

# **2011 CHICKALOON COMPETITIVE COAL LEASE PROSPECTUS**



Remains of Castle Mountain Coal mine wash plant

**THE ALASKA MENTAL HEALTH TRUST**

**TRUST LAND OFFICE**

**ANCHORAGE, ALASKA**

**FALL 2011**

## **EXECUTIVE SUMMARY**

The Trust is offering a competitive coal lease of Trust Land in the Matanuska Valley near the community of Chickaloon, Alaska. The tract is comprised of approximately 11,500 acres and is believed to contain high quality bituminous coal exploration targets.

Regional coal distribution maps and selected reports describe historical exploration efforts and production records from nearby mines. The resource is not well defined and will require an exploration program to further identify a mineable resource.

Good road access is available for field work. Technical expertise to conduct field work exists in the Anchorage and Matanuska-Susitna areas.

Tidewater shipping capability, electrical power, and in-place infrastructure is close at hand along with a large local work force from which to draw qualified employees.

The State of Alaska has a professional staff assigned to coal mine project permitting which is responsive and responsible for timely decisions required in private sector project development.

The lease format and time line for application submittal is found in Appendix B.

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## INTRODUCTION

The Alaska Mental Health Trust Authority, acting through the Mental Health Trust Land Office, proposes to lease land in the Chickaloon area for the purpose of coal exploration and possible development. The proposed lease area is located approximately 60 miles northeast of Anchorage, Alaska, and is more accurately described in the enclosed lease package. Qualified companies that are interested in participating in this lease offering are invited to review the enclosed material and submit a lease application. Deadline for receipt of application packages is December 16, 2011. Interested and capable parties with questions should contact Mr. Mike Franger, Senior Resource Manager (907) 269-8657; email: [mike.franger@alaska.gov](mailto:mike.franger@alaska.gov).

## LOCATION AND ACCESS

The proposed lease area (Tract A) is located near the town of Chickaloon in the Matanuska-Susitna Borough. Access is via all season roads and the Glenn Highway from Anchorage. A full range of services and accommodations are available in the area, along with an international airport in Anchorage. Figure No. 1 places Tract A in relation to Anchorage, Alaska. Figure No. 2 depicts the Tract within Township 20 North, Range 5 East, Seward Meridian. (Aliquot part tract description may be found in Appendix G.)



Figure No. 1, Lease Tract Location Map

The Anchorage area offers a wide variety of consulting disciplines and exploration drilling capabilities required to advance exploration projects of this nature.

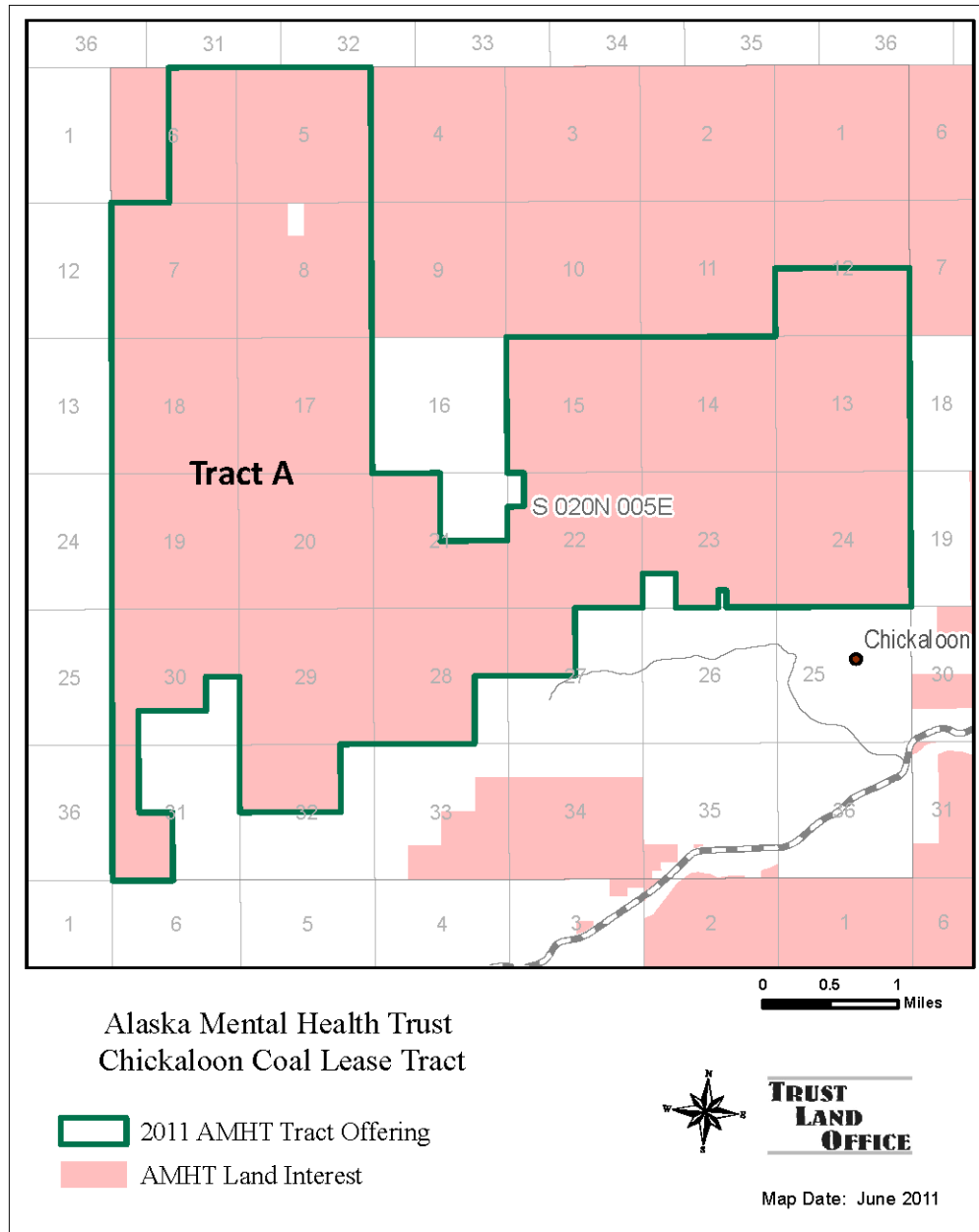


Figure No. 2. 2011 Chickaloon Coal Lease Tract A Map

## COAL LOCATION

Figure No. 3 shows a subset of the Map of Alaska's Coal Resources by Merritt and Hawley<sup>1</sup> showing a portion of the Cook Inlet and Matanuska Valley geology. Figure No. 4 locates currently identified coal "fields", including the Castle Mountain Coal Field within which Tract A is located.

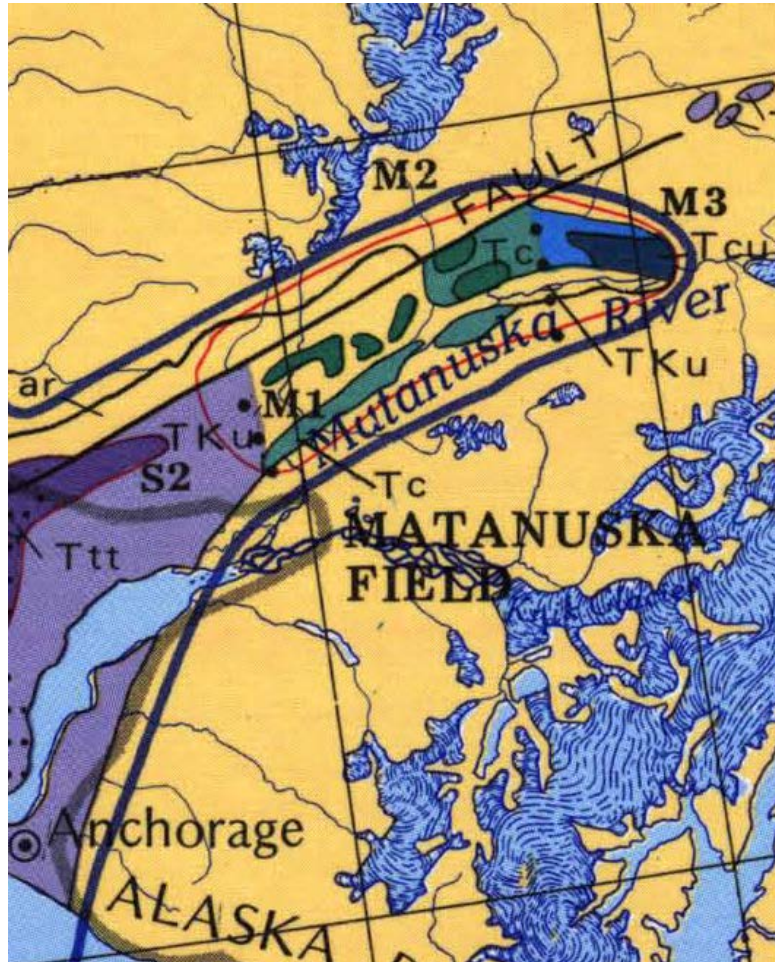


Figure No. 3. Coal Fields of the Matanuska Area. Annotated from Merritt, R.D., and Hawley, C.C., 1986, Map of Alaska's coal resources: Special Report SR 37, State of Alaska, Department of Natural Resources, Division of Geological & Geophysical Surveys, Fairbanks, AK.

<sup>1</sup> Merritt, R.D., and Hawley, C.C., 1986, Map of Alaska's coal resources: Special Report SR 37, State of Alaska, Department of Natural Resources, Division of Geological & Geophysical Surveys, Fairbanks, AK.

