   (FAX: 907/562-5269 and 907/562-3852)

17           If to Tesoro:

18                   President  
19                   Tesoro Alaska Petroleum Company  
20                   3230 C Street  
21                   Anchorage, Alaska 99503  
22                   (FAX: 907/561-5047)

23                   President  
24                   Tesoro Petroleum Company  
25                   8700 Tesoro Drive  
26                   San Antonio, Texas  
                 (FAX: 512/283-2400)

1 All notices shall be effective upon confirmed receipt.

2 12. Default Upon default in payment of any obligation  
3 owed under this Agreement or reporting under Paragraph 8 which  
4 remains uncured for 30 days after written notice of default  
5 ("Notice of Default") specifying the amount in dispute ("Disputed  
6 Amount"), the State shall be entitled to all remedies available at  
7 law or equity including, without limitation, the right to foreclose  
8 the deed of trust, and the right to accelerate, and declare  
9 immediately due and payable, the entire unpaid balance owed under  
10 this Agreement unless Tesoro pays the Disputed Amount in full  
11 within 30 days following the written Notice of Default.

12 If Tesoro pays the Disputed Amount in full, Tesoro may  
13 accompany its payment with a statement that it is paying under  
14 protest. Any portion of the payment found not to be owed shall be  
15 subject to refund to Tesoro. Any refund will be made as a credit  
16 to Tesoro and shall bear interest at the Bank of America rate  
17 specified in Paragraph 3.B. If Tesoro does not initiate an action  
18 in the Superior Court of the State within 180 days of paying the  
19 Disputed Amount to determine whether the Disputed Amount is owed,  
20 the Disputed Amount shall be deemed owed the State.

21 If Tesoro does not pay the Disputed Amount in full and if  
22 the State elects to accelerate payment of the unpaid balance, the  
23 unpaid balance shall be calculated as follows:

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26

1           A.    If default occurs before the second business day of 2002,  
2                the unpaid balance shall be equal to 110 per cent of the  
3                Prepayment Amount (including any past due amounts, with  
4                interest) calculated as of the date of the State's  
5                written Notice of Default.  If default occurs prior to  
6                December 31, 1993, the Prepayment Amount shall be  
7                interpolated for 1993 as if there had been a Prepayment  
8                Amount of \$86.5 million at December 31, 1992.

9           B.    If default occurs on or after the second business day of  
10                2002, the unpaid balance shall be equal to \$60 million  
11                (plus any past due amounts, including interest) plus all  
12                cents per barrel payments which accrue during the  
13                pendency of the default minus the amount of all  
14                prepayments made pursuant to the second paragraph of  
15                Paragraph 3.C.

16  
17           13.   Payments and Interest.  All payments due under this  
18           Agreement from Tesoro shall be made by wire transfer under  
19           instructions provided from time-to-time by the State.  Except under  
20           the limited circumstances specified in Paragraphs 3.B. and 12, all  
21           amounts not paid when due or which are later determined to be due  
22           as an adjustment shall bear interest from the date due at the rate  
23           for royalty payments provided in AS 38.05.135(d) as it may be  
24           amended from time-to-time ("Default Rate").  The "date due" for

25           TESORO SETTLEMENT AGREEMENT/17  
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1 cents per barrel payments is the 20th day of the month following  
2 the month the barrels are charged to the Alaska Refinery (as  
3 provided in Paragraph 3.B.).  
4

5 14. Forum For Dispute Resolution. This Agreement shall  
6 be governed by the laws of the State. Any litigation concerning  
7 this Agreement shall be filed in the Superior Court of the State in  
8 Juneau unless another State Superior Court is the required forum.  
9

10 15. No Intended Third Party Beneficiaries. No person or  
11 entity, including Chevron, is an intended third party beneficiary  
12 of this Agreement.  
13

14 16. Counterparts. This Agreement may be executed in  
15 multiple counterparts. Each counterpart shall be deemed to be an  
16 original and all counterparts shall be deemed to be the same  
17 document.  
18

19 17. Effective Date. This Agreement is dated December  
20 15, 1992 for reference purposes. It is effective when executed by  
21 all parties and payment is made in accordance with paragraph 3.A.  
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STATE OF ALASKA

By: \_\_\_\_\_  
Commissioner of Natural Resources  
Date Signed: \_\_\_\_\_

By: \_\_\_\_\_  
Attorney General  
Date Signed: \_\_\_\_\_

STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT ) ss:  
)

The foregoing instrument was acknowledged before me this  
\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_,  
Commissioner of Natural Resources of the State of Alaska.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My commission expires: \_\_\_\_\_

STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT ) ss:  
)

The foregoing instrument was acknowledged before me this  
\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_,  
Attorney General for the State of Alaska.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My commission expires: \_\_\_\_\_

TESORO SETTLEMENT AGREEMENT/19

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TESORO ALASKA PETROLEUM COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date Signed: \_\_\_\_\_

TESORO PETROLEUM COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date Signed: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss:

The foregoing instrument was acknowledged before me this  
\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_,  
\_\_\_\_\_ of Tesoro Alaska Petroleum Company, a \_\_\_\_\_  
corporation, on behalf of the corporation.

NOTARY PUBLIC in and for \_\_\_\_\_  
My commission expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss:

The foregoing instrument was acknowledged before me this  
\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_,  
\_\_\_\_\_ of Tesoro Petroleum Company, a \_\_\_\_\_  
corporation, on behalf of the corporation.

NOTARY PUBLIC in and for \_\_\_\_\_  
My commission expires: \_\_\_\_\_

TESORO SETTLEMENT AGREEMENT/20

EXHIBIT B

PARCEL I:

That portion of Section 22 and the Northeast 1/4 of Section 21, Township 7 North, Range 12 West, Seward Meridian, records of the Kenai Recording District, Third Judicial District, State of Alaska, described as follows:

Commencing at the 1/4 corner common to Section 22 and Section 27, Township 7 North, Range 12 West, Seward Meridian, Alaska, marked by an Alaska Department of Highways survey monument found; proceed East 2640.92 feet along the section line, Basis of Bearing for this description, according to General Land Office datum for the Section corner common to Sections 22, 23, 26 and 27 marked by an Alaska Department of Highways monument found; thence N 00°07'44" W 1982.23 feet along the section line common to Section 22 and Section 23 to the northeast corner of the Seaman property, the true Point of Beginning for this description, marked by a 5/8" X 30" rebar with 2" aluminum cap attached, set; thence S 89°58'52" W 330.15 feet along the north boundary line of the Seaman property to the northwest corner of said property, marked by a 5/8" X 30" rebar with 2" aluminum cap attached, set; thence S 00°07'59" E 660.69 feet along the western boundary of the Seaman property to the southwest corner of said property, marked by a 5/8" X 30" rebar with 2" aluminum cap attached, set; thence S 89°59'26" W 2310.72 feet to the CS 1/16 corner of Section 22, marked by a 3 1/4" aluminum monument 4928-S, found; thence N 00°08'43" W 1320.75 feet to the C 1/4 of Section 22, marked by a brass cap G.L.O. monument 610-S, found; thence S 89°58'28" W 1320.53 feet to the CW 1/16 corner, marked by a brass cap monument 610-S, found; thence S 89°56'49" W 991.57 feet to a property corner which is situated in a small pond; thence North 00°05'58" W 1170.92 feet to a property corner marked by a 5/8" X 30" rebar, set; thence N 89°59'53" W 330.64 feet to the section line common to Section 21, Section 22 and HES 74, marked by a brass capped monument, found; thence N 89°59'53" W 659.87 feet to a property corner situated along the easterly right-of-way line of the North Kenai Road; thence N 20°33'50" W 19.36 feet along said right-of-way to a point of curvature; thence along a curve of said right-of-way whose radius point bears northeasterly 1357.50 feet, delta of 1°25'49", arc

1 length 33.89 feet to a property corner marked by a 5/8" X 30" rebar with 2"  
2 aluminum cap attached, set; thence S 89°59'53" E 678.10 feet to a property  
3 corner situated on the east line of Section 21, marked by a 5/8" X 30" rebar  
4 with 2" aluminum cap attached, set; thence N 00°05'14" W 100.68 feet to the  
5 N 1/16 corner common to Section 21 and Section 22, marked by a brass cap  
6 monument 610-S, found; thence S 89°59'34" E 1320.96 feet to the NW 1/16  
7 corner Section 22, marked by a 3-1/4" aluminum monument 4928-S found;  
8 thence S 89°57'03" E 322.87 feet to the Southwest corner of Tract A. K.R.D.  
9 86-135, marked by a 5/8" rebar with aluminum cap attached, found; thence N  
10 00°10'25" W 131.00 feet to the northwest corner of said tract, marked by a  
11 5/8" rebar with aluminum cap attached, found; thence S 89°59'05" E 997.56  
12 feet to the northeast corner of said tract, marked by a 5/8" rebar with  
13 aluminum cap attached, found; thence N 00°10'25" W 413.73 feet along the  
14 N-S centerline of Section 22 to a property corner, marked by 5/8" X 30" rebar  
15 with 2" aluminum cap attached, set; thence N 85°16'01" E 1324.75 feet to a  
16 property corner, marked by a 5/8" X 30" rebar with 2" aluminum cap attached,  
17 set; thence N 00°09'47" W 668.93 feet to the E 1/16 corner common to  
18 Section 15 and Section 22, marked by a 3 1/4" aluminum cap monument 4928-  
19 S set; thence N 89°58'44" E 1320.69 feet along the section line to the section  
20 corner common to Sections 15, 14, 22 and 23, marked by a brass cap  
21 monument 631-S, found; thence S 00°06'52" E 1320.60 feet to the N 1/16  
22 corner common to Section 22 and Section 23, marked by a survey monument  
23 3808-S, found; thence S 00°15'44" E 780.99 feet to the W.C. 1/4 corner  
24 common to Section 22 and Section 23, marked by a brass cap monument  
25 G.L.O., found; thence S 00°07'44" E 1200.83 feet to the northeast corner of  
26 the Seaman property and the true Point of Beginning.

27  
28  
29 PARCEL II:

30  
31 That certain portion of U.S. Government Lot Sixty (60) of Section 23, Township 6 North,  
32 Range 12 West, Seward Meridian, that lies West of Existing Westerly right-of-way line of  
33 the North Kenai Highway, in the Kenai Recording District, Third Judicial District, State of  
34 Alaska.  
35

## EXHIBIT C

TESORO ALASKA PETROLEUM COMPANY  
KENAI REFINERY  
INSURANCE COVERAGE  
(IN MILLIONS)

	<u>SEPARATE COVERAGES</u>			<u>SINGLE LOSS</u>	<u>AGGREGATE</u>	<u>Term</u>	<u>Retention/ Deductible</u>
	<u>Property Damage</u>	<u>Business Interruption</u>	<u>General Liability</u>	<u>Limits</u>	<u>Limits</u>		
General Liability	\$ -	\$ -	\$ 1.0	\$ 1.0	\$ 2.0	04/01/92-93	\$0.1
Primary Energy Package	2.5	2.5	2.5	5.0	5.0	04/01/92-93	\$1.0 (PD) 15 Days (BI)
Energy Package	7.5	7.5	6.5	10.0	10.0	04/01/92-93	Underlying
Oil Insurance Ltd <sup>1</sup>	200.0	-	-	200.0	275.0	12/31/91-93	Underlying
Property Policy	40.0	25.0	-	65.0	65.0	04/01/92-93	Underlying
Excess Energy Package	-	-	15.0	15.0	15.0	04/01/92-93	Underlying
XL - Europe	-	-	100.0	100.0	100.0	04/01/92-93	Underlying
Oil Casualty Ins. Ltd	-	-	25.0	25.0	25.0	04/01/92-93	Underlying
<b>TOTALS</b>	<b><u>\$250.0</u></b>	<b><u>\$35.0</u></b>	<b><u>\$150.0</u></b>	<b><u>\$421.0</u></b>	<b><u>\$497.0</u></b>		

<sup>1</sup>At the 12/31/92 renewal of this policy, the Replacement Cost coverage option was declined. Instead, Tesoro purchased a Depreciation Insurance policy with a term of 12/31/92 to 4/1/93.

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SUBORDINATION AGREEMENT

1. APPLICABILITY AND DEFINITIONS. This SUBORDINATION AGREEMENT is an exhibit to the Settlement Agreement dated for reference purposes December 15, 1992, and to the Deed of Trust, Security Agreement, and Bond, attached as Exhibits to that Settlement Agreement. The terms of this SUBORDINATION AGREEMENT are incorporated by reference to each.

1.1 The reference to the "State" herein shall mean the State of Alaska in its capacity under the Settlement Agreement and as the Secured party under the Security Agreement, Beneficiary under the Deed of Trust, or Holder of the Bond as appropriate to each of the Security Documents.

1.2 The "Security Documents" shall collectively mean the Deed of Trust, the Security Agreement, the Bond, and the Non-Standard Financing Statement.

1.3 The "Subordinated Debt" is the obligations of Tesoro under the Settlement Agreement and the Security Documents.

1.4 All other terms and words used herein shall be given the same meaning as given in the Settlement Agreement, its exhibits, and the Security Documents.

2. SUBORDINATION. Paragraph 6 of the Settlement Agreement sets forth the extent of the Subordination of the obligations created by the Settlement Agreement and Security Documents to the Senior Debt as defined below. Paragraph 6 reads:

The rights of the State and obligations owed the State under this Agreement and the State's collateral interest in the Alaska Refinery shall be subordinate to no more than \$175 million in other obligations of Tesoro, at any one time outstanding, plus Expansion Debt as defined below on the terms and to the extent provided in Exhibit 7. Expansion Debt means debt incurred by Tesoro which is used to finance all or part of any improvements, replacements, or additions, including land, to the Alaska Refinery.

1 Except as provided in the immediately preceding paragraph, other  
2 obligations of Tesoro for borrowed money, lease obligations which  
3 are required to be included as debt on the balance sheet of Tesoro  
4 under generally accepted accounting principles, and the deferred  
5 purchase price for property, plant and equipment, other than trade  
6 payables in the ordinary course of business, incurred after the  
7 effective date of this agreement shall be subordinate to all  
8 obligations (including, without limitation, cents per barrel  
9 payments, interest, and the \$60 million bond) owed the State  
10 under this Agreement.

11  
12 3. **DEFINITION OF SENIOR DEBT.** "Senior Debt" means all principal,  
13 interest, fees, expenses, indemnities and all other amounts, contingent or otherwise, now or  
14 hereafter existing or owing by Tesoro (whether directly or as a result of a guarantee) up to  
15 but not to exceed ONE HUNDRED SEVENTY FIVE MILLION AND NO/100 DOLLARS  
16 (\$175,000,000.00) and Expansion Debt, which by its terms expressly provides in writing that  
17 it is Senior Debt.

18  
19 4. **NO PAYMENT ON THE SUBORDINATED DEBT.** If Tesoro defaults in the  
20 payment of any principal of, or interest or other payment on, any Senior Debt when the  
21 same becomes due and payable, whether on demand, at stated maturity, at a date fixed for  
22 prepayment, upon acceleration or otherwise, then, unless and until such default shall have  
23 been remedied or waived or shall have ceased to exist, no direct or indirect payment (in  
24 cash, property or securities or by set-off or otherwise) shall be made or agreed to be made  
25 on account of any Subordinated Debt, or as a sinking fund for the Subordinated Debt.

26  
27 5. **OTHER DEFAULTS.** If Tesoro receives from any holder of Senior Debt  
28 a notice of occurrence of a default or Event of Default other than a default described in  
29 Paragraph 4 above, no direct or indirect payment (in cash, property or securities or by set-  
30 off or otherwise) shall be made or agreed to be made on account of any Subordinated Debt  
31 or as a sinking fund for the Subordinated Debt, or in respect of any redemption, retirement,  
32 purchase or other acquisition of any of the Subordinated Debt; provided, however, that if  
33 such default or Event of Default shall be cured or waived, or such default or Event of  
34 Default shall continue for a period of 365 or more days after the receipt by the Issuer of  
35 such notice without the same being cured or waived, then this restriction shall no longer  
36 apply.

37  
38 6. **DISSOLUTION, WINDING UP, ETC.** In the event of (i) any insolvency,  
39 bankruptcy, receivership, liquidation, reorganization, readjustment, composition or other  
40 similar proceeding relating to Tesoro, its creditors as such or its property, (ii) any  
41 proceeding for the liquidation, dissolution or other winding-up of the Tesoro voluntary or

EXHIBIT 7 TO THE SETTLEMENT AGREEMENT DATED 12/15/92

-2-

1 involuntary, whether or not involving insolvency or bankruptcy proceedings, (iii) any  
2 assignment by Tesoro for the benefit of creditors or (iv) any other marshalling of the assets  
3 of Tesoro, all Senior Debt shall first be paid in full before any payment or distribution,  
4 whether in cash, securities or other property, shall be made to any holder of any  
5 Subordinated Debt on account of any Subordinated Debt. Any payment or distribution,  
6 whether in cash, securities or other property (other than securities of Tesoro or any other  
7 corporation provided for by a plan or reorganization or readjustment the payment of which  
8 is subordinate, at least to the extent provided in these subordination provisions with respect  
9 to Subordinated Debt, to the payment of all Senior Debt at the time outstanding and to any  
10 securities issued in respect thereof under any such plan of reorganization or readjustment),  
11 which would otherwise (but for these subordination provisions) be payable or deliverable  
12 in respect of this Subordinated Debt shall be paid or delivered directly to the holders of  
13 Senior Debt in accordance with the priorities then existing among such holders until all  
14 Senior Debt shall have been paid in full.

15  
16 7. CERTAIN PAYMENTS HELD IN TRUST. If any payment or distribution  
17 of any character or any security whether in cash, securities or other property (other than  
18 securities of Tesoro or any other corporation provided for by a plan of reorganization or  
19 readjustment the payment of which is subordinate, at least to the extent provided in these  
20 subordination provisions with respect to Subordinated Debt, to the payment of all Senior  
21 Debt at the time outstanding and to any securities issued in respect thereof under any such  
22 plan of reorganization or readjustment), shall be received by any holder of Subordinated  
23 Debt in contravention of any of the terms hereof and before all Senior Debt shall have been  
24 paid in full, such payment or distribution or security shall be received in trust for the benefit  
25 of, and shall be paid or delivered and transferred to, the holders of the Senior Debt at the  
26 time outstanding in accordance with the priorities then existing among such holders for  
27 application to the payment of all Senior Debt remaining unpaid, to the extent necessary to  
28 pay all such Senior Debt in full. In the event of the failure of any holder of any  
29 Subordinated Debt to endorse or assign any such payment, distribution or security, each  
30 holder of Senior Debt is hereby irrevocably authorized to endorse or assign the same.

31  
32 8. RIGHTS NOT IMPAIRED. No present or future holder of any Senior  
33 Debt shall be prejudiced in the right to enforce the subordination of any Subordinated Debt  
34 by an act or failure to act on the part of Tesoro. Except as provided in paragraphs 4, 5, 6,  
35 7, 11 and 12, nothing contained herein shall impair, as between Tesoro and the holder of  
36 any Subordinated Debt, the obligation of Tesoro to pay to the holder thereof the principal  
37 thereof and interest thereon as and when the same shall become due and payable in  
38 accordance with the terms thereof, or prevent the holder of any Subordinated Debt from

EXHIBIT 7 TO THE SETTLEMENT AGREEMENT DATED 12/15/92

-3-

1 exercising all rights, powers and remedies otherwise permitted by applicable law under any  
2 instrument evidencing or relating to such Subordinated Debt upon a default, all subject to  
3 the rights of the holders of the Senior Debt to receive cash, securities or other property  
4 otherwise payable or deliverable to the holders of any Subordinated Debt.  
5

6 9. SUBROGATION. Upon payment in full of all Senior Debt, the holders  
7 of any Subordinated Debt shall be subrogated to all rights of any holders of Senior Debt  
8 to receive any further payments or distributions applicable to the Senior Debt until the  
9 Subordinated Debt shall have been paid in full, and, for the purposes of such subrogation,  
10 no payment or distribution received by the holders of Senior Debt of cash, securities, or  
11 other property to which the holders of the Subordinated Debt would have been entitled  
12 except for these subordination provisions shall, as between Tesoro and its creditors other  
13 than the holders of Senior debt, on the one hand, and the holders of Subordinated Debt,  
14 on the other, be deemed to be payment or distribution by Tesoro on account of Senior  
15 Debt.  
16

17 10. SUBORDINATION OF LIENS AND SUBSEQUENT RECORDATION. The  
18 security interests, mortgages, and liens created by the Security Documents are and shall  
19 continue to be subject and subordinate to all security interests, mortgages, and liens, now  
20 or hereafter securing, or in favor of, the Senior Debt. The effect of this subordination is  
21 effective over documents representing Senior Debt but recorded or filed subsequent to this  
22 "Subordinated Debt."  
23

24 11. RIGHTS UNDER THE SECURITY DOCUMENTS. Rights and obligations  
25 under the Security Documents, by way of example but not by limitation, of the State, to  
26 receive insurance proceeds (as provided in Paragraph 5.7 of the Security Agreement and  
27 Paragraph 1.3 of the Deed of Trust) and rents, issues, royalties, profits, awards and proceeds  
28 (as provided in Paragraph 1.8 and 2.5 of the Deed of Trust), to be named as insured or loss  
29 payee, or receive originals of insurance policies, to exercise powers of attorney or other  
30 rights, or to grant approvals or negotiate on behalf of the grantor of the Security  
31 Documents, are subject to and subordinate to the Senior Debt and the rights of the holders  
32 of the Senior Debt with respect thereto as provided in the Senior Debt or the documents  
33 securing the Senior Debt.  
34

35 12. DEFAULT. Promptly following any default under the Security  
36 Documents, the Settlement Agreement or the Bond (and in all events prior to the State  
37 exercising any remedies contained in the Security Documents), the State will give any Senior  
38 Debt holder written notice of the default, subject to the following conditions:  
39