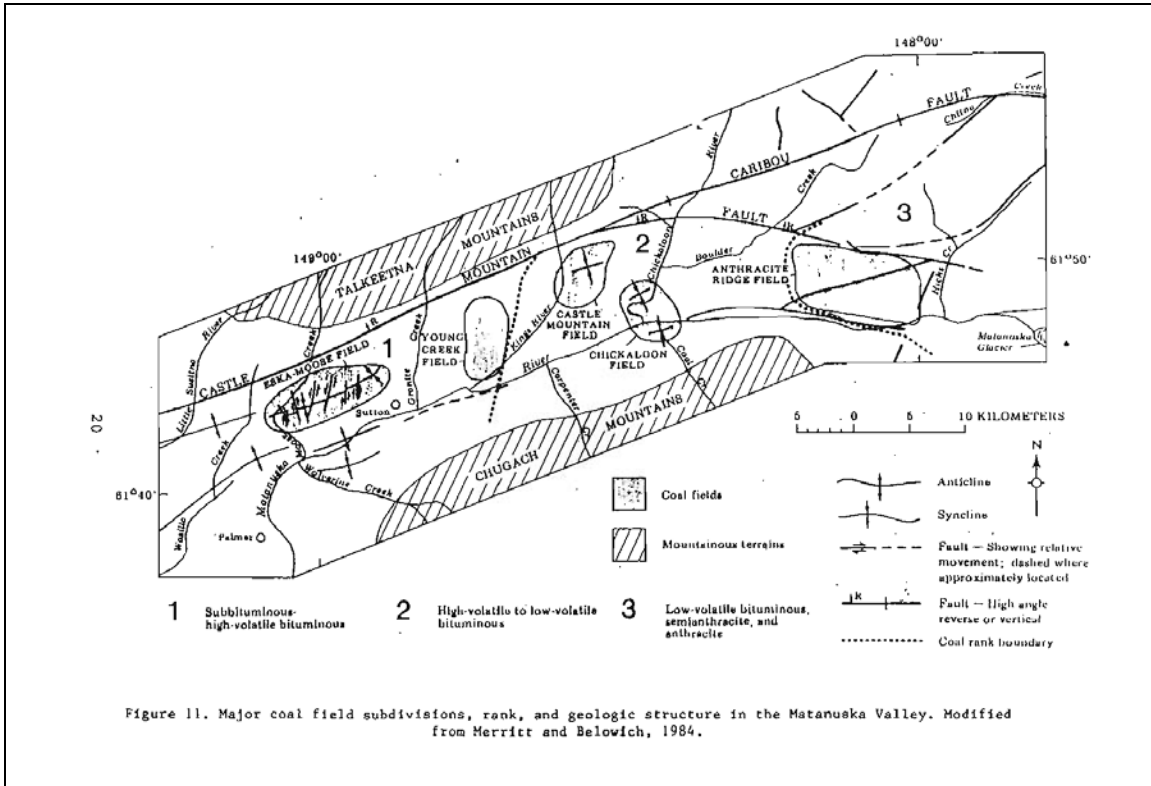


Figure No. 4. Location Map for Castle Mountain coal field<sup>2</sup>

## CHICKALOON COAL FORMATION

Capt. W.P.T. Hill<sup>3</sup> described the sedimentary Chickaloon formation:

The Chickaloon formation consists of a rather monotonous succession of shales and sandstones. The shales, which predominate over the sandstones in aggregate thickness, are gray to drab, rather soft and

<sup>2</sup> Fig 11, P.20, Public-data File 85-45, Coal Atlas of the Matanuska Valley, Alaska; Roy D. Merritt, Alaska Division of Geological and Geophysical Surveys, October 1985.

<sup>3</sup> P.4, Inclosure "B" of the Final Report of The Navy Alaskan Coal Commission to the Secretary of the Navy, PROGRESS REPORT ON THE GEOLOGY AND COAL RESOURCES OF THE REGION ADJACENT TO CHICKALOON, AK, FOR THE PERIOD 1 JULY 1920 TO 30 APRIL 1922 BY CAPT. W.P.T. HILL, U.S. MARINE CORPS, MEMBER AND GEOLOGIST-NAVY ALASKA COAL COMMISSION

inclined to disintegrate on exposure, poorly bedded, and without well-defined joint planes. Most of the beds are rather gritty and vary in grain along the bedding. They contain many nodules and lines of nodules of iron carbonate, some of which form fairly persistent beds. The sandstones are yellowish, rather soft, of diverse grain in the different beds and of varying grain in the same bed, and for the most part feldspathic; in general, the individual beds are not very persistent. The thickness of the formation is doubtful but appears to be at least 3,000 feet.

Fossil leaves are present in both the shales and the sandstones, and are especially abundant and well preserved in the beds carrying iron carbonate.

The coal beds are numerous. There is no evidence as to their exact position within the formation or as to the persistence of individual beds or groups of beds.

### STRATIGRAPHIC COLUMN

Romeo M. Flores<sup>4</sup> depicted the Chickaloon formation stratigraphic section as shown in Figure No.5 and pictured coal beds in Figure No. 6.

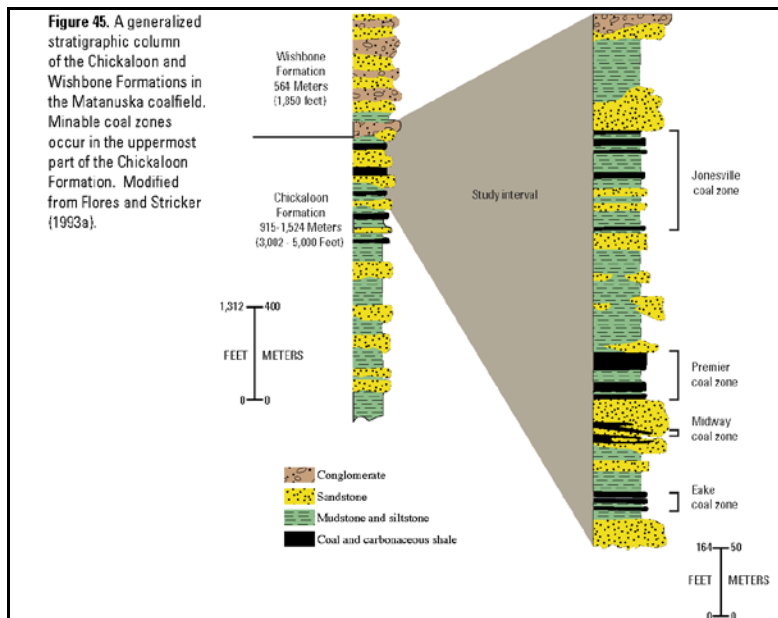


Figure No. 5. Chickaloon formation Stratigraphic Column

<sup>4</sup> Page 45, Alaska Coal Geology, Resources, and Coalbed Methane Potential by Romeo M. Flores, Gary D. Stricker, and Scott A. Kinney, U.S. Geological Survey, Denver, Colorado 80225, DDS-77 (2004)



**Figure 46.** Photograph of coal beds of the Chickaloon Formation in the Wishbone Hill coal district. For scale the Jonesville coal zone is 20 feet (6.1 meters) thick.

Figure No. 6, Coal beds in the Chickaloon formation, Wishbone Hill mine.

Flores continues on page 45:

Exploration target appears to be from the base of the Wishbone Formation to the top of the Chickaloon Formation: containing the Jonesville coal zone, Premier coal zone, Midway coal zone, and Eake coal zone (approximately 1,500 ft. vertical stack of conglomerate, sandstone, mudstone and siltstone sedimentary rocks.).

## STRUCTURAL GEOLOGY

Merritt<sup>5</sup> has described the Chickaloon formation structural tenor as follows:

The Chickaloon Formation has been considerably folded and faulted since its deposition. Deformation of coal-bearing rocks increases eastward with only slight folding and faulting in the western part of the field. Complex folding, faulting, and shearing characterize the eastern

<sup>5</sup> Pp. 5-6, Public-data file 85-76, Coal Geology and Resources of the Matanuska Valley, Alaska; Roy D. Merritt, Alaska Division of Geological and Geophysical Surveys, August 1986.

part of the field and coals become progressively higher in grade eastward in the valley. Chickaloon Formation rocks are only moderately indurated even when severely deformed (Grantz, 1964). Coals of Matanuska Valley have a complex structural geology compared to mine areas of the contiguous 48 states, and are strongly folded and deformed compared to subbituminous and lignite beds of the Susitna lowland to the west. Many minor faults and flexes in the Chickaloon Formation do not carry through into the overlying Wishbone and Tsadaka Formations, which are generally characterized by greater competence and resistance to deformation.

The relatively parallel zones of major faulting bordering Tertiary and Cretaceous rocks of the Matanuska Valley on the north and south separate these rocks from older and more highly deformed metamorphic and intrusive rocks of the mountains (Barnes and Payne, 1956). Formations of the valley are a part of the downfaulted block compressed between dioritic rocks of the Talkeetna Mountains on the north, and metamorphosed sediments, volcanics, and intrusive rocks of the Chugach Mountains on the south. Upper Cretaceous and Tertiary rocks unconformably overlie older Mesozoic rocks (Bruhn and Pavlis, 1981). Chickaloon Formation rocks strike generally parallel to the easterly-northeasterly trend of Matanuska Valley being N. 60°E. west of the Chickaloon River and N. 75° to 90° E. east of Chickaloon River. Dips of strata are variable but show a tendency toward steep angles throughout most of the area. Coal beds are nearly vertical and overturned in places, as for example on the north bank of lower Chickaloon River. Some areas show a relatively continuous uniform dip for considerable distances. Folding of Chickaloon Formation rocks is predominantly open but locally can be sharp, of an asymmetric character, fairly complex, or unpredictable in nature.