40 12.1 For purposes of this Subordination Agreement, the Subordinated  
41 Debt shall not be deemed in default until (1) 30 days have passed from the State's issuance

EXHIBIT 7 TO THE SETTLEMENT AGREEMENT DATED 12/15/92

-4-

1 of a written Notice of Default as defined in paragraph 12 of the Settlement Agreement and  
2 (2) Tesoro's failure to pay the Disputed Amount or failure to satisfy the Subordinated Debt  
3 in its entirety;

4  
5 12.2 The State shall not be required to give a notice of default to any  
6 Senior Debt holder unless the Senior Debt holder has given the State written notice of the  
7 person to whom and place to which the notice should be sent.  
8

9 12.3. The State will not, for a period of 30 days following receipt by  
10 the Senior Debt holder (identified under 12.2 above) of the notice of default from the State,  
11 file an action to foreclose judicially any of Tesoro's real property, record a notice of non-  
12 judicial foreclosure of any of Tesoro's real property or otherwise take any action permitted  
13 by Section 2 of the Deed of Trust, or file an action to take possession of any of Tesoro's  
14 personal property or otherwise take any action permitted by Section 8.1 of the Security  
15 Agreement.  
16

17 12.4. Subject to the right to cure set forth in paragraph 12.5, at the  
18 expiration of the 30 day period following the date the Senior Debt holder received notice  
19 from the State of Tesoro's default, the State shall be entitled to institute foreclosure  
20 proceedings or initiate other remedies as specified in the Security Documents, subject to  
21 paragraphs 4, 5, 6 and 7 above and the other provisions of this Subordination Agreement.  
22 Subject to paragraphs 4, 5, 6 and 7 above and the other provisions of this Subordination  
23 Agreement, the State may file any actions, record any notices, or take any other actions it  
24 deems necessary to enforce its remedies. The State will not, however, take possession of  
25 or sell or cause to be sold any of Tesoro's real property or any of Tesoro's personal  
26 property or cause a receiver to be appointed for any of Tesoro's property prior to the 121st  
27 day following the day on which the Senior Debt holder received the notice from the State  
28 of default by Tesoro.  
29

30 12.5 At any time during the 120 day period following the date the  
31 Senior Debt holder received the notice from the State of Tesoro's default, the Senior Debt  
32 holder may cure or cause Tesoro to cure the default by paying the Disputed Amount (as  
33 defined in the Settlement Agreement) plus interest from the date due at the rate for  
34 royalty payments provided in AS 38.05.135(d) as it may be amended from time-to-time, plus  
35 the State's reasonable actual attorney fees and costs incurred in conjunction with the  
36 default. If the Senior Debt holder cures or causes Tesoro to cure Tesoro's default, the  
37 State shall take no further action against Tesoro based on the default.  
38

39 12.6 The right to cure after foreclosure proceedings have been  
40 initiated as granted by this Paragraph 12 may not be used more than two times in any 12  
41 month period.  
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STATE OF ALASKA

By: \_\_\_\_\_  
Commissioner of Natural Resources

By: \_\_\_\_\_  
Attorney General

STATE OF ALASKA                    )  
  ) ss:  
THIRD JUDICIAL DISTRICT        )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by The Commissioner of Natural Resources of the State of Alaska.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My commission expires: \_\_\_\_\_

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STATE OF ALASKA )  
 ) ss:  
THIRD JUDICIAL DISTRICT )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_, Attorney General for the State of Alaska.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My commission expires: \_\_\_\_\_



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NON STANDARD FINANCING STATEMENT

This Non-Standard Financing Statement is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code.

1. Name and address of the debtor ("Debtor"):

TESORO ALASKA PETROLEUM COMPANY  
8700 Tesoro Drive  
San Antonio, Texas 78217

2. Name and address of secured party ("Secured Party"):

THE STATE OF ALASKA  
Director  
Division of Oil & Gas  
P.O. Box 10-7034  
Anchorage, Alaska 99510

3. This Non-Standard Financing Statement covers the following collateral to the extent of the present or any future ownership interest of Debtor therein:

a. All Improvements now or hereafter attached to or placed, erected, constructed or developed on the tract of land described on Exhibit "A" attached hereto and made a part hereof for all purposes (the "Premises"), situated in the Kenai Recording District, Third Judicial District, Alaska.

b. All fixtures, furnishings, equipment, spare parts, supplies, inventory (but excluding all crude oil, refined product, partially refined product, and all hydrocarbons, additives and other ingredients to be incorporated in the refined product) and articles of personal property (the "Personal Property") now or hereafter attached to or used in or about the Improvements or Premises or that are necessary or useful for the complete and comfortable use, operation, and occupancy of the Improvements for the purposes for which they were or are to be attached, placed, erected, constructed or developed, or which Personal Property is or may be used in or related to the planning, development, or operation of the Improvements, and all renewals of or replacements or substitutions for any of the foregoing, whether or not the same are or shall be attached to the Premises or Improvements.

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c. All water and water rights, timber, crops, and mineral interests pertaining to the Premises.

d. All building materials and equipment now or hereafter delivered to and intended to be installed in or on the Premises or the Improvements.

e. All plans and specifications for the Improvements.

f. All Debtor's rights (but not its obligations) under any contracts relating to the Premises, the Improvements or the Personal Property, but excluding any contract rights under any contract containing a prohibition against assignment of or the granting of a security interest in the rights of any party thereunder.

g. All Debtor's rights (but not its obligations) under any documents, construction contracts, architectural agreements and general intangibles, other than contract rights under any contract containing a prohibition against assignment of or the granting of a security interest in the rights of any party thereunder, and arising from or by virtue of any transactions related to the Premises, Improvements or Personal Property.

h. All permits, licenses, leases, franchises, certificates, and other rights and privileges obtained in connection with the Premises, the Improvements and the Personal Property.

i. All proceeds arising from or by virtue of the sale, lease or other disposition of the Premises, the Improvements or the Personal Property.

j. All proceeds (including premium refunds) of each policy of insurance relating to the Premises, the Improvements or the Personal Property.

k. All proceeds from the taking of any of the Premises, the Improvements, the Personal Property or any rights appurtenant thereto by right of eminent domain or by private or other purchase in lieu thereof, including change of grade of streets, curb cuts or other rights of access, for any public or quasi-public use under any law.

l. All right, title and interest of Debtor in and to all streets, roads, public places, easements and rights-of-way, existing or proposed.

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public or private, adjacent to or used in connection with, belonging or pertaining to the Premises.

m. All of the leases, rents, royalties, and issues, from the Premises, the Improvements or the Personal Property, including without limitation, cash or securities deposited pursuant to leases to secure performance by the lessees of their obligations thereunder.

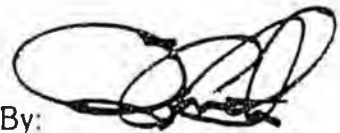
n. All rights, hereditaments and appurtenances pertaining to the foregoing.

o. Other interests of every kind and character that Debtor now has or at any time hereafter acquires in and to the Premises, Improvements, and Personal Property described herein and all property that is used or useful in connection therewith, including rights of ingress and egress and all reversionary rights or interests of Debtor with respect to such property.

This Financing Statement is filed pursuant to the Security Agreement dated January 15, 1993.

DEBTOR:

TESORO ALASKA PETROLEUM COMPANY



By: \_\_\_\_\_  
Bruce A. Smith, Senior Vice President,  
~~Treasurer~~ Chief Financial Officer

Date: 1/15/93

STATE OF TEXAS )  
 ) ss:  
COUNTY OF BEXAR )

The foregoing instrument was acknowledged before me this 15th day of January, 1993, by Bruce A. Smith



Linda Iden  
NOTARY PUBLIC in and for Texas  
My commission expires: \_\_\_\_\_

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EXHIBIT A

PARCEL I:

That portion of Section 22 and the Northeast 1/4 of Section 21, Township 7 North, Range 12 West, Seward Meridian, records of the Kenai Recording District, Third Judicial District, State of Alaska, described as follows:

Commencing at the 1/4 corner common to Section 22 and Section 27, Township 7 North, Range 12 West, Seward Meridian, Alaska, marked by an Alaska Department of Highways survey monument found; proceed East 2640.92 feet along the section line, Basis of Bearing for this description, according to General Land Office datum for the Section corner common to Sections 22, 23, 26 and 27 marked by an Alaska Department of Highways monument found; thence N 00°07'44" W 1982.23 feet along the section line common to Section 22 and Section 23 to the northeast corner of the Seaman property, the true Point of Beginning for this description, marked by a 5/8" X 30" rebar with 2" aluminum cap attached, set; thence S 89°58'52" W 330.15 feet along the north boundary line of the Seaman property to the northwest corner of said property, marked by a 5/8" X 30" rebar with 2" aluminum cap attached, set; thence S 00°07'59" E 660.69 feet along the western boundary of the Seaman property to the southwest corner of said property, marked by a 5/8" X 30" rebar with 2" aluminum cap attached, set; thence S 89°59'26" W 2310.72 feet to the CS 1/16 corner of Section 22, marked by a 3 1/4" aluminum monument 4928-S, found; thence N 00°08'43" W 1320.75 feet to the C 1/4 of Section 22, marked by a brass cap G.L.O. monument 610-S, found; thence S 89°58'28" W 1320.53 feet to the CW 1/16 corner, marked by a brass cap monument 610-S, found; thence S 89°56'49" W 991.57 feet to a property corner which is situated in a small pond; thence North 00°05'58" W 1170.92 feet to a property corner marked by a 5/8" X 30" rebar, set; thence N 89°59'53" W 330.64 feet to the section line common to Section 21, Section 22 and HES 74, marked by a brass capped monument, found; thence N 89°59'53" W 659.87 feet to a property corner situated along the easterly right-of-way line of the North Kenai Road; thence N 20°33'50" W 19.36 feet along said right-of-way to a point of curvature; thence along a curve of said right-of-way whose radius point bears northeasterly 1357.50 feet, delta of 1°25'49", arc length 33.89 feet to a property corner marked by a 5/8" X 30" rebar with 2"

1 aluminum cap attached, set; thence S 89°59'53" E 678.10 feet to a property  
2 corner situated on the east line of Section 21, marked by a 5/8" X 30" rebar  
3 with 2" aluminum cap attached, set; thence N 00°05'14" W 100.68 feet to the  
4 N 1/16 corner common to Section 21 and Section 22, marked by a brass cap  
5 monument 610-S, found; thence S 89°59'34" E 1320.96 feet to the NW 1/16  
6 corner Section 22, marked by a 3-1/4" aluminum monument 4928-S found;  
7 thence S 89°57'03" E 322.87 feet to the Southwest corner of Tract A, K.R.D.  
8 86-135, marked by a 5/8" rebar with aluminum cap attached, found; thence N  
9 00°10'25" W 131.00 feet to the northwest corner of said tract, marked by a  
10 5/8" rebar with aluminum cap attached, found; thence S 89°59'05" E 997.56  
11 feet to the northeast corner of said tract, marked by a 5/8" rebar with  
12 aluminum cap attached, found; thence N 00°10'25" W 413.73 feet along the  
13 N-S centerline of Section 22 to a property corner, marked by 5/8" X 30" rebar  
14 with 2" aluminum cap attached, set; thence N 85°16'01" E 1324.75 feet to a  
15 property corner, marked by a 5/8" X 30" rebar with 2" aluminum cap attached,  
16 set; thence N 00°09'47" W 668.93 feet to the E 1/16 corner common to  
17 Section 15 and Section 22, marked by a 3 1/4" aluminum cap monument 4928-  
18 S set; thence N 89°58'44" E 1320.69 feet along the section line to the section  
19 corner common to Sections 15, 14, 22 and 23, marked by a brass cap  
20 monument 631-S, found; thence S 00°06'52" E 1320.60 feet to the N 1/16  
21 corner common to Section 22 and Section 23, marked by a survey monument  
22 3808-S, found; thence S 00°15'44" E 780.99 feet to the W.C. 1/4 corner  
23 common to Section 22 and Section 23, marked by a brass cap monument  
24 G.L.O., found; thence S 00°07'44" E 1200.83 feet to the northeast corner of  
25 the Seaman property and the true Point of Beginning.  
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27