## **COAL CHARACTERISTICS**

Merritt (pp.100-101, 1985) reports:

Chickaloon coals contain approximately 13,900 Btu/lb, 8% ash, and 0.6% sulfur (all on as received basis).

The coals of the Castle Mountain field are typically medium- to low-volatile bituminous. In 1964 a large coking sample was cut from an unmined segment of the southern open pit, Castle Mountain mine<sup>6</sup>. After it was washed to reduce the ash content from 16.5 to 10.4 percent, carbonization tests indicated that the coal would produce a

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<sup>6</sup> Castle Mountain Mine is located in Sec. 16, T.020 N. R.005 E., Seward Meridian.

strong coke (Warfield, 1967). Rao (1975) also analyzed this coal, the Castle Mountain No. 1 seam, and found it to be the only coal of coking quality in the area. He also reported that it contained no known deleterious trace elements.

**APPENDIX A**

**THE ALASKA MENTAL HEALTH TRUST  
AND  
THE TRUST LAND OFFICE**

## **Alaska Mental Health Trust and the Trust Land Office**

The Alaska Mental Health Trust was established by Congress in 1956. The 1956 law included a grant of one million acres of land to be used to generate revenues to meet the expenses of mental health programs in Alaska. In the mid-1980's a citizen lawsuit was filed claiming mismanagement of these lands. In 1994 the Alaska Superior Court and Alaska Legislature took actions that effectively settled the litigation. The settlement created the Alaska Mental Health Trust Authority whose responsibility is to ensure the creation of a comprehensive integrated mental health program for Alaska.

Alaska Mental Health Trust beneficiaries include people with mental illness, developmental disabilities, chronic alcoholism and other substance related disorders, Alzheimer's disease and related dementia, and traumatic brain injury.

The 1994 settlement reconstituted the Alaska Mental Health Trust and the related legislation transferred nearly one million acres of land to the Alaska Mental Health Trust Authority. It also required the creation of a separate unit within the Department of Natural Resources, the Trust Land Office (TLO). This office was established to manage the lands under contract to the Alaska Mental Health Trust Authority. TLO activities are funded from Alaska Mental Health Trust income, not the General Fund.

It is important to understand that Trust Lands are managed separately from other State of Alaska lands, in accordance with regulations adopted in 1997. The regulations provide that Trust Lands are managed solely in the best interest of the Alaska Mental Health Trust and its beneficiaries and among other things, require that the TLO:

- Protect and enhance the long-term productivity of Trust Land;
- Maximize long-term revenue from Trust Land;
- Encourage a diversity of revenue-producing uses of Trust Land; and
- Manage Trust Land prudently, efficiently and with accountability to The Trust and its beneficiaries.

In addition to the adopted regulations, the TLO manages Trust Land in accordance with a long-term asset management strategy, which was adopted by the TLO in 2003 and made part of The Trust's overall Asset Management Policy Statement that same year.

Resource categories managed by the TLO include coal, gas, materials, minerals, oil, real estate and timber. The TLO generates revenues from Trust land through a variety of methods including sales, long-term leases and short-term land use licenses. Trust land

transactions are competitive, unless it is clearly in the best interest of The Trust to engage in negotiated transactions. Revenues generated from Trust land management are used by The Trust Authority to improve the lives and circumstance of Trust beneficiaries throughout the state of Alaska.

Contact information for the TLO is:

**Mike Franger** - Senior Resource Manager, Minerals and Oil & Gas

Trust Land Office  
2600 Cordova Street, St 100  
Anchorage, AK 99503

[www.mhtrustland.org](http://www.mhtrustland.org)

Tel: (907) 269-8658  
Fax: (907) 269-8905  
Email: [mike.franger@alaska.gov](mailto:mike.franger@alaska.gov)

[www.mhtrust.org](http://www.mhtrust.org)

**APPENDIX B**

**LEASE BROCHURE WITH GENERAL  
COAL LEASE TERMS**

## **Alaska Mental Health Trust Land Office**

2600 Cordova Street, Suite 100

Anchorage, Alaska 99503

### **CHICKALOON COAL LEASE BROCHURE**

FALL 2011

**Item for Lease:** A ten year coal lease is being offered for the coal estate owned by the Alaska Mental Health Trust Authority (The Trust) and managed by the Trust Land Office (TLO). The Area of Interest consists of approximately 11,500 acres of coal estate located approximately 60 miles northeast of Anchorage, along the Glenn Highway in the vicinity of Chickaloon. The Area is described as follows:

Township 20 North, Range 5 East, all or portions of sections 5 thru 8, all or portions of sections 12 thru 15, all or portions of sections 17 thru 24, all or portions of sections 27 thru 32, all Seward Meridian, Alaska.

A more detailed description is listed in Appendix G. The tract map (Figure No. 2) shows the general location of this block of land. The term of the lease will be ten (10) years and may be extended by production. It will be issued following the completion of the procedures outlined herein. Note that the surface land estate associated with this land is not owned by The Trust. Therefore, authorization for any surface use associated with lease activities must be obtained from the appropriate land estate owner as well as from the Office of Surface Mining of the Alaska Department of Natural Resources, Division of Mining, Land and Water, which administers the Alaska Surface Mining Coal Reclamation Act (ASMCRA).

**Purpose:** The purpose of this coal lease offering is to secure binding commitments to explore all or a portion of the offered area and provide for certain terms and conditions for development in the event that economically viable coal deposits are discovered.

**Desired Result:** The long term economic benefits of entering into this lease for The Trust include increased coal exploration, decreased speculation, increased potential for development of Trust coal resources, agreements consistent with current industry

standards and Trust management principles, agreements with viable business partners, and the collection of coal data on Trust lands.

**General Lease Terms:** Substantially the same as described in Appendix D, Draft Coal Lease Form.

**Format of Application Process:** Prospective lessees must submit a completed Lease Application for each area they are interested in leasing that accurately describes the acreage that they propose to lease. The TLO will open the application packages on the date designated in this brochure. If there is only one applicant, or if there are multiple applicants but there is no overlap or conflict in the acreage applied for, leases will be issued for that acreage pursuant to the general lease terms identified in Appendix B, provided all other requirements are met by the prospective applicants. In the event there is more than one applicant for the same acreage within the area being offered, the TLO will identify the areas of overlap and the applicants involved within three working days of opening of the application packages. The affected applicants will be notified of the conflict and then given the opportunity to offer bonus bids for the overlapping acreage. Bids will be on a per acre basis and will be due within seven working days of notification of the overlapping acreage by the TLO. The conflicting acreage will be awarded for lease to the highest bidder.

**Acreage not licensed in this offering may be re-offered using this same format at a later date.**

**Lease Applications Due By: 4:00 PM on December 16, 2011.**

**Application Requirements:** The lease will be offered by sealed application. All participants must submit the following items:

- A completed Application with \$500.00 application fee;
- A completed Business Questionnaire (see Appendix E);
- Statement of Qualifications and related documentation to hold a lease (see Appendix F, Qualification of the Applicant); and
- A separate certified check or money order for 25% of the first year's annual rental (deposit to be applied toward first year's rental). The check or money order should be made payable to the Alaska Mental Health Trust Land Office.

**Make all checks or money orders payable to the Alaska Mental Health Trust Land Office.**

Enclose the completed forms along with the application fee and a **certified check or money order** in a sealed envelope. On the outside of the sealed envelope clearly print or type the name, address and telephone number of the applicant. Label the envelope: 2011 Chickaloon Competitive Coal Leasing Program.

Complete application packages may be delivered or mailed to The Trust Land Office, 2600 Cordova Street, Suite 100, Anchorage, AK 99503. Complete application packages must be received by 4:00 P.M. on December 16, 2011. **Application Packages received after the deadline will be rejected and returned unopened. Incomplete packages will be rejected.**

**Opening of Sealed Applications:** Application packages will be opened at 9:00 AM on December 19, 2011 at The Trust Office located at 2600 Cordova Street, Suite 100, Anchorage, Alaska 99503.

**Questions:** Questions regarding information contained in this package can be directed to Mike Franger at (907)-269-8657 or e-mail @ [mike.franger@alaska.gov](mailto:mike.franger@alaska.gov).

**Awarding and Issuance of the Lease:** Lease(s) will be awarded according to the process described above to the qualified applicant (where no conflicts exist) or the successful qualified bidder (where conflicting interests exist) after the general conditions referenced below are met. The lease award will be subject to cancellation if the general conditions have not been met within 10 working days of notification from the TLO of intent to award a lease. In the event of cancellation for this reason, if conflicting acreage existed, the conflicting acreage will be awarded to the bidder with the next highest bonus bid until the acreage is leased. The next highest bidder will be given 10 working days from date of notification to meet the general conditions to the satisfaction of the TLO.

**General Conditions:** The successful applicant must provide: (1) a performance guarantee in the amount of \$10,000 (which is subject to adjustment depending on the proposed activities for the site and (2) a Certificate of Insurance evidencing coverage's in the types and amounts described in the lease package (Appendix D, see page 52).

**NOTE: ANY APPLICANT AWARDED A LEASE BUT FAILING TO COMPLY WITH THE GENERAL CONDITIONS WITHIN THE STATED TIME PERIOD SURRENDERS THEIR DEPOSIT AND ENTIRE BID AMOUNT (IF APPLICABLE) TO THE TRUST.**

**Right to Cancel:** The TLO reserves the right to cancel this lease offering at any time and to reject all or portions of any and all applications until the time a lease is issued. In the event that this leasing program is cancelled for any reason, all applications will be returned.