28 PARCEL II:

29  
30 That certain portion of U.S. Government Lot Sixty (60) of Section 23, Township 6 North,  
31 Range 12 West, Seward Meridian, that lies West of Existing Westerly right-of-way line of  
32 the North Kenai Highway, in the Kenai Recording District, Third Judicial District, State of  
33 Alaska.  
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DEED OF TRUST

among

TESORO ALASKA PETROLEUM COMPANY  
a Delaware Corporation  
as Trustor

and

TRANSALASKA TITLE INSURANCE AGENCY, INC.  
as Trustee

and

THE STATE OF ALASKA  
as Beneficiary

Dated as of January 15, 1993

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DEED OF TRUST

THIS DEED OF TRUST dated as of the 15<sup>th</sup> day of January 1993 among Tesoro Alaska Petroleum Company, a Delaware corporation ("Trustor"), having its principal office at 8700 Tesoro Drive, San Antonio, Texas 78217, TransAlaska Title Insurance Agency, Inc., an Alaska corporation ("Trustee") (including any successor trustee at the time acting as such hereunder), having its principal office at 100 West Tudor Road, Building A, Anchorage, Alaska 99503, and The State of Alaska; Attention: Director the Division of Oil & Gas, P.O. Box 10-7034, Anchorage, Alaska 99510 ("Beneficiary").

WITNESSETH:

I. TO SECURE:

A. Payment and performance of the indebtedness, obligations and liabilities owed by the Trustor to the Beneficiary under and pursuant to that Settlement Agreement, attached hereto as Exhibit A (the "Settlement Agreement"), the terms of which are incorporated herein by reference, made by the Trustor to the Beneficiary pursuant to the Settlement Agreement;

B. Performance and observance of each term to be performed by Trustor under the Settlement Agreement and the Security Documents and payment of all sums payable by Trustor to Beneficiary as provided therein;

C. Performance of the obligations, terms, conditions and liabilities of the Bond described in Paragraph 5 of the Settlement Agreement.

D. Performance and observance of each term contained in this Deed of Trust and the Security Agreement and payment of all sums payable by Trustor to Beneficiary as provided herein; provided that this Deed of Trust shall secure not only existing obligations and indebtedness but also future advances, whether such advances are obligatory or otherwise as may arise under the terms of Exhibit A; (all of the foregoing indebtedness, obligations and liabilities being hereinafter referred to as the "Secured Obligations");

II. Trustor hereby conveys, grants, assigns, transfers and sets over to Trustee, with power of sale, all right, title and interest of Trustor in and to the following (collectively called the "Mortgaged Property"):

A. The real property described in Exhibit B attached hereto and made a part hereof (the "Premises");

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- B. All buildings, improvements and fixtures now or hereafter located or erected on the Premises (the "Improvements");
- C. Any and all leases, underlettings and licenses of the Premises or Improvements, or any part thereof, now existing or hereafter entered into by Trustor, including, without limitation, upon a default, the right to receive and collect the rents, issues and royalties derived or to be derived by Trustor therefrom; and
- D. (i) All and singular, the tenements, hereditaments, rights-of-way, easements, waters, water courses, riparian rights, appendages and appurtenances and property belonging or in any way pertaining to the Premises or the Improvements and (ii) all estate, right, title, claim or demand whatsoever, either in law or in equity, in possession or expectancy, of, in and to the Premises and the Improvements.

TO HAVE AND TO HOLD the Mortgaged Property unto Trustee, its successors and assigns forever.

IN TRUST, NEVERTHELESS, upon the terms and trust herein set forth for the benefit and security of Beneficiary.

IN THE EVENT Trustor shall pay all of the sums payable under the Settlement Agreement, the Security Documents and hereunder, and shall comply with the terms hereof and under the Security Documents, then this Deed of Trust shall be null and void and of no further force and effect and shall be released by Beneficiary at the expense of Trustor.

SECTION 1 COVENANTS.

Trustor covenants with Beneficiary as follows:

1.1 Definitions.

1.1.1 As used herein, the following terms shall have the following meanings:

"Beneficiary": as defined in the preamble hereto.

"Event of Loss": shall mean, with respect to the Mortgaged Property, the actual or constructive loss thereof or of the use thereof due to theft, destruction, damage beyond repair or damage to an extent which makes repair uneconomical as reasonably determined by Trustor or the condemnation, confiscation or seizure thereof, or requisition of title to or to the use thereof by any Governmental Authority or any other Person, whether or not acting under color of governmental authorization; provided, however, that any event shall not constitute an Event of Loss if: (a) within

1 90 days of the occurrence of such event, the Board of Directors of Trustor shall have determined  
2 in good faith that any such loss or requisition of use is not expected to extend beyond 90 days after  
3 such event or that any such properties which have been lost, destroyed, damaged, condemned,  
4 confiscated, seized or requisitioned will be rebuilt or replaced and (b) Trustor acts diligently and in  
5 good faith and with sufficient resources to rebuild or replace any such properties which have been  
6 lost, destroyed, damaged, condemned, seized or requisitioned within one year, such one year period  
7 to be extended by the Beneficiary upon evidence reasonably satisfactory to the Beneficiary that the  
8 Trustor has proceeded diligently in such rebuilding or replacement; provided further, however, that  
9 if Trustor shall not comply with the requirements of the preceding proviso at any time during such  
10 period, or if at the end of such period the Mortgaged Property has not been substantially rebuilt or  
11 replaced and/or the use thereof substantially restored to Trustor, an Event of Loss shall then be  
12 deemed to have occurred. An Event of Loss shall be a default under this Deed of Trust which will  
13 Accelerate all remaining amounts due and owing or otherwise entitle Beneficiary to exercise any or  
14 all of its rights upon default.

15  
16 "Mortgaged Property": as defined in the granting clauses hereof.

17  
18 "Premises": as defined in the granting clauses hereof.

19  
20 "Security Documents": The Deed of Trust, the Security Agreement and the Non-  
21 Standard UCC Financing Statement recorded concurrently with the Deed of Trust, and the Bond  
22 described in ¶ 5 of the Settlement Agreement.

23  
24 "Taking": a taking of all or any part of the Mortgaged Property or any interest  
25 therein or right accruing thereto, as the result of or in lieu or in anticipation of the exercise of the  
26 right of condemnation or eminent domain, or a change of grade affecting the Mortgaged Property  
27 or any part thereof.

28  
29 "Trustee": as defined in the preamble hereto.

30  
31 "Trustor": as defined in the preamble hereto.

32  
33 1.1.2 The capitalized terms used herein but not defined herein are defined in, or  
34 by reference to the Settlement Agreement, Exhibit A, and shall have the meanings specified therein  
35 (such definitions to be equally applicable to the singular and plural forms thereof).

36  
37 1.1.3 The words "hereof," "herein" and "hereunder" and words of similar import  
38 when used in this Deed of Trust shall refer to this Deed of Trust as a whole and not to any  
39 particular provision of this Deed of Trust, or Exhibits.

40

1           1.2       Pavment of Indebtedness. Trustor shall pay the indebtedness secured by this Deed  
2 of Trust in accordance with the terms of the Settlement Agreement and shall pay and perform each  
3 and all of the other Secured Obligations.

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5           1.3       Insurance.

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7           1.3.1       Trustor shall maintain with financially sound and reputable companies:

8  
9                   1.3.1.1       Insurance covering the Improvements against loss or damage by fire,  
10 lightning, flood (subject to normal sublimits), vandalism and malicious mischief and by such other,  
11 further and additional risks as now are or hereafter may be covered by the standard extended  
12 coverage endorsement in amounts not less than TWO HUNDRED FIFTY MILLION DOLLARS  
13 (\$250,000,000.00) plus each additional coverage equal to the lesser of (i) the replacement value of  
14 Improvements built with Expansion Debt or (ii) the amount of such Expansion Debt;

15  
16                   1.3.1.2       Business interruption insurance, not less than THIRTY FIVE MILLION  
17 DOLLARS (\$35,000,000.00);

18  
19                   1.3.1.3       Comprehensive public liability and property damage insurance  
20 applicable to the Mortgaged Property of not less than ONE HUNDRED FIFTY MILLION DOLLARS  
21 (\$150,000,000.00);

22  
23                   1.3.1.4       During the course of any construction or repair of the Improvements,  
24 workers' compensation insurance in amounts reasonably satisfactory to Beneficiary;

25  
26                   1.3.1.5       During the course of any construction or repair of Improvements, in  
27 an amount in excess of \$1,000,000.00, builder's completed value risk insurance against "all risks of  
28 physical loss," including collapse and transit coverage, during construction of the Improvement,  
29 covering the total value of work performed and equipment, supplies and materials furnished;

30  
31                   1.3.1.6       Boiler and machinery insurance covering pressure vessels, air tanks,  
32 boilers, machinery, pressure piping, heating, air-conditioning and elevator equipment escalator  
33 equipment, provided the Improvements contain equipment of such nature, and insurance against loss  
34 of occupancy or use arising from any such breakdown, in amounts reasonably satisfactory to  
35 Beneficiary; and

36  
37                   1.3.1.7       Such other insurance, and in such amounts, as reasonably may be  
38 required by Beneficiary against other hazards.