**General Lease Terms**  
**2011 Chickaloon Coal Competitive Lease Program**

The following paragraphs generally outline the terms of a proposed lease:

1. The TLO will lease to LESSEE all or a part of the lands described on the attached Appendix G.
2. Acreage will include that which LESSEE and the TLO mutually agree is necessary. LESSEE, subject to approval by the TLO, which will not be unreasonably withheld, may relinquish acreage annually by providing the TLO with written notice of and justification for the proposed relinquishment ninety (90) days prior to the date of relinquishment.
3. This lease will grant LESSEE the right to explore for and mine coal resources. Coal bed methane and peat are reserved to the Lessor. Access to and across the Leased Area and surface use associated with exploration and development will be separately authorized through the Alaska Department of Natural Resources, Division of Mining, Land and Water, Office of Surface Mining, and the appropriate surface estate owner.
4. The Initial Term of the lease will be for ten years. Thereafter, the lease may only be maintained by continuous production.
5. LESSEE agrees to pay annually, commencing on the execution of the lease to the TLO, a rental of \$4.00/acre or fraction of an acre. This rate shall be adjusted every 5 years on the anniversary date of the Lease by the Producer Price Index.
6. LESSEE shall pay to the TLO a production royalty of 5 percent in amount or value of the gross value of coal from the Leased Area that is sold, disposed of, or consumed.
7. LESSEE cannot apply exploration incentive credits, as defined in AS 27.30.010, to production royalties from Alaska Mental Health Trust Lands.
8. Within one year after it has ceased all activities and operations under the lease or after the termination or expiration of the lease, LESSEE shall have commenced reclamation as required by existing federal, state and local laws and agreed to by LESSEE and the TLO.
9. LESSEE shall, within 30 days of the effective date of the lease, submit a plan of exploration, including a schedule and proposed budget to accomplish the exploration activities outlined in the plan. The schedule must include a firm date, to occur within 90 days of lease issuance, by which time the LESSEE shall initiate actions to obtain the necessary permits and associated authorizations commensurate with the proposed

exploration activities. The schedule shall consist of a reasonable timeline of events that must occur to advance the lease through the exploration, and, if warranted, development phases of the lease. The intent of this provision is to ensure that the LESSEE is committed to developing the lease in a diligent manner.

10. LESSEE shall update the plan referenced above annually by April 1 of each year (or a date mutually agreed to by the parties) for review and approval by the TLO. The TLO's approval will not be unreasonably withheld, nor will it be construed to have satisfied any regulatory or other requirements that may be associated with the proposed operations. By March 1 of each year (or a date mutually agreed to by the parties), LESSEE will submit an annual report which describes activities of the recently completed field season, and which shall contain at a minimum the following:
  - a) Maps showing all leased land subject to field investigation, all land survey data, all geological, geophysical and geochemical survey data, drill hole locations and all other sample sites. These maps will be of appropriate scales sufficient to accurately locate all sites and show all details relevant to the interpretation and evaluation of the information presented.
  - b) Actual routes of overland vehicular travel and location of all camps depicted on a USGS topographic map, scale of 1:63,360 (1 inch = 1 mile) or larger.
  - c) A list of vehicles used for any off-road travel which may have taken place.
  - d) A description of all clean-up activities and methods and location of debris disposal.
  - e) Copies of all geological, geochemical and geophysical data and information collected as a result of the Lease operations together with any written reports, compilations, descriptions of said data and information prepared in the normal course of the LESSEE's evaluation of the data and information collected. LESSEE shall also provide to the TLO the results of any interpretations that LESSEE has developed based on the information collected as a result of the permitted operations; provided that LESSEE shall not be obligated to provide the details of any proprietary or confidential interpretive methods; and further provided that the LESSEE makes no representations and shall have no liability for the accuracy of such interpretations nor any reliance thereon by the TLO.
  - f) All data obtained from any non-public source regarding the lands described in Exhibit A provided LESSEE is not precluded by agreements, law or regulation from conveying such data.
  - g) All data will be kept strictly confidential by the TLO during the term of this Lease (including any extensions) as provided in AS 38.05.035 unless otherwise specified, in writing, by the LESSEE.
  - h) In addition to the above information, the LESSEE will make available for copying at the TLO's request all raw geological, geochemical, and geophysical data, including but not limited to field notes, observations, drill hole logs, geochemical analyses and assays, and geophysical data developed by the LESSEE under this Lease. This raw data may be provided in such paper or digital formats as may be

reasonably requested by the TLO. The LESSEE will also make available, at the TLO's request and at the TLO's expense, access to all samples, including but not limited to drill core and/or cuttings which resulted from any activities performed under this Lease. All splits of drill core requested by the TLO will be provided by the LESSEE from portions previously collected and stored and not required for further analysis. The TLO will be responsible for the shipping, handling and TLO storage costs of splits. Upon termination of the lease, all core samples will be made available by LESSEE.

11. LESSEE shall keep the TLO apprised when field operations are taking place and shall provide TLO staff with reasonable opportunities to observe field operations. LESSEE may be charged a fee (11 AAC 05.010(7)(m)) for an inspection of the lease area once per year. Fees charged by the TLO will not exceed \$500.00 and may include time, travel and per diem expenses incurred by a TLO staff member or TLO contractor. When practical, LESSEE will make space available, on LESSEE or LESSEE contracted transportation services to the site, to a TLO staff member or TLO contractor.
12. LESSEE will not be permitted to assign its interest in the lease without the prior written permission of the TLO, which will not be unreasonably withheld.
13. LESSEE will remain responsible for LESSEE actions prior to the effective date of the assignment.
14. If owned by LESSOR, materials, including rock, stone, gravel, sand, and other similar materials, that are necessary for development of the Leased Area (such as in the construction of roads, building pads, etc.) and are used within the leased area may be used without charge.
15. LESSEE will represent and warrant at a minimum that:
  - a) The completed business questionnaire (attached) is a true and accurate effective as of the date of the lease;
  - b) It has the capacity to enter into and perform the obligations under the lease and all transactions contemplated therein, and all corporate and other actions required to authorize it to enter into and perform the lease have been properly taken;
  - c) It will not breach any other agreement or violate any law or regulations by entering into or performing under the terms of the lease; and
  - d) The lease has been properly authorized and duly executed and delivered by it and is valid and binding upon it in accordance with the terms, including the representations and warranties set forth therein.
16. LESSEE will have the duty to defend and indemnify the TLO and hold it harmless against all liability for any and all injury to or death of person or damage or loss of property, resulting or arising out of LESSEE's operations under the lease.

17. Termination, revocation, or expiration of the lease shall not affect the liability assumed or the indemnity given by LESSEE with respect to acts taken pursuant to the lease.
18. In addition to the coal lease bond required by 11 AAC 85.245 and 11 AAC 82.600 LESSEE shall have in place at all times during the term of the lease a bond that meets the requirements of AS 27.19.010 - 29.19.100, 11 AAC 97, if applicable, or any other statutory requirement that is applicable, such as ASMCRA.

## **APPENDIX C**

### **APPLICATION FOR COAL LEASE**

# The TRUST LAND OFFICE

2600 Cordova Street, Suite 100

Anchorage, Alaska 99503

Phone: (907)-269-8658

Fax: (907)-269-8905

## APPLICATION FOR COAL LEASE

Under the provisions of AS 38.05.801 and 11 AAC 99.100, the undersigned applicant(s) apply for a Coal Lease of the land described in Section 2 below. The undersigned applicant(s) certify that the information provided in this application is true, accurate and complete, and that the applicant(s) listed in Section 3 of this application are qualified to hold an interest in a lease to the same extent required under 11 AAC 82.200 and 11 AAC 82.205, or have included the required documents and information for qualification with this application, and have signed this application. The undersigned applicant(s) hereby: (1) authorize the person identified in Section 1 below to act as their designated agent for receipt of all notices and all communication with the Trust Land Office concerning this application; (2) acknowledge that in the event of overlapping applications, the successful applicant will be determined through a competitive bid process; and (3) acknowledge that the TLO can reject any and all applications in the event that it is determined to be in the best interest of the Trust to do so.

### SECTION 1: Applicant(s)

<b>Name:</b> _____ <div style="text-align: center;">Physical Address</div> _____ _____ _____	<b>Designated Agent:</b> _____ <div style="text-align: center;">Mailing Address</div> _____ _____ _____
--	---

Telephone: \_\_\_\_\_ Fax (optional) \_\_\_\_\_  
 E-mail (optional): \_\_\_\_\_

*The designated agent will be the only point of contact for official correspondence between the state and the applicants during the application process.*

### SECTION 2: Land requested in the Application (describe by section, township, range, and meridian)

\_\_\_\_\_

\_\_\_\_\_

*The area of land requested in the application must be described by section, township, range and meridian. It must be compact in form, consisting of full sections, where possible, which are contiguous (sections touching only at a point are not contiguous), and the overall length of the land requested must not exceed four times the width of the land.*

**This application must be typewritten or printed in ink and be accompanied by the \$500.00 filing fee, payable to Alaska Mental Health Trust Land Office.**

**MINERAL LEASE APPLICATION FORM (continued)**

**SECTION 3: Applicant(s)**

<b>% of Lease Interest</b>	<b>Name of Applicant</b>	<b>Authorized Signature</b>	<b>Date</b>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

*All persons (including corporations and associations) who will receive an interest, by virtue of any agreement or understanding, oral or written, in a Mineral Lease issued on the basis of this application, must be identified as an applicant in this section and provide an authorized signature. Each applicant must be qualified to hold an interest in a lease to the extent required under 11 AAC 82.200 and 11 AAC 82.205, or have included the required documents and information for qualification with this application. The lease-interest percentages listed in this section must be represented by numbers with the fractional interest carried out to no more than five decimal places. The total of all lease-interest must equal 100.00000percent.*



Shaded Area is for Official Use Only

(1) Application received:

Date: \_\_\_\_\_  
Time: \_\_\_\_\_  
By: \_\_\_\_\_  
MHT \_\_\_\_\_  
Title: \_\_\_\_\_

(2) When General Conditions for Lease Issuance were met:

Date: \_\_\_\_\_  
Time: \_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_

# The TRUST LAND OFFICE

2600 Cordova Street, Suite 100  
Anchorage, AK 99503  
Phone: (907) 269-8658  
Fax: (907) 269-8905

## BID FOR COAL LEASE

Competitive Coal Lease  
Fall 2011

Total Bid Per Acre \$\_\_\_\_\_/acre  
(Minimum bid of \$5.00 per acre)

Date of Bid: \_\_\_\_\_

Total Estimated Bonus Bid \$\_\_\_\_\_

(Total Bid per acre is controlling in case of discrepancy)

**Description of land in bid (Describe by section, township, range, and meridian):** \_\_\_\_\_

Acreage of bid: \_\_\_\_\_

Enclosed is a deposit in cash, cashier's or certified check, money order, or combination thereof, in the sum of \$\_\_\_\_\_ which equals **20.00000% or more** of the total cash bonus as required by the Instructions to Bidders.