39  
40 Subject to the existing exclusions in the policies set forth in Exhibit C to the Security Agreement,  
41 all policies of insurance shall, except for workers' compensation insurance, name Trustor and

1 Beneficiary as insureds, shall provide that any loss shall be payable notwithstanding any act or  
2 negligence of Trustor and shall contain a waiver of subrogation against Trustor.  
3

4 1.3.2 Trustor will make all payments for insurance premiums for which provision  
5 has not been made herein and will deliver to Beneficiary, promptly upon request the originals of all  
6 insurance policies required hereunder or certificates evidencing such policies (or, in the case of  
7 blanket policies, certificates thereof) together with evidence of payment of all premiums due thereon.  
8

9 1.3.3 Any amounts advanced or expended by Beneficiary to pay costs of collection  
10 of insurance proceeds hereunder, including without limitation, reasonable attorney's fees, costs and  
11 disbursements, shall be paid by Trustor to Beneficiary on demand, with interest thereon from the  
12 date of advance or expenditure at the Default Rate set forth in Exhibit A, Settlement Agreement  
13 Paragraph 13.  
14

15 1.3.4 Trustor shall cause (i) all property loss or damage insurance policies with  
16 respect to the Mortgaged Property to contain a loss payable clause in favor of Beneficiary providing  
17 that any payment with respect to a loss in excess of THREE MILLION DOLLARS (\$3,000,000.00), if  
18 not lawfully paid first to a creditor with a lien prior to these Security Documents, shall be paid solely  
19 to Beneficiary and any payment with respect to a loss of THREE MILLION DOLLARS (\$3,000,000.00)  
20 or less shall be paid to Trustor, (ii) all insurance policies to provide that no cancellation, reduction  
21 in amount or material change in coverage thereof shall be effective until at least 30 days after receipt  
22 by Beneficiary of written notice thereof, (iii) all insurance policies to insure the interests of  
23 Beneficiary regardless of any breach of or violation by Beneficiary or any other Person of any  
24 warranties, declarations or conditions contained therein, and (iv) all insurance policies to provide  
25 that Beneficiary shall have no obligation or liability for premiums, commissions, assessments or calls  
26 in connection with such insurance or in connection with any representation or warranty made by  
27 Trustor in connection with the obtainment of such insurance.  
28

29 1.3.5 Trustor shall be entitled to negotiate the settlement of any insurance payment  
30 from any insurer in connection with the insurance required hereunder provided that (a) the Trustor  
31 declares an Event of Loss and plans to replace or restore the Mortgaged Property, and either (i) if  
32 the Trustor plans to rebuild or replace such loss or damage to the Mortgaged Property, the Trustor  
33 delivers to the Beneficiary a report, prepared by an independent engineer and certified by a  
34 Responsible Officer of the Trustor, that the amount of the insurance settlement is sufficient to  
35 replace or restore such loss or damage to the Mortgaged Property, with such additional information  
36 as the Beneficiary may reasonably request or (ii) if the Trustor plans to rebuild or replace such loss  
37 or damage to the Mortgaged Property and the amount of the insurance settlement is insufficient to  
38 rebuild or replace such loss or damage to the Mortgaged Property, any such insurance settlement  
39 is subject to the final approval of the Beneficiary (such approval not to be unreasonably withheld  
40 or delayed); provided, however, that if a notice of default is in effect, Trustor will not be entitled  
41 to negotiate the settlement of any such insurance payments.

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1.3.6

1.3.6.1 Payments received by Beneficiary from any insurer with respect to loss or damage to the Mortgaged Property (whether or not involving any Event of Loss) shall be held by Beneficiary if not held by a creditor with a lien senior to Beneficiary and (A) unless a notice of default shall be in effect or an Event of Loss shall have occurred and be continuing, shall be paid over to Trustor at the request of the Trustor for use in the replacement or restoration of the part of the Mortgaged Property which suffered such damages or loss, (B) if the Mortgaged Property is not to be replaced or restored shall be applied to the balance due to Beneficiary and (C) if a notice of default shall be in effect, shall be applied in accordance with the terms of the Settlement Agreement; and

1.3.6.2 Any payments received by Beneficiary from any insurer with respect to business interruption insurance shall be held by Beneficiary and (A) unless a notice of default shall be in effect or an Event of Loss shall have occurred and be continuing, shall be paid over to Trustor at the request of the Trustor for use in the Trustor's ordinary course of business and (B) if a notice of default shall be in effect, shall be applied in accordance with the terms of the Settlement Agreement.

1.4 Maintenance, Repairs, Additions, etc. Trustor shall (a) maintain the Mortgaged Property in good condition and repair (including, without limitation, any repair or rebuilding required as a result of any damage, destruction or Taking of the Mortgaged Property) and shall not commit or suffer any waste thereof, (b) not negatively, materially alter or demolish the Mortgaged Property and (c) comply in all material respects with all Requirements of Law affecting the Mortgaged Property.

1.5 Impositions.

1.5.1 Prior to delinquency Trustor shall pay (i) all real estate taxes or assessments and special assessments for local improvements, sewer rents, water rates and any other charges in lieu of or in substitution of real estate taxes or assessments and (ii) any license fee, tax or assessment imposed on Beneficiary and measured by or based in whole or in part upon the amount of the outstanding obligations secured hereby, (collectively, the "Impositions").

1.5.2 Trustor shall furnish Beneficiary upon request within 60 days after the date upon which any such Imposition is payable hereunder by Trustor, official receipts of the appropriate taxing authority, or other proof reasonably satisfactory to Beneficiary, evidencing the payment thereof.

1.5.3 If requested by Beneficiary, Trustor shall cause to be furnished to Beneficiary a report from Trustee or its successor reflecting the current status of tax payments with regard to

1 the Mortgaged Property and such title endorsement and other information as the Beneficiary may  
2 reasonably request.  
3

4 1.6 Permitted Contests. Trustor may contest, after notice to Beneficiary, any Imposition  
5 or Requirement of Law, provided that (a) in the case of an unpaid Imposition such proceedings shall  
6 suspend the collection thereof from Trustor, Beneficiary and the Mortgaged Property, (b) neither  
7 the Mortgaged Property nor any interest therein would be in danger of being sold, forfeited or lost,  
8 (c) in the case of a Requirement of Law neither Trustor nor Beneficiary would be in any danger of  
9 any additional civil or any criminal liability for failure to comply therewith, and (d) Trustor shall  
10 have set aside on its books adequate reserves with respect thereto, and shall have furnished such  
11 security as may be reasonably requested by Beneficiary.  
12

13 1.7 Expenses of Litigation. Trustor shall, at its expense, appear in and defend any action  
14 or proceeding purporting to affect the security hereof or the rights and power of Beneficiary or  
15 Trustee hereof, and pay all costs and expenses, including reasonable expenses of title and legal  
16 expenses, costs, and fees in any action Beneficiary or Trustee may appear. Failure of Trustor to  
17 appear and defend after notice is a Default under this Deed of Trust. All reasonable sums incurred  
18 by Beneficiary for the expense of any litigation (including, without limitation, attorney's fees and  
19 expenses) to prosecute (including, without limitation, an action to foreclose this Deed of Trust or  
20 to collect the indebtedness secured hereby), or defend the rights and lien created by this Deed of  
21 Trust shall be paid by Trustor on demand, together with interest thereon at the rate set forth in  
22 Exhibit A, Settlement Agreement, ¶13.  
23

24 1.8 Taking of Mortgaged Property. If there should be a Taking, partially or totally of  
25 the Mortgaged Property, Trustor shall give prompt notice thereof to Beneficiary and all awards and  
26 proceeds of such Taking shall be paid to Beneficiary if not lawfully paid first to a creditor with a  
27 prior lien to these Security Documents. Trustor hereby assigns such awards and proceeds to  
28 Beneficiary. Trustor shall be entitled to negotiate the settlement of any claims for such awards or  
29 proceeds, provided that (a) the Trustor declares an Event of Loss and does not plan to replace or  
30 restore the Mortgaged Property, (b) if the Trustor plans to replace the Mortgaged Property, the  
31 Trustor delivers to the Beneficiary a report, prepared by an independent engineer certified by a  
32 Responsible Officer of the Trustor, that the awards or proceeds of the claims settlement are  
33 sufficient to replace the Mortgaged Property, with such additional information as the Beneficiary  
34 may reasonably request or (c) if the Trustor plans to replace the Mortgaged Property and the  
35 amount of the claims settlement is insufficient to replace the Mortgaged Property, any such claims  
36 settlement is subject to the final approval of the Beneficiary (such approval not to be unreasonably  
37 withheld or delayed); provided, however, that if a notice of default is in effect, Trustor will not be  
38 entitled to negotiate the settlement of any such claims. Any awards or proceeds of a Taking received  
39 by Beneficiary shall be held by Beneficiary and (i) unless a notice of default shall be in effect or an  
40 Event of Loss shall have occurred and be continuing, shall be paid over to Trustor for use in the  
41 replacement or restoration of the part of such Mortgaged Property which suffered such Taking, (ii)

1 if such Mortgaged Property is not to be replaced or restored, shall be credited to the obligations of  
2 Trustor under the prepayment schedule set forth in Exhibit A, (iii) if a notice of default shall be in  
3 effect, shall be applied in accordance with the terms of the Settlement Agreement.  
4

5 1.9 Inspection. Beneficiary and any persons authorized by Beneficiary shall have the right  
6 to enter and inspect the Mortgaged Property at all reasonable times.  
7

8 1.10 Utilities. Trustor shall pay when due all utility, sprinkler system and protective  
9 services charges which are furnished to the Mortgaged Property whether public or private.  
10

11 1.11 Action by Beneficiary to Preserve Mortgaged Property. Should Trustor fail to make  
12 any payment or do any act as and in the manner provided in this Deed of Trust, Beneficiary without  
13 obligation so to do after 10 days written notice to or demand upon Trustor and without releasing  
14 Trustor from any obligation, Beneficiary may make or do the same in such manner and to such  
15 extent as it may deem necessary therefor. Trustor shall, upon demand therefor by Beneficiary pay  
16 all reasonable costs and expenses incurred by Beneficiary in connection with the exercise by  
17 Beneficiary of the foregoing rights (including, without limitation, attorney's fees and expenses)  
18 together with interest thereon from the date of each such expenditure until paid, calculated at the  
19 rate set forth in ¶ 13 of Exhibit A, and the same shall constitute additional indebtedness secured  
20 hereby.  
21

22 1.12 Other Instruments.  
23

24 1.12.1 Trustor shall execute, acknowledge and deliver, from time to time, such  
25 further instruments as the Beneficiary may reasonably require to accomplish the purposes of this  
26 Deed of Trust.  
27

28 1.12.2 Trustor, promptly upon the execution and delivery of this Deed of Trust, and  
29 thereafter from time to time, shall cause this Deed of Trust, any mortgage or deed of trust  
30 supplemental hereto and each instrument of further assurance to be filed, registered or recorded and  
31 refiled, re-registered or re-recorded in such manner and in such places as may be required by any  
32 present or future law in order to publish notice of and perfect the lien of this Deed of Trust upon  
33 the Mortgaged Property.  
34

35 1.12.3 Trustor shall pay all filing, registration and recording fees, all re-filing, re-  
36 registration and re-recording fees, and all expenses incident to the execution and acknowledgement  
37 of this Deed of Trust, the Security Agreement, any mortgage or deed of trust supplemental hereto  
38 and any instrument of further assurance, and all Federal, State, county and municipal stamp taxes  
39 and other taxes, duties, imposts, assessments and charges arising out of or in connection with the  
40 execution and delivery of the Notes, this Deed of Trust, the Security Agreement, any mortgage or  
41 deed of trust supplemental hereto or any instruments of further assurance.