The undersigned certify by signing this form that 1) this bid discloses the percentage interest of each person who has any working interest in this bid or in any lease issued in response to it and 2) that, if awarded a lease pursuant to this bid, all successful bidders who have a working interest in the lease at the time of the lease award notice will execute two copies of the lease form specified in the Instructions to Bidders and comply with all other requirements of the award notice, including payment of advance rental and posting of any required bond, or shall forfeit the amount deposited with this bid.

The undersigned bidder(s) hereby designate:

Bidder: \_\_\_\_\_

Bidder's Agent: \_\_\_\_\_

Physical Address: \_\_\_\_\_

Mailing Address: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

as the agent authorized to receive notices on behalf of all bidders in connection with this bid.

All lease-interest percentages must be represented by numbers with the fractional interest carried out to no more than five decimal places. No bids with the lease-interest represented by fractions will be accepted unless the fraction can be expressed in decimals of no more than five digits without rounding off. The sum of the lease-interest ownerships covered by this bid must be exactly 100.00000 percent.

% Lease-

Interest

Name of Bidder

Authorized Signature

Date

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

**APPENDIX D**

**DRAFT COAL LEASE**

**STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
MENTAL HEALTH TRUST LAND OFFICE**

2600 Cordova Street, Suite 100  
Anchorage, Alaska 99503

**DRAFT COAL LEASE**

Project No. 2012-6

This Lease is made by and between the State of Alaska, Department of Natural Resources, Mental Health Trust Land Office, ("Lessor") as agent for and on behalf of the Alaska Mental Health Trust Authority ("Trust Authority") and \_\_\_\_\_ ("Lessee"). This Lease is made effective as of \_\_\_\_\_ ("Effective Date").

The Mental Health Trust Land Office has determined under a Trust Benefit Analysis that for and in consideration of the cash payment made by Lessee to Lessor, which payment includes the first year's rental and any required cash bonus and the other performance to be rendered by Lessee hereunder, it is in the best interests of the beneficiaries of the Alaska Mental Health Trust that the following described tract of land ("Leased Area") be leased to Lessee, and Lessee desires to lease the Leased Area for the purposes and on the terms and conditions as hereinafter set out, including applicable mitigating measures attached hereto and incorporated herein.

**A G R E E M E N T**

NOW THEREFORE, in consideration of the mutual covenants contained herein, Lessor and Lessee enter into this Lease on the following terms and conditions:

**1. GRANT.**

- (a) Lessor grants to Lessee for the term set out in Paragraph 3 hereof without warranty the exclusive right to mine, process, treat and dispose of all coal in, on, and under the following described tract of land:

See Attachment A (Appendix G)

containing 11,487.60 acres, more or less, subject to the royalty interest reserved under Paragraph 11 hereof; together with (i) the right to explore for coal within the Leased Area; (ii) subject to Lessee obtaining all required federal, state and local permissions and subject to approval by Lessor, the right to erect, construct, maintain, and use buildings and other improvements reasonably necessary and incident to the activities of Lessee under this Lease.

- (b) Subject to Lessee's compliance with the requirements set out in paragraphs 7 and 8 hereof, Lessee may mine and remove the coal by any method consistent with sound and prudent mining practice, including underground mining, surface mining, and in situ processes. The rights granted by this Lease shall be exercised in a manner so as not to unreasonably interfere with the rights of any permittee, lessee, invitee or grantee of Lessor.
- (c) If the Leased Area is described by protracted legal subdivisions and, after the Effective Date, the Leased Area is surveyed under the public land rectangular survey system, the boundaries of the Leased Area shall be those established by that survey, when approved, subject, however, to the provisions of applicable regulations relating to such surveys.
- (d) If Lessor's ownership in the coal and other land interests in the Leased Area is less than the entire and undivided interest, this Lease shall be effective only as to Lessor's interest in such coal and land, and the royalties and rentals provided for in this Lease shall be paid to Lessor in the proportion that Lessor's interest bears to the entire undivided interest in coal within the Leased Area.

- (e) Lessor makes no representations or warranties, express or implied, as to: (i) title; (ii) quiet enjoyment; (iii) access; (iv) the presence, quality or quantity of coal in, on or under the Leased Area; (v) the suitability of the Leased Area for mining or any particular type of mining; or (vi) the merchantability of any coal which may be produced from the Leased Area. The rights granted by this Lease are subject to prior vested mineral rights, if any, within the Leased Area..
  
- (f) Lessor shall not be liable for any deficiency in title to the Leased Area, nor shall Lessee or any successor in interest to Lessee be entitled to any damages or refunds due to any defects in or failure of title for any rentals, bonuses, or royalties paid under this Lease. If (i) all or any part of the Leased Area is subsequently determined not to be owned by Lessor, or (ii) has been selected by the State under laws of the United States granting lands to the State, but the land has not yet been conveyed to Lessor, and if for any reason the selection is not finally approved, or the land is not conveyed to Lessor, any rental, or other payments made to Lessor under this Lease shall not be refunded.

## **2. RESERVED RIGHTS.**

- (a) To the extent of its ownership interest in the Land, Lessor for itself and others reserves all rights not expressly granted to Lessee hereunder. Reserved rights include but are not limited to:
  - (1) the right to explore for, develop, lease, and remove from the Leased Area all natural resources other than coal, including oil, gas and associated substances, minerals, fissionable materials, geothermal resources, fossils of every name, kind or description, precious and base metals, common and uncommon varieties of building stone, sand, gravel, coal bed methane, and peat;
  
  - (2) the right to establish or grant easements and rights-of-way upon, through, or in the Leased Area for any lawful purposes, including pipelines, drill holes, shafts, and tunnels necessary or convenient for the working of the Leased Area for natural resources other than coal, or necessary or convenient for access to or the working of other land for any purpose;

(3) the right to manage and dispose of the surface of the Leased Area or interests therein by grant, lease, permit, or otherwise to others; and

(4) all other rights to use the Leased Area not granted by this Lease.

(b) Reserved rights may be exercised by Lessor or others in any manner which does not unreasonably interfere with Lessee's operations under this Lease.

(c) It is expressly acknowledged that Lessor may not own some or all of the surface estate of the Leased Area, that Lessor makes no representations of any kind regarding such ownership, and that Lessee has the obligation to determine surface ownership.

**3. TERM.** This Lease shall run for a term of 10 (ten) years from the Effective Date and for so long thereafter as production of Commercial Quantities of coal from the Leased Area continues, subject to earlier termination as provided for herein.

#### **4. COAL BED METHANE/PEAT.**

a) Methane gas and other gasses in a mineable coal seam that Lessor determines are capable of being sold, disposed of, or consumed by Lessor are the property of Lessor. Lessee shall promptly report the presence of any such gas to Lessor, and shall cooperate with Lessor in Lessor's efforts to extract, collect or preserve said gas. Notwithstanding the foregoing, Lessee may flare or vent gas to the extent necessary for mining safety, only if the venting or flaring complies with SMCRA, as that term is defined in Paragraph 8(a) below, and all other applicable federal, state, and local laws, regulations, and ordinances.

b) Peat overlying a mineable coal seam is the property of Lessor. Lessee may remove peat if Lessee determines that removal is necessary in order to extract coal from the Leased Area. Lessee shall conserve all peat in a prudent manner in order to allow for use in the required reclamation plan. Any peat not utilized for reclamation purposes may be disposed of by Lessor.

#### **5. RENTALS.**

(a) Lessee shall pay annual rental to Lessor in the amount of \$ 4.00 per acre or fraction of an acre. This rate shall be adjusted every 5 (five) years on the

anniversary date of the Lease by the Producer Price Index. The base year will be the year of the effective date of the Lease.

- (b) The rental paid for each year is a credit against any royalty payable for that year.
- (c) Lessee shall pay the annual rental in advance, on or before the anniversary date of the Effective Date. If Lessor's or Lessor's depository's office, as applicable, is not open for business on the anniversary date, the time for payment shall be extended to include the next day on which that office is open for business.

- 6. PAYMENTS.** All payments due hereunder (i) shall be made payable to the Mental Health Trust Land Office or as otherwise directed by Lessor; (ii) shall reference this Lease by the MHT number which appears on the first page hereof; and (iii) shall, unless otherwise specified, be tendered to Lessor at:

Mental Health Trust Land Office  
2600 Cordova Street, Suite 100  
Anchorage, Alaska 99503

or to any depository designated by Lessor upon sixty (60) days notice to Lessee.