1                   1.12.4       Statements. Trustor, within five days upon request in person or within 10 days  
2 upon request by mail, shall furnish the Beneficiary a written statement, duly acknowledged, of the  
3 amount due on this Deed of Trust and whether it has knowledge of any offsets or defenses existing  
4 against the indebtedness secured by this Deed of Trust.  
5

6                   SECTION 2    NOTICE OF DEFAULT  
7

8                   2.1       Notice of Default. If any notice of default is in effect, Beneficiary may proceed by  
9 an action at law, suit in equity or other appropriate proceeding, to protect and enforce its rights,  
10 whether for the foreclosure of the lien of this Deed of Trust, or for the specific performance of any  
11 agreement contained herein or for an injunction against the violation of any of the terms hereof.  
12

13                   2.2       Power of Sale. If a notice of default is in effect, Beneficiary may invoke the power  
14 of sale and any other remedies permitted under the laws of Alaska or provided herein. Trustor  
15 acknowledges that the power of sale herein granted may be exercised by Beneficiary without prior  
16 judicial hearing. Trustor has the right to bring an action to assert the non-existence of a breach or  
17 any other defense of Trustor to default and sale. Beneficiary shall be entitled to collect all  
18 reasonable costs and expenses incurred in pursuing such remedies, including, but not limited to,  
19 reasonable attorney's fees and costs of documentary evidence, abstracts and title reports.  
20

21                   **The Trustor is personally obligated and fully liable for the amount due from Trustor**  
22 **under the Settlement Agreement. The Beneficiary has the right to sue on the Settlement Agreement**  
23 **and obtain a personal judgment against the Trustor for satisfaction of the amount due under the**  
24 **Settlement Agreement either before or after a judicial foreclosure of the mortgage or deed of trust**  
25 **under AS 09.45.170 - 09.45.220.**  
26

27                   If the power of sale is invoked, Trustee shall execute a written notice that a notice  
28 of default is in effect and of the election to cause the Mortgaged Property to be sold and shall  
29 record such notice in each Recording District in which the property or some part thereof is located.  
30 Trustee shall mail copies of such notice in the manner provided by the laws of Alaska to Trustor and  
31 to such other persons as the laws of Alaska prescribe. Trustee shall give notice of sale and shall sell  
32 the Mortgaged Property according to the laws of Alaska. Trustee may sell the property at the time  
33 and place and under the terms designated in the notice of sale in one or more parcels and in such  
34 order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Mortgaged  
35 Property by public announcement at the time and place of any previously scheduled sale.  
36 Beneficiary or Beneficiary's designee may purchase the property at any sale.  
37

38                   Trustee shall deliver to the purchaser Trustee's deed conveying the property so sold  
39 without any covenant or warranty, expressed or implied. Recitals in the Trustee's deed shall be  
40 prima facie evidence of the truth of the statements made therein.  
41

1                   The proceeds of any sale of the Mortgaged Property shall be applied and distributed  
2 according to the laws of the State of Alaska. All such proceeds lawfully belonging to Beneficiary  
3 shall be applied as provided in the Settlement Agreement.  
4

5           2.3       Waiver of Appraisalment, Valuation, etc. To the extent permitted by applicable law,  
6 Trustor hereby waives the benefit of all appraisalment, valuation, stay, extension and redemption laws  
7 now or hereafter in force and all rights of marshalling in the event of any sale of the Mortgaged  
8 Property or any interest therein.  
9

10          2.4       Appointment of Receiver. To the extent permitted by applicable law, if a notice of  
11 default is in effect, Beneficiary shall, as a matter of right, be entitled to the appointment of a  
12 receiver for the Mortgaged Property, and Trustor hereby consents to such appointment and waives  
13 notice of any application therefor.  
14

15          2.5       Assignment of Rents. As additional security, Trustor hereby grants to Beneficiary  
16 the right, power and authority during the continuance of this trust to collect the rents, issues, and  
17 royalties of said property, reserving to Trustor prior to any default by Trustor in payment of the  
18 obligation secured hereby or in performance of any agreement hereunder the right to collect and  
19 retain such rents, issues, and royalties as they become due and payable. Upon such default,  
20 Beneficiary may, at any time without notice, either in person, by agent or by a receiver, and without  
21 regard to the adequacy of any security for the obligation hereby secured, enter upon and take  
22 possession of said property or any part thereof, and in her own name or otherwise, sue for or  
23 otherwise collect such rents, issues, royalties and profits, including those past due and unpaid and  
24 any advance payments made thereon, and apply the same, less reasonable costs and expenses of  
25 operation and collection, including reasonable attorney's fees, to the obligation secured hereby, in  
26 such order as Beneficiary reasonably determines. The entering upon and taking possession of said  
27 property, the collection of such rents, issues, royalties and profits, and such application thereof shall  
28 not cure nor waive any default or notice of default hereunder nor invalidate any act done pursuant  
29 to such default or notice. The Beneficiary's rights, described in this paragraph as accruing upon  
30 default in payment of the obligation secured hereby, are not exclusive and shall apply in addition to  
31 any other rights allowed by law.  
32

33          2.6       Remedies, etc. Cumulative. Each right, power and remedy of Beneficiary provided  
34 for herein and now or hereafter existing at law or in equity or by statute or otherwise shall be  
35 cumulative, and the exercise by Beneficiary of any one or more of such rights, powers or remedies  
36 shall not preclude the simultaneous or later exercise by Beneficiary of any or all such other rights,  
37 powers or remedies.  
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SECTION 3 MISCELLANEOUS

3.1 Settlement Agreement. This Deed of Trust has been executed and delivered pursuant to the Settlement Agreement and is entitled to the benefits thereof.

3.2 Notices. All notices, requests, demands or other communications hereunder shall be given in writing (including telex or facsimile transmission) and shall be deemed to have been duly given when delivered pursuant to ¶ 11 of Exhibit A.

3.3 No Oral Modification. This Deed of Trust may not be changed or terminated orally.

3.4 Terms Subject to Applicable Law. All rights, powers and remedies provided herein may be exercised only to the extent that the exercise thereof does not violate any applicable law, and are intended to be limited to the extent necessary so that they will not render this Deed of Trust invalid, unenforceable or not entitled to be recorded, registered or filed under any applicable law. In the event any one or more of the terms contained in this Deed of Trust shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other term hereof.

3.5 Successors and Assigns. All terms of this Deed of Trust (including, without limitation, the obligation to make payments required by Exhibit A) shall run with the land and bind Trustor, its successors and assigns, and all persons claiming under or through Trustor or any such successor or assign and shall inure to the benefit of Trustee and Beneficiary, and their respective successors and assigns.

3.6 Warranty of Title. Trustor represents that it has good and marketable fee simple title to the Mortgaged Property, subject only to those items set forth as exceptions to title in the form of the title policy delivered to Beneficiary at closing under TransAlaska Title Insurance Agency, Inc. Order No. 445892, Policy No. 105298, and has the right to mortgage the Mortgaged Property. This warranty of title is a material representation to the inducement of the Settlement Agreement, Exhibit A. Trustor will pay the premium for TEN MILLION DOLLARS (\$10,000,000.00) of title insurance coverage as an additional inducement to this Settlement Agreement. This premium is approximately \$11,725.75. The parties recognize that the amount of coverage is insufficient to cover the true loss of Beneficiary if there is a defect in title. Thus, as an additional inducement, the Trustor will also name the State of Alaska as an additional insured on any future title insurance policies issued as to part or all of the Premises and Improvements to the extent obtainable at a nominal cost to the Trustor. Trustor will warrant and defend such title and the lien and interest of this Deed of Trust as a valid and enforceable deed of trust thereon subject only to the exceptions shown on the above-referenced policy of Title Insurance, and the Senior Debt as defined in Exhibit 7 to the Settlement Agreement.

1           3.7       Successor Trustee. Beneficiary shall have the right to appoint a substitute, or a  
2 successor trustee, to act as Trustee hereunder by written designation. Such right shall extend to the  
3 appointment of other successor and substitute trustees successively until the indebtedness hereby  
4 secured has been paid in full or until the Mortgaged Property is sold hereunder, and each substitute  
5 and successor trustee shall succeed to all of the rights and powers of the original Trustee named  
6 herein.  
7

8           3.8       Future Advances. This Deed of Trust shall secure not only existing indebtedness  
9 hereby secured but also any future advances, whether such advances are obligatory or are to be made  
10 at the option of the Beneficiary or otherwise, as are made within 10 years from the date hereof to  
11 the same extent as if such future advances were made on the date of execution of this Deed of Trust  
12 although there may be no advance made at the time of the execution of this Deed of Trust and  
13 although there may be no indebtedness secured hereby outstanding at the time any advance is made.  
14 The lien of this Deed of Trust shall be valid as to all indebtedness secured hereby and including  
15 future advances from the time of its filing of record in the Recording District where the Mortgaged  
16 Property is located. The total amount of indebtedness hereby secured may increase or decrease  
17 from time to time but the total unpaid principal balance of indebtedness hereby secured at any time  
18 outstanding shall not exceed NINETY SIX MILLION EIGHT HUNDRED TWO THOUSAND TWO  
19 HUNDRED NINETY AND NO/100 DOLLARS (\$96,802,290.00) plus accrued interest thereon as provided  
20 in Exhibit A. This Deed of Trust shall be valid and have priority over all subsequent liens and  
21 encumbrances including statutory liens excepting solely taxes and assessments levied on the  
22 Mortgaged Property and excepting the Senior Debt as defined in Exhibit 7 to the Settlement  
23 Agreement.  
24

25           3.9       Interest. It is the intention of the parties hereto that the Deed of Trust and  
26 Settlement Agreement shall conform strictly to usury laws applicable to it. Accordingly, if the  
27 transactions contemplated hereby would be usurious as to the Trustor or Beneficiary under laws  
28 applicable to it, then, in that event, notwithstanding anything to the contrary in this Deed of Trust  
29 or in the Settlement Agreement entered into in connection with or as security for the Secured  
30 Obligations, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest  
31 under law applicable to any Secured Party that is contracted for, taken, reserved, charged or received  
32 by such Secured Party under the Secured Obligations of such Secured Party, this Deed of Trust or  
33 under any of the aforesaid Security Documents or agreements or otherwise in connection with the  
34 Secured Obligations shall under no circumstances exceed the maximum amount allowed by such  
35 applicable law, and any excess shall be credited by such Secured Party on the principal amount of  
36 the Secured Obligations of such Secured Party (or, if the principal amount of the Secured  
37 Obligations of such Secured Party shall have been paid in full, refunded by such Secured Party to  
38 the Trustor); and (ii) in the event that the maturity of the Secured Obligations is accelerated by  
39 reason of an election of the holder or holders thereof resulting from any event of default under this  
40 Deed of Trust or otherwise, or in the event of any required or permitted prepayment, then such  
41 consideration that constitutes interest under law applicable to any Secured Party may never include

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more than the maximum amount allowed by such applicable law, and excess interest, if any; provided for in this Deed of Trust or otherwise shall be canceled automatically by such Secured Party as of the date of such default or prepayment and, if theretofore paid, shall be credited by such Secured Party on the principal amount of the Secured Obligations of such Secured Party (or, if the principal amount of the Secured Obligations of such Secured Party shall have been paid in full, refunded by such Secured Party to the Trustor).

3.10 Reconveyance. Upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust to Trustee for cancellation and retention and upon payment of its fees by Trustor, Trustee shall reconvey, without warranty, the property then held hereunder. Absent manifest error, the recitals in such reconveyance of any matters of facts shall be conclusive proof of the truthfulness thereof.