**7. PLAN OF EXPLORATION AND DEVELOPMENT.**

- (a) Before undertaking operations on the Leased Area, Lessee shall have in place a plan of exploration and development approved by Lessor. Lessor reserves the right to reject any application, or to require modification of a proposed plan if (i) Lessor determines within its discretion that any contemplated facility or surface use is unreasonable or would, in Lessor's judgment, create a conflict, nuisance or hazard, or (ii) if Lessor otherwise determines the proposed or approved plan is not in the best interests of the Trust.
- (b) An application for a plan of exploration and development shall contain sufficient information to enable Lessor to determine the surface use requirements and impacts associated with the proposed operations. Without limiting the foregoing, an application shall include the items set forth on Schedule 1, Required Items for Plan of Exploration and Development.

- (c) After a plan of exploration and development has been approved by Lessor, Lessee may seek leave to amend its plan by filing with Lessor its proposed amendments. No operations may be undertaken pursuant to the amended plan until it has been approved by Lessor in the same manner as the original plan.
- (d) Lessee shall submit an initial plan of exploration within 30 days of the Effective Date of the Lease. It shall include a schedule and proposed budget to accomplish the exploration activities outlined in the plan. The schedule must include a firm date, to occur within 90 days of Lease issuance, by which time the Lessee shall initiate actions to obtain the necessary permits and associated authorizations commensurate with the proposed exploration activities. The schedule shall include a reasonable timeline of events that must occur to advance the Lease through the exploration, and, if warranted development phases of the Lease.
- (e) The plan of exploration and development shall be revised, updated and submitted to Lessor for approval annually on or before April 1 of each lease year. If no changes from an approved plan are contemplated for the following year, a statement to that effect shall be filed for approval in lieu of the required revision and update.
- (f) In lieu of the plan required under this Paragraph 7, Lessee may submit to Lessor a plan of operations submitted under SMCRA as that term is defined in Paragraph 8(a) below, which has been approved by the Division of Mining, Land and Water. If the Leased Area is included in an approved coal mining unit, Lessee shall submit a copy of the unit plan of development to Lessor. In such case Lessee shall not be required to submit a separate plan of operations for unit activities. Lessee shall, upon request, provide Lessor with a copy of any plan of operations or permit or application therefore obtained or prepared in connection with its operations hereunder.
- (g) Upon completion of operations, Lessee shall inspect the Leased Area and submit a report to Lessor indicating the completion date of operations and stating any noncompliance with the requirements which were imposed as a condition of approval of the plan of operations of which Lessee is aware after due inquiry.
- (h) Approval by Lessor of a plan of exploration and development signifies only that Lessor has no objection to the operations outlined in the plan from the standpoint of the Lease administrator and such approval shall not relieve Lessee of its obligation to obtain all approvals and permits required by governmental agencies having regulatory authority over those operations.

## **8. OPERATIONS AND DEVELOPMENT.**

- (a) All coal exploration and coal mining operations conducted on the Leased Area shall be performed in full compliance with an approved plan of exploration and development and in full compliance with all provisions of the Alaska Surface Coal Mining Control and Reclamation Act (AS 27.21), all provisions of accompanying regulations (11 AAC 90.001--11 AAC 90.911), and all lawful orders of the Department of Natural Resources, Division of Mining, Land and Water. All statutes, regulations and orders referred to in the preceding sentence shall be collectively referred to herein as "SMCRA." Operations and activities exempt from the provisions of SMCRA shall be performed in full compliance with an approved plan of operations as set forth in Paragraph 7 hereof. Lessee shall not conduct any operations on the Leased Area until evidence of compliance with the appropriate provisions of SMCRA has been provided to Lessor. Lessee shall promptly reclaim all lands affected by its operations hereunder and shall use its best efforts to conduct such reclamation at the earliest possible time following cessation of use. All such reclamation shall be made in compliance with SMCRA.
- (b) Lessee shall perform all operations hereunder in a lawful, prudent, skillful, and miner-like manner so as to ensure that: 1) all operations hereunder are in full compliance with SMCRA and all other applicable statutes and regulations, and 2) modern mining machinery and techniques are utilized that are consistent with prudent mining practices and have due regard for safety, prevention of waste, and preservation and conservation of the Leased Area for future uses.
- (c) Lessee shall diligently develop the Leased Area unless consent to suspend operations temporarily is granted by Lessor.
- (d) After Lessee has commenced producing coal in Commercial Quantities from the Leased Area, Lessee shall continually operate the mine or mines on the Leased Area until such time as all Commercial Quantities of coal within the Leased Area are exhausted. Lessee shall promptly notify Lessor after Lessee is producing coal in Commercial Quantities if operations are interrupted for more than 30 consecutive days.
- (e) The condition of diligent development shall be met if Lessor determines to its satisfaction that
  - (1) coal is being produced from the Leased Area in Commercial Quantities;
  - (2) Lessee is proceeding in good faith to develop the Leased Area by complying with the approved plan of exploration and development under 11 AAC 85.215(c); or

(3) Lessee has shown to the satisfaction of Lessor that development in accordance with a plan of exploration and development under 11 AAC 85.215(c) is delayed or interrupted by force majeure.

(4) To further insure diligent development, LESSEE will make certain annual exploration and/or development expenditures on, or directly related and beneficial to, the land subject to this lease during its term which shall not extend past ten (10) years except as provided for herein. The work commitment schedule is as follows:

i. Years 1-3	\$20.00 per acre per year
ii. Years 4-6	\$40.00 per acre per year
iii. Years 7-10	\$60.00 per acre per year

The requirement for incurring annual exploration and/or development expenditures will terminate once commercial production is achieved. If the LESSEE incurs work expenditures in excess of the amount required for any lease year, the excess shall be carried forward and applied against future work expenditure requirements. Within 90 days after the end of each lease year, LESSEE shall deliver an itemized report to the TLO detailing the total expenditures incurred by LESSEE during that lease year. If LESSEE fails to incur expenditures in a timely manner in the amount required for any lease year, LESSEE may deliver to the TLO, simultaneously with the itemized report which establishes that LESSEE so failed or within fifteen (15) days after it is later established that LESSEE so failed, a payment equal to the difference between the amount of expenditures required to have been incurred in order to keep this lease in full force and effect and the amount of expenditures actually incurred. If such payment is timely made, LESSEE shall be deemed to have satisfied the particular expenditure requirement for which such payment was made and this lease shall continue in full force and effect; if such payment is not timely made, this lease shall terminate effective the day after such payment was due.

(f) Lessee shall perform all operations under this Lease in a lawful, prudent, and good workmanlike manner under the plan of operations and development, with regard for safety, prevention of waste, and preservation and conservation of the Leased Area for future productive operations. The Lessee shall try to avoid damage to and waste of other natural resources not covered by this Lease. The Lessee shall carry out at the Lessee's expense all lawful orders and requirements of applicable agencies relative to the Lessee's occupation of the Leased Area. If the Lessee fails to carry out these orders, the Lessor has, together with any other available legal recourse, the right to enter the Leased Area to repair damage or prevent waste at the Lessee's expense.

- (g) The Lessee may apply for a suspension of operations or production as provided for in applicable statutes and regulations. The Lessor may approve an application for suspension upon a showing of necessity or justification in accordance with statutory and regulatory requirements, or from time to time may, in writing, direct suspension of production or other operations under this Lease if it is in the best interest of the Trust to do so.. If the Lessor directs or approves in writing a suspension of all operations in or production from the Leased Area (except for a suspension necessitated by the Lessee's negligence), or if a suspension of all operations on or production from the Leased Area has been ordered under federal, state, or local law, the Lessee's obligation to comply with any express or implied provisions of this Lease requiring operations or production will be suspended, but not voided, and the Lessee will not be liable for damages for failure to comply with that provision. Upon removal of a suspension, the Lessee will have a reasonable time, which will not be less than six months, to resume operations or production.
- (h) Operations may be suspended in the event of force majeure only after Lessee has given notice thereof to Lessor and Lessor determines to its satisfaction that such event is an event of force majeure as defined in Paragraph 15(m) hereof. Notice of force majeure shall include a reasonably detailed description of the facts and circumstances giving rise to force majeure, a description of the extent to which and the reasons why such circumstances prevent Lessee's performance hereunder, and an estimate of the anticipated length of time such circumstances may continue to exist so as to prevent Lessee's performance hereunder.
- (i) If Lessor directs or approves in writing a suspension of all operations on or production from the Leased Area, or if a suspension of all operations on or production from the Leased Area has been ordered under federal, state, or local law, Lessee's obligation to comply with any express or implied provisions of this Lease requiring operations or production shall be suspended, but not avoided. Lessee shall not be liable to Lessor for damages for failure to comply with such provisions unless the suspension was necessitated by Lessee's negligence. Upon lifting of a suspension, Lessee shall have a reasonable time, which shall not be less than six months, to resume operations or production. No suspension under this paragraph 8 shall suspend the obligation to pay royalties or other production or profit-based payments to Lessor from operations on the Leased Area that are not affected by any suspension, or suspends the obligation to pay rentals unless otherwise provided in the terms of the suspension.

## **9. INSPECTION; RECORDS; REPORTING.**

- a) Lessee shall keep available at all reasonable times for inspection by Lessor the Leased Area, all improvements, machinery, and fixtures on the Leased Area, and all reports and records relative to operations on or with regard to the Leased Area.
- b) Lessee shall keep and have in its possession books and records of sales prices, volumes, and purchasers of all coal produced from the Leased Area. With each production royalty payment Lessee shall submit to Lessor a statement of all coal sold, disposed of, or consumed, including unwashed coal, washed or otherwise treated coal, and coal developed into liquid or gaseous products or other commercial products by in situ processes or treatment, mined or extracted from the Leased Area. The statement shall include the price and proceeds obtained or, where the coal or products are used without sale, evidence of their fair market value, and such other information relating to valuation as Lessor may require.
- c) Lessee shall retain and keep available for inspection by Lessor all records referenced above for a period not less than one year after termination of this Lease. Lessee shall use record keeping methods so as to ensure the most accurate figures reasonably available to determine the weight, quantity, and character of all coal mined and either sold or used, and Lessee shall use generally accepted accounting principles consistently applied. Lessee shall permit Lessor or its agents to inspect and make copies of such books and records at all reasonable times.
- d) Lessee shall promptly notify Lessor if Lessee, or an operator or any contractor for Lessee, discovers a mineral that appears to occur in commercially valuable quantities other than coal within the Leased Area. If the Leased Area is part of a unit as described in 11 AAC 85.270, Lessee shall promptly notify Lessor, in writing, of any change in total estimated reserves if the change affects a Lessor-approved allocation formula.
- e) By March 1 of each Lease Year, and within two months after the expiration or termination of this Lease, Lessee shall submit a report which describes activities of the recently completed field season, and which shall contain at a minimum the following:
  - 1) Maps showing all leased land subject to field investigation, all land survey data, all geological, geophysical and geochemical survey data, drill hole locations and all other sample sites. These maps will be of appropriate scales sufficient to accurately locate all sites and show all details relevant to the interpretation and evaluation of the information presented.

- 2) Actual routes of overland vehicular travel and location of all camps depicted on a USGS topographic map, scale of 1:63,360 (1 inch = 1 mile) or larger.
- 3) A list of vehicles used for any off-road travel which may have taken place.
- 4) A description of all clean-up activities and methods and location of debris disposal.
- 5) Copies of all geological, geochemical and geophysical data and information collected as a result of the Lease operations together with any written reports, compilations, descriptions of said data and information prepared in the normal course of the LESSEE's evaluation of the data and information collected. LESSEE shall also provide to the TLO the results of any interpretations that LESSEE has developed based on the information collected as a result of the permitted operations; provided that LESSEE shall not be obligated to provide the details of any proprietary or confidential interpretive methods; and further provided that the LESSEE makes no representations and shall have no liability for the accuracy of such interpretations nor any reliance thereon by the TLO.
- 6) All data obtained from any non-public source regarding the lands described in Exhibit A provided LESSEE is not precluded by agreements, law or regulation from conveying such data.
- 7) All data will be kept strictly confidential by the TLO during the term of this Lease (including any extensions) as provided in AS 38.05.035 unless otherwise specified, in writing, by the LESSEE.
- 8) In addition to the above information, the LESSEE will make available for copying at the TLO's request all raw geological, geochemical, and geophysical data, including but not limited to, field notes, observations, drill hole logs, geochemical analyses and assays, and geophysical data developed by the LESSEE under this Lease. This raw data may be provided in such paper or digital formats as may be reasonably requested by the TLO. The LESSEE will also make available, at the TLO's request and at the TLO's expense, access to all samples, including but not limited to drill core and/or cuttings which resulted from any activities performed under this Lease. All splits of drill core requested by the TLO will be provided by the LESSEE from portions previously collected and stored and not required for further analysis. The TLO will be responsible for the shipping, handling and TLO storage costs of splits. Upon termination of the lease, all core samples will be made available by LESSEE.

- (f) Lessee agrees to meet with Lessor at a location to be mutually agreed upon at least once during each Lease Year to provide Lessor with an opportunity to discuss with Lessee such matters of interest or concern to Lessor relating to Lessee's operations under this Lease.

## **10. CONFIDENTIALITY**

As long as this Lease remains in effect, no party shall divulge or make available any data pertaining to the Leased Area to persons who are not parties hereto without the written consent of the other party (which consent will not be unreasonably withheld). It is agreed that data may be divulged or made available to a party's data processor, reproduction company, consultants, affiliates, attorneys, and other persons providing necessary services chosen by a party, subject to such persons' agreeing to keep all such data confidential. The foregoing restrictions shall not apply to a disclosure by either party or its affiliates or to third parties as may be necessary or desirable for purposes of effecting a merger, buyout, stock transaction, sale of assets, loan transaction, lease, joint bidding agreement, farm-out, or joint venture. However, prior to either party's release of the data to any such third party, written notice must be given to the other party hereto and such party must agree in writing to be bound by a confidentiality agreement. In this event, a copy of the confidentiality agreement evidencing such commitment shall be delivered to the party receiving the notice within seven (7) days after receipt of such notice.

In the event that this Lease is terminated or expires, Lessee agrees that no data pertaining to the Leased Area will be divulged or made available to anyone without the written consent of Lessor, which consent may be withheld at the Lessor's discretion. Upon termination of the Lease, any data submitted or due to Lessor pursuant to this Lease becomes the property of Lessor and may be used at the Lessor's discretion.

Lessee acknowledges that the data to be provided to Lessor is a special asset of Lessor. In the event that Lessee fails to deliver the data as required by this Lease or allows or suffers any unauthorized disclosure of the data, such breach shall result in an immediate breach of the Lease. Lessor may not have an adequate remedy at law for such a breach and therefore, in addition to any other remedy at law or equity that it may have, Lessor shall be entitled to injunctive relief to enforce the provisions hereof.

The provisions of paragraph 10 do not apply to (1) information that is in the public domain prior to the Effective Date or that enter the public domain through no violation of this Lease on or after the Effective Date or (2) any disclosure to a

governmental agency or to the public, if Lessee believes in good faith that such disclosure is required by law.

## **11. ROYALTY.**

### **a) Production Royalty.**

- (1) Lessee shall pay to Lessor as a royalty five (5) percent in amount or value of the gross value of coal from the Leased Area that is sold, disposed of, or consumed. The obligation to pay the Production Royalty provided in this paragraph shall accrue at the time and each time that any coal found in the Leased Area is sold, disposed of, or consumed by Lessee regardless of when Lessee receives payment from the sale or disposal of said coal. Capitalized terms as used in this Paragraph 11 shall have the meanings ascribed to such terms in the definition section of this Lease, and the term "Gross Value" shall have the meaning ascribed to that term in Paragraph 11(b) hereof.
- (2) Except as specifically noted in Paragraph 4 of this Lease, Lessee is prohibited from producing any liquid or gaseous hydrocarbon or other substance by any in situ process or synthetic fuel process for treatment of coal produced from the Leased Area, whether by chemical or mechanical means or a combination of chemical and mechanical means.

### **b) Gross Value.**

- (1) Unless Lessor elects to receive all or a portion of its royalty in kind as provided in Paragraph 11(c) of this Lease, Lessee shall pay to Lessor the value of all royalty on coal as determined under this paragraph. Royalty paid in value shall be free and clear of all Lease expenses. All royalty that may become payable in money to Lessor shall be paid no later than the last federal banking day of the calendar month following the month in which the coal is sold, disposed of, or consumed by Lessee. The amount of all royalty-in-value payments that are not paid when due under this Lease or that are subsequently determined to be due as the result of a re-determination shall bear interest from the date the obligation accrued until paid in full. Interest shall accrue at the same rate as is applicable to money due and owing to the State of Alaska, as set forth in AS 38.05.135(d).
- (2) In this Lease, if the coal is sold in a bona fide arm's-length transaction between independent parties, Gross Value shall be the full consideration received by Lessee at the Point of Sale.

- (3) Lessor shall determine the Gross Value of the coal, taking into account the consideration being paid for coal in the same general area or other relevant areas, including areas outside Alaska, and other relevant factors including the composition and special characteristics of the deposit, and the BTU content of the coal, if Lessor determines to its satisfaction that coal from the Leased Area is
- (a) sold or disposed of in other than a bona fide arm's-length transaction between independent parties;
  - (b) sold or disposed of under a long term contract that sets a single price for coal without adjustments tied to market conditions;
  - (c) sold or disposed of under a contract that does not reflect the value of the coal at the time the coal is produced; or
  - (d) consumed by Lessee or its Affiliate.
- (4) Lessor, upon petition by Lessee, may convert the percent-of-value royalty rate to a comparable cents-per-ton rate if Lessor determines under a trust benefit analysis that such change is in the best interests of the beneficiaries of the Alaska Mental Health Trust. Such cents-per-ton rate shall be subject to annual re-adjustment as Lessor deems necessary to reflect changes in gross value.
- (5) When requested by Lessor, Lessee shall promptly file with Lessor all information relating to royalty value computation. Such information shall include: (i) the price and proceeds obtained; (ii) in the case of a non-arm's length transaction, evidence of fair market value; (iii) the location and quantity of all coal stored or stockpiled; and (iv) all other pertinent information relating to valuation as Lessor may require Lessee to explain the calculation of the Production Royalty payment. If the parties agree to permit the royalty to be paid on the basis of an annual conversion to a fixed price per ton under Paragraph 11(b)(4), then the settlement sheet shall state the relevant coal price agreed to by the parties, the amount of coal for which the royalty payment is made, and other pertinent information required to show how the royalty has been calculated.
- (6) If Lessor objects to a particular monthly settlement sheet as herein provided, Lessor shall, for a period of ninety (90) days after Lessee's receipt of notice of such objection, have the right to have Lessee's accounts and records relating to the calculation of the Production Royalty in question audited by a certified public accountant. Lessee shall account for any deficit or excess in the payment made to Lessor pursuant to the monthly settlement sheet in question which may be confirmed by such an audit. If the amount of a particular Production Royalty payment made to Lessor hereunder, as calculated by the audit, is deficient, Lessee shall pay all costs for such audit. If no such deficiency is found, Lessor shall pay

all costs of such audit. All figures, accounts and records used in connection with the calculation of Production Royalty shall be kept in accordance with generally accepted accounting principles consistently applied.

- (7) Unless otherwise specified, all payments to Lessor under this Lease shall be made payable to Lessor delivered to the address as specified in Paragraph 6 hereof, or received by wire transfer at any depository designated by Lessor upon sixty (60) days notice to Lessee.