3.11 Subordination. This Deed of Trust is subject to the terms of the Subordination Agreement, a form of which is attached as Exhibit 7 of the Settlement Agreement and is expressly incorporated herein and shall be attached as a separate exhibit to this Deed of Trust.

IN WITNESS WHEREOF, this Deed of Trust has been duly executed by Trustor.

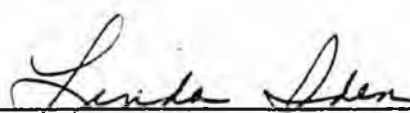
TESORO ALASKA PETROLEUM COMPANY

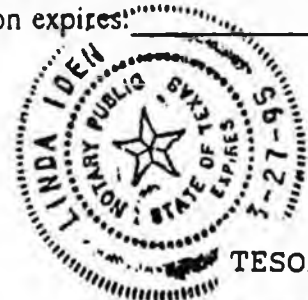
By: 

Its: Senior Vice President  
Chief Financial Officer

STATE OF TEXAS )  
 ) ss:  
COUNTY OF Bexar )

The foregoing instrument was acknowledged before me this 15th day of January, 1993, by Bruce A. Smith, Sr., VP, CFO of Tesoro Alaska Petroleum Company, a corporation named as Trustor in the foregoing deed, and acknowledged to me that he executed the same on behalf of said corporation freely and voluntarily for the uses and purposes therein mentioned.

  
NOTARY PUBLIC in and for ~~NEW YORK~~ Texas  
My commission expires: \_\_\_\_\_





SETTLEMENT AGREEMENT

1  
2  
3 THIS AGREEMENT is dated for reference purposes December  
4 15, 1992, by and between Tesoro Alaska Petroleum Company ("Tesoro  
5 Alaska"), Tesoro Petroleum Corporation ("Tesoro Petroleum") and the  
6 State of Alaska ("State"). Tesoro Alaska and Tesoro Petroleum are  
7 referred to collectively as Tesoro.  
8

9  
10 RECITALS

11 Tesoro Alaska and the State are parties to four  
12 Agreement(s) for the Sale and Purchase of Oil (collectively the  
13 "RIK Agreements"), two of which were entered into as of March 10,  
14 1980, and two of which were respectively entered into as of  
15 February 26, 1982, and December 9, 1983. The RIK Agreements  
16 provide for the sale to Tesoro Alaska of oil which the State takes  
17 in kind as its royalty from oil produced by State lessees ("ANS  
18 Lessees") of Alaska North Slope ("ANS") Prudhoe Bay oil fields;

19 The RIK Agreements provide, generally, that Tesoro  
20 Alaska's purchase price for the oil is the same amount the State  
21 would have received from its ANS Lessees, had the State elected  
22 instead to take its royalty payment in money;

23 The RIK Agreements further provide that the purchase  
24 price for the oil is subject to retroactive price adjustments  
25 ("Price Adjustment Clauses") to reflect the outcome of litigation  
26 the State initiated in 1977 against ANS Lessees, originally

1 captioned State of Alaska v. Amerada Hess Corporation, et al.  
2 Juneau Superior Court Civil Action No. 77-347, and later captioned  
3 the ANS Royalty Litigation ("ANS Royalty Litigation"). In the ANS  
4 Royalty Litigation, the State contended the ANS Lessees misreported  
5 their royalty payments under the ANS Leases;

6 On November 25, 1986, Natural Resources Commissioner  
7 Esther C. Wunnicke issued findings (the "Wunnicke Findings")  
8 governing Tesoro Alaska's liability under the Price Adjustment  
9 Clauses. In December 1986, Tesoro Alaska initiated an action  
10 against the State in Anchorage Superior Court, Civil Action No.  
11 3AN-86-15298 ("RIK Litigation"). In the RIK Litigation, Tesoro  
12 Alaska judicially challenged the Wunnicke Findings and obtained a  
13 remand to the Department of Natural Resources. Commissioner Lennie  
14 Gorsuch issued findings on remand (the "Gorsuch Findings") which  
15 affirmed the Wunnicke Findings. Tesoro Alaska appealed the Gorsuch  
16 Findings in the RIK Litigation. Briefs are pending;

17 The ANS oil royalty claims in the ANS Royalty Litigation  
18 have recently been settled; and

19 Tesoro Alaska and the State desire by this Agreement: (a)  
20 to resolve and settle all claims asserted in the RIK Litigation;  
21 (b) to resolve and settle all claims for retroactive price  
22 adjustments applicable to oil purchased under the RIK Agreements  
23 through December 31, 1991; and (c) to provide for the payment of  
24 those retroactive price adjustments and the interest due thereon.

25 TESORO SETTLEMENT AGREEMENT/2  
26

1 For and in consideration of the covenants and upon the  
2 terms and conditions set forth, the parties agree as follows:

3 1. Settlement of RIK Litigation. Tesoro Alaska and the  
4 State settle and resolve all claims asserted by Tesoro Alaska in  
5 the RIK Litigation. The parties shall stipulate to the dismissal  
6 of the RIK Litigation, each party to bear its own costs and  
7 attorney's fees. The dismissal shall be with prejudice as to all  
8 monetary claims relating to the RIK Agreements through December 31,  
9 1991; provided that neither party shall be precluded, on res-  
10 judicata or collateral estoppel grounds, from raising, in any  
11 future action under or relating to the RIK Agreements, the same  
12 procedural and due-process claims and issues which were addressed  
13 in the RIK Litigation; but either party may cite the decisions  
14 rendered in the RIK Litigation as precedent for the court's  
15 guidance.

16 2. Retroactive Price Adjustment. The parties agree  
17 that the total amount of retroactive price adjustments applicable  
18 to oil purchased by Tesoro Alaska under the RIK Agreements through  
19 December 31, 1991, is the amount of \$141,901,946 ("Retroactive  
20 Price Adjustment"), including interest through December 31, 1992.  
21 Calculation of the Retroactive Price Adjustment is shown in Exhibit  
22 1. The Retroactive Price Adjustment is the full amount (including  
23 interest through December 31, 1992) owed under the Price Adjustment  
24 Clauses of the RIK Agreements, as calculated by the State in

25 TESORO SETTLEMENT AGREEMENT/3  
26

1 accordance with the Wunnicke Findings and the Gorsuch Findings. Of  
2 this amount, \$97,060,501 is for oil purchased and refined by Tesoro  
3 at its Alaska Refinery ("Tesoro Portion") and \$44,841,445 is for  
4 oil purchased by Tesoro and sold to Chevron U.S.A. Inc. ("Chevron  
5 Portion"). The Retroactive Price Adjustment, as stated above, is  
6 conclusive for all purposes, and not subject to challenge by either  
7 party.

8 3. Payment Provision - Tesoro Portion. In full  
9 satisfaction of Tesoro Alaska's liability to pay the Retroactive  
10 Price Adjustment, Tesoro will make payments to the State for the  
11 Tesoro Portion on the following schedule:

12 A. Lump Sum Payment

13 On January 19, 1993, Tesoro will pay the State Ten  
14 Million Two Hundred Seventy Three Thousand Nine Hundred Fifty Six  
15 Dollars (\$10,273,956).

16 B. Cents Per Barrel Payments

17 For each month of:

Tesoro will pay for each  
barrel of Refinery Throughput  
(as defined below):

19	1993	16 cents
	1994	16 cents
20	1995	16 cents
	1996	24 cents
21	1997	24 cents
	1998	30 cents
22	1999	31 cents
	2000	32 cents
23	2001	33 cents
24	2002 and later	34 cents escalating, subject to subparagraph C below

25 TESORO SETTLEMENT AGREEMENT/4

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1           The cents per barrel payments for each month shall be  
2 paid by the 20th day of the following month. Tesoro shall make the  
3 payment without invoice from the State and shall include with its  
4 payment a statement showing the "Refinery Throughput" for the prior  
5 month.

6           "Refinery Throughput" means the total number of barrels  
7 measured and reported for each month of all feedstocks (not just  
8 ANS oil) charged to the "Alaska Refinery" crude distillation  
9 unit(s). The term "Refinery Throughput" shall have the same  
10 meaning as the term has in Tesoro's 1991 SEC Form 10-K and Tesoro's  
11 1991 annual report to shareholders. The "Alaska Refinery" means  
12 the land and all facilities including improvements, additions, and  
13 replacements, used in or related to the refining of crude oil,  
14 located at Nikiski, Alaska, more particularly described in the deed  
15 of trust attached as Exhibit 3.

16           The State shall have full right on reasonable notice to  
17 audit to determine the accuracy of all statements and the accuracy  
18 of the measurement or metering methods used to measure Refinery  
19 Throughput. If it is determined that the measurement or metering  
20 methods are not accurate, the measurement or metering methods shall  
21 be adjusted at Tesoro's expense. If the measurement or metering  
22 method under-reported the Refinery Throughput, Tesoro shall make a  
23 supplemental payment to the State of Alaska, and if the measurement  
24 or metering method over-reported the Refinery Throughput, the State

25 TESORO SETTLEMENT AGREEMENT/5  
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1 cf Alaska shall credit Tesoro, in each case in an amount equal to  
2 the applicable cents per barrel charge times the Change in Refinery  
3 Throughput for the lesser of the period since the last test of the  
4 measurement or metering method or the last twelve months (the  
5 "Adjustment Period"). The "Change in Refinery Throughput" means  
6 the rate of error in the measurement or metering method times  
7 Refinery Throughput during the Adjustment Period and shall be  
8 deemed to be spread pro-rata over the Adjustment Period. The  
9 supplemental payment or credit shall be made within 30 days after  
10 the Change in Refinery Throughput is determined and made known to  
11 the party required to make a supplemental payment or credit and  
12 shall be accompanied by a payment of interest equal to the  
13 supplemental payment or credit times the Applicable Interest Rate  
14 times a fraction, the numerator of which is the number of days in  
15 the Adjustment Period and the denominator of which is 730. The  
16 Applicable Interest Rate shall be the average of the rates of  
17 interest announced by the Bank of America, N.T. and S.A., of San  
18 Francisco, California, as its prime rate for each day during the  
19 Adjustment Period. Interest shall be compounded daily.

20  
21 C. Final Payment and Monthly Payment Option

22 On the second business day of January 2002, Tesoro shall  
23 pay the State Sixty Million Dollars (\$60,000,000.00) unless Tesoro  
24 elects to continue the cents per barrel payments. If Tesoro does

25 TESORO SETTLEMENT AGREEMENT/6  
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1 not make the \$60 million payment in January 2002, Tesoro shall  
2 continue to make monthly cents per barrel payments which will  
3 increase by 1 cent each year, for each barrel of Refinery  
4 Throughput. For example, the rate for 2002 shall be 34 cents per  
5 barrel, the rate for 2003 will be 35 cents per barrel, and so on.  
6 The increasing cents per barrel payments will continue until Tesoro  
7 makes the \$60 million final payment. The \$60 million payment is a  
8 fixed amount and will not be reduced by cents per barrel payments.  
9 Exhibit 2 shows the annual amount of the cents per barrel payments  
10 at Refinery Throughput of 25 million barrels per year, which is  
11 approximately the current annual Refinery Throughput. Actual  
12 Refinery Throughput will vary and the payments will therefore vary.  
13 Total payments made under this Agreement may be more or less than  
14 the amount of the Tesoro Portion.