**c) Royalty in Kind.**

- (1) At Lessor's option, which may be exercised from time to time upon two hundred seventy (270) days notice to Lessee, Lessee shall deliver all or a portion of Lessor's royalty coal from the Leased Area in kind, in good and merchantable condition and free and clear of all Lease expenses and of any portion of those expenses incurred away from the Leased Area. Lessee shall deliver the royalty coal free of charge to a regulated common carrier or other transportation facility on the Leased Area or unit, or onto storage piles on the Leased Area or unit designated by Lessor. Lessee shall not be required to pay slurry pipeline charges for any coal run into storage piles or into slurry pipelines. Lessor may elect to receive its royalty coal at the point of sale or any other established unloading or transfer point between the Leased Area and the point of sale. In such case, Lessee shall not be required to pay delivery and handling costs incurred after the coal leaves the Leased Area or unit. Lessee shall not be liable for loss or destruction of stored royalty coal from causes beyond Lessee's reasonable control.
- (2) Deliveries of royalty coal to Lessor shall accord with a schedule setting out the dates, places of delivery, and amounts of coal to be taken. Such schedules shall be submitted to Lessee by Lessor before the beginning of each quarter during which coal is taken in kind. Lessor may take more or less than its royalty share at any one delivery during each quarter; however, at the end of each quarter, the total amount taken by Lessor shall be equivalent to its royalty share for that quarter. If a royalty purchaser from Lessor refuses or for any reason fails to take delivery of coal, or, in an emergency and with as much notice to Lessee as is practical or reasonable under the circumstances, Lessor may elect without penalty for up to 10 months to underlift all or a portion of Lessor's royalty coal produced from the leased or unit area and taken in kind. Lessor's rights to underlift royalty coal are limited to the portion of royalty coal that the royalty purchaser refused or failed to take delivery of or the portion necessary to meet the emergency condition. Underlifted coal may be recovered by Lessor in subsequent deliveries in amounts not to exceed 50 percent of the royalty interest share taken at each delivery during the underlift recovery, in accordance with the schedule to be submitted by Lessor before each quarter during which coal is taken in kind.

- (3) After having given notice of its intention to take, or after having taken, its royalty in kind, Lessor, at its option and upon two hundred seventy (270) days notice to Lessee, may elect to receive a different portion or none of its royalty in kind.

**d) OVERRIDING ROYALTY**

Lessee shall not create an overriding royalty, net profits interest, or other payment out of production or revenues from the Leased Area that exceeds the rate of royalty set out in paragraph 10(a) of this Lease unless Lessor, within its discretion, gives its prior written approval to a higher overriding royalty.

**12. SURRENDER**

Lessee may upon ninety (90) days written notice to Lessor surrender all or part of the Leased Area. A full or partial surrender shall not reduce Lessee's obligation to reclaim or otherwise comply with other obligations that may have accrued as a result of Lessee's activities on the surrendered ground. A total surrender of the Leased Area by Lessee shall result in termination of this Lease.

**13. TRANSFER/BINDING EFFECT.**

- (a) This provision applies to any transfer of any interest under this Lease. For the purposes of this provision, a "Transfer" includes, but is not limited to, (1) assignment of any right under this Lease, (2) delegation of any duty owed by the Lessee or any other party under this Lease, (3) substitution of a new party as the Lessee, (4) sublease, (5) mortgage, or (6) any change in interest as a result of bankruptcy.
- (b) Lessee shall not voluntarily or by operation of law Transfer or encumber all or any part of Lessee's interest in this Lease except in strict compliance with this Paragraph 13. Any attempted Transfer without such compliance shall be void, and shall constitute a breach of this Lease.
- (c) This lease is transferable in whole only upon the express written consent of the Lessor, which consent shall not be unreasonably withheld, provided that the transfer shall be consistent with 11 AAC 99.020.
- (d) A proposed transferee of the entire interest of Lessee under this lease is any person or entity, including a corporate successor of Lessee, that is (i) financially capable of meeting Lessee's obligations under the Lease and (ii) has substantially the same skill, expertise, and knowledge as Lessee to perform hereunder. In a recordable form, the proposed transferee shall

expressly assume and agree to perform all terms and conditions of this Lease from the date of the transfer.

- (e) In order to affect a proposed Transfer of interest, the Lessee shall submit a written request to Lessor at least 60 days in advance of the proposed Transfer date. This request shall include appropriate documentation sufficient in detail to describe the proposed Transfer.
- (f) Lessee agrees to pay Lessor the sum of \$5,000 for each transfer completed under subsection (b) and (c) above plus reimbursement of reasonable costs up to a total of \$1,000 incurred by Lessor in making the required consistency determination referenced in 11 AAC 99.020.
- (g) In the event of a Transfer that substitutes a new lessee for the transferor lessee, unless otherwise provided by Lessor in approving the Transfer, the transferor will have no continuing liability to the Lessor with respect to any obligation that is imposed by the Lease after the effective date of the Transfer or that is based on an act or omission of the new lessee occurring after the effective date of the Transfer.

#### **14. DAMAGES AND INDEMNIFICATION.**

- (a) Lessee agrees to pay for any damages that may become payable under AS 38.05.130 or by reason of its failure to comply with the reasonable concurrent use requirements of Paragraph 2 of this Lease. Lessee shall defend, indemnify, hold Lessor and the Trust Authority, their respective officers, directors, employees, agents, successors and assigns harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damages.
- (b) Lessee shall defend, indemnify, and hold harmless Lessor and the Trust Authority, their respective officers, directors, employees, agents, successors, and assigns from any and all claims, including claims for loss or damage to property or injury to any person arising from or in connection with any act or omission committed under this Lease by or on behalf of Lessee, except for damage or injury caused by the sole negligence of Lessor.
- (c) Lessee expressly waives any defense to an action for breach of a provision in this Lease, or to an action for damages, where such defense is based on the fact that the act or omission complained of was committed by its independent contractor. Lessee expressly agrees to assume responsibility for all actions of its independent contractors.

## **15. DEFAULT AND TERMINATION; CANCELLATION.**

- (a) The failure of Lessee to timely abide by any provision of this Lease or to timely perform any obligation under this Lease shall constitute a default. Whenever Lessee fails to comply with any of the provisions hereof, and fails, within thirty (30) days after written notice of a non-monetary default or within ten (10) days of a monetary default to cure said default Lessor may order suspension of all operations, activity, and work on the Leased Area until compliance is achieved, or Lessor may at its sole option terminate this Lease. Notwithstanding the foregoing, the cure period for non-monetary defaults shall be extended for a reasonable period of time if such non-monetary default cannot be cured within the thirty (30) day cure period, provided that Lessee takes appropriate action to cure said default within the thirty (30) day cure period and, thereafter, continues to take such action as may be necessary to complete the cure in the shortest possible time.
- (b) Upon termination or default Lessor may take possession of the property, improvements, and equipment of Lessee on the Leased Area as additional security for the payment of rent and royalties due, or to indemnify against any loss or damage sustained by reason of the default or unfulfilled obligations of Lessee.
- (c) Lessor may cancel this Lease at any time if it determines, after Lessee has been given written notice that (i) continued operations under this Lease may cause serious harm or damage to biological resources, property, mineral resources, or the environment (including the human environment), (ii) the threat of harm or damage will not disappear or decrease to an acceptable extent within a reasonable period of time, and (iii) the advantages of cancellation outweigh the advantages of continuing this Lease in effect. A cancellation under this subparagraph shall not occur unless operations under this Lease have been suspended as provided under subparagraph (a) above or in Paragraph 8(g) or 8(h) of this Lease or under other suspension by Lessor continuously for a period of five years, or for a lesser period upon request of Lessee. Any cancellation under this subparagraph shall entitle Lessee to receive compensation which is determined by Lessor to be equal to the value of the cancelled rights as of the date of cancellation, with consideration being given to both anticipated revenues from this Lease and anticipated costs, including costs of compliance with all applicable regulations and stipulations, liability for clean-up costs or damages, or both, and all other costs reasonably anticipated to cure under this Lease.
- (d) In the event that any one or more defaults shall occur hereunder, the non-defaulting party may proceed to protect and enforce its rights or remedies either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, agreement or other provision contained herein or in any document or instrument delivered in connection with or pursuant to this Lease, or

to enforce the payment of the delinquent debt or any other legal or equitable right or remedy.

- (e) No right or remedy herein conferred upon either party shall be exclusive of any right or remedy contained herein or in any instrument or document delivered in connection with or pursuant to this Lease, and every such right or remedy shall be cumulative and shall be in addition to every other such right or remedy contained herein and therein or now or hereafter existing at law or in equity or by statute, or otherwise.
- (f) No course of dealing between the parties or any failure or delay on the part of either Party in exercising any rights or remedies hereunder shall operate as a waiver of any rights or remedies and no single or partial exercise of any rights or remedies hereunder shall operate as a waiver or preclude the exercise of any other rights or remedies hereunder.
- (g) Upon the termination of this Lease as to all or any portion of the Leased Area, Lessee shall, within a period of one year after the termination, remove from the Leased Area or portion of the Leased Area all machinery, equipment, tools, and materials associated with Lessee's lease operations. Upon the expiration of such period and at the option of Lessor, any machinery, equipment, tools, or materials that Lessee has not removed from the Leased Area or portion of the Leased Area become the property of Lessor or may be removed by Lessor at Lessee's expense.
- (h) If Lease operations were exempt from the provisions of the Alaska Surface Coal Mining Control and Reclamation Act, upon termination all improvements shall, at the option of Lessor, either be abandoned and the sites rehabilitated by Lessee to the satisfaction of Lessor, or be left intact. If such sites are left intact, Lessee