15 On and after the second business day of January 2002,  
16 Tesoro may from time-to-time partially pay the \$60 million bond in  
17 increments of \$15 million. If a partial bond payment is made, the  
18 cents per barrel payments shall be adjusted proportionately. For  
19 example, if a \$30 million bond payment is made on the second  
20 business day of January 2002, the cents per barrel payments for  
21 2002 shall be 17 cents, for 2003, 17.5 cents, and so on.

22 Tesoro shall notify the State by November 30, 2001 of the  
23 amount of bond payment it intends to make in January 2002. Tesoro

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25 TESORO SETTLEMENT AGREEMENT/7  
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1 shall also notify the State at least 30 days in advance of its  
2 intention to make a partial bond payment.

3 D. Beginning December 31, 1993, Tesoro may prepay its  
4 entire obligation under this Agreement by paying the "Prepayment  
5 Amount" shown below plus any past due amounts, including interest,  
6 owed but unpaid.

7

<u>At December 31 of:</u>	<u>Prepayment Amount (in millions)</u>
8 1993	\$80.2
9 1994	79.6
10 1995	79.0
11 1996	76.6
12 1997	74.0
13 1998	71.5
14 1999	70.0
15 2000	65.0
16 2001	60.0

17 The Prepayment Amount for any day other than year end  
18 will be calculated using straight-line interpolation and a 365 day  
19 year. For example, the Prepayment Amount for January 30, 1996,  
20 will be calculated as follows:

21 Step 1:	Year-end 1995 Prepayment Amount	\$79,000,000
	Year-end 1996 Prepayment Amount	<u>76,000,000</u>
	Difference	<u>\$ 2,400,000</u>
22 Step 2:	$\frac{\$2,400,000}{365} \times 30 \text{ days} =$	\$197,260
23 Step 3:	Year-end 1995 Prepayment Amount	\$79,000,000
	Less: Amount from Step 2	<u>197,260</u>
24	Prepayment Amount @ January 30, 1996	<u>\$78,802,740</u>

1           4.       Payment Provision - Chevron Portion.   The Chevron  
2 Portion of the Retroactive Price Adjustment arises because Tesoro  
3 Alaska sold oil purchased under the RIK Agreements to Chevron  
4 U.S.A. Inc. ("Chevron") under Chevron Contract No. 127208, a copy  
5 of which has been furnished the State. The State will separately  
6 invoice Tesoro Alaska for the Chevron Portion, \$44,841,445 plus  
7 interest accrued from December 31, 1992. Tesoro Alaska will within  
8 5 business days invoice the same amount to Chevron, and request  
9 Chevron to make payment directly to the State.

10           Tesoro Alaska will cooperate with the State in recovering  
11 from Chevron the Chevron Portion of the Retroactive Price  
12 Adjustment. Tesoro Alaska will at the State's request assign to  
13 and relinquish unto the State all claims and entitlements, however  
14 characterized, under Chevron Contract No. 127208. Tesoro warrants  
15 that Chevron Contract No. 127208 is the entire contract between  
16 Tesoro and Chevron; that Exhibit 4 accurately states the number and  
17 date of purchase of all barrels purchased by Chevron under that  
18 contract; that there have been no representations or agreements,  
19 oral or written, modifying or amending that contract; that Tesoro  
20 has not made any representations, warranties, or promises to  
21 Chevron that its liability under that contract would be limited or  
22 different from the liability specified in the contract or would be  
23 less than the Chevron Portion (\$44,841,445 with interest through  
24 December 31, 1992); and that Tesoro has not released Chevron from

25 TESORO SETTLEMENT AGREEMENT/9  
26

1 any liability under that contract, or reached an accord and  
2 satisfaction with Chevron as to any term of that contract.

3 If the State initiates an action against Tesoro Alaska to  
4 recover the Chevron Portion of the Retroactive Price Adjustment,  
5 Tesoro Alaska will, if requested by the State, and at Tesoro's own  
6 expense, file a third-party claim against Chevron, so as to protect  
7 and preserve the State's ultimate recourse against Chevron for  
8 recovery of the Chevron Portion of the Retroactive Price  
9 Adjustment. Tesoro Alaska's duties of cooperation shall not  
10 require Tesoro Alaska to take a leadership role in any litigation.  
11 The State shall at its expense prosecute the claim and control all  
12 aspects of the litigation. Tesoro Alaska will, as requested by the  
13 State, meet all deadlines and do all other things reasonably  
14 necessary to insure that the State's interests are protected. The  
15 State will reimburse Tesoro for third party and other out of pocket  
16 costs incurred by Tesoro to produce documents, to present  
17 witnesses, or to otherwise assist the State as requested by the  
18 State. Tesoro and the State agree each will bear its own costs and  
19 attorney's fees; not to seek to recover costs and attorney's fees  
20 from the other; and in the event of a court award of attorney's  
21 fees and costs against either, not to seek to recover such an award  
22 from the other.

23 The State's sole and exclusive recourse for recovery of  
24 the Chevron Portion of the Retroactive Price Adjustment, and all

25 TESORO SETTLEMENT AGREEMENT/10  
26 ..

1 interest now or hereafter accrued, is recovery (directly or  
2 indirectly) from Chevron of amounts due from Chevron. No other  
3 recourse shall exist against Tesoro.

4 5. Collateral. The \$60 million payment obligation  
5 shall be evidenced by a negotiable bond in the form attached as  
6 Exhibit 5. The bond, the cents per barrel payments (including any  
7 cents per barrel payments owed because the \$60 million payment is  
8 not made on the second business day of January 2002) and any  
9 interest owed under Paragraphs 3 or 13 will be secured by a deed of  
10 trust (including a U.C.C. security agreement) to the Alaska  
11 Refinery in the form attached as Exhibit 3. For purposes of the  
12 deed of trust, this Agreement shall be deemed to be a note.

13 6. Subordination. The rights of the State and  
14 obligations owed the State under this Agreement and the State's  
15 collateral interest in the Alaska Refinery shall be subordinate to  
16 no more than \$175 million in other obligations of Tesoro, at any  
17 one time outstanding, plus Expansion Debt as defined below, on the  
18 terms and to the extent provided in Exhibit 7. "Expansion Debt"  
19 means debt incurred by Tesoro which is used to finance all or part  
20 of any improvements, replacements, or additions, including land, to  
21 the Alaska Refinery.

22 Except as provided in the immediately preceding  
23 paragraph, other obligations of Tesoro for borrowed money, lease  
24 obligations which are required to be included as debt on the  
25 balance sheet of Tesoro under generally accepted accounting  
26 principles, and the deferred purchase price for property, plant and  
TESORO SETTLEMENT AGREEMENT/11

1 equipment, other than trade payables in the ordinary course of  
2 business, incurred after the effective date of this Agreement,  
3 shall be subordinate to all obligations (including, without  
4 limitation, cents per barrel payments, interest, and the \$60  
5 million bond) owed the State under this Agreement.

6 7. Document Preservation. Subject to the provisions of  
7 applicable Protective Orders governing confidentiality, the State  
8 will preserve until January, 1997 its documents, depositions, work  
9 product, expert reports, claims schedules and computer data  
10 (collectively "ANS Records") relating to the State's claims against  
11 the defendants in the ANS Royalty Litigation. The State will  
12 respond to discovery requests concerning the ANS Records in  
13 accordance with the applicable Civil Rules.

14 8. Financial Reporting - Tesoro will without request by  
15 the State provide the State copies of all press releases, all  
16 documents filed with the Securities and Exchange Commission  
17 including, without limitation, proxy statements and solicitations,  
18 SEC Forms 10K, 10Q and 8K, (but excluding Form S-8) Tesoro's Annual  
19 Report (if not part of SEC Form 10K), and all documents sent to  
20 Shareholders.

21 Tesoro shall also advise the State at the time the  
22 information is made available to the public of all Major Financing  
23 Transactions and, on request, provide documentation to the State.  
24 A "Major Financing Transaction" is the issuance of any stock, bond,  
25 debenture, or similar instrument, in a single or series of related  
26 transactions pursuant to which Tesoro will receive \$10 million or  
TESORO SETTLEMENT AGREEMENT/12

1 more, the execution of any lease in which the total lease payments  
2 exceed \$10 million, or the execution of any note or other promise  
3 to pay in which the principal amount exceeds \$10 million. The  
4 State shall have the right to obtain additional documents which  
5 show the financial condition of Tesoro and to make requests from  
6 time to time for additional information reasonably related to the  
7 financial condition of Tesoro. The State agrees that it will hold  
8 in confidence and will not disseminate to any third party any  
9 information provided to it by Tesoro pursuant to this paragraph 8  
10 which is identified in writing by Tesoro as being confidential.  
11 The foregoing sentence shall not apply to any information that is  
12 publicly available through no fault of the State. This Financial  
13 Reporting provision is a compromise by the State of its request for  
14 a seat on the Tesoro Board of Directors and shall be broadly  
15 construed in favor of the State to insure that the State has full  
16 knowledge of Tesoro's financial condition and affairs.

17 9. Release of Claims. Except as otherwise provided in  
18 this Agreement, Tesoro releases the State, and the State releases  
19 Tesoro from any and all claims known or unknown, asserted or  
20 unasserted, arising out of or relating to the RIK Agreements,  
21 (except claims concerning the calculation and payment of the amount  
22 owed for oil purchased after December 31, 1991) including, without  
23 limitation, Tesoro's claim that it is entitled to a refund of  
24 reservation fees under the RIK Agreement dated December 9, 1983,

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1 and Tesoro's claim that it is or may be entitled to a refund for  
2 the Field Cost Allowance paid pursuant to the RIK Agreements. The  
3 State reserves all claims for payment of the Chevron Portion and  
4 the Tesoro Portion of the Retroactive Price Adjustment, subject to  
5 the provisions of this Agreement. This Agreement does not settle,  
6 compromise, or limit the rights of Tesoro Alaska and the State to  
7 assert claims and initiate and participate in proceedings  
8 concerning the TAPS Quality Bank.

9 10. Authority. Tesoro represents that its Board of  
10 Directors has approved the execution of this Agreement (which  
11 includes the attached bond, deed of trust, subordination agreement,  
12 financing statement and security agreement) as shown by attached  
13 Exhibit 6 and that the people signing this Agreement on its behalf  
14 are fully authorized to do so. Tesoro further represents that all  
15 things necessary to make this Agreement lawful, valid, and binding  
16 have been done and that the execution of this Agreement does not  
17 violate any law or other Agreement by Tesoro. The State represents  
18 that the people signing this Agreement on its behalf are fully  
19 authorized to do so, and that no further approvals are required.  
20 The Attorney General represents that legislative approval under the  
21 provisions of AS 38.06.055, and review and recommendation of the  
22 Alaska Royalty Oil and Gas Development Advisory Board under AS  
23 38.06.050, are not required.

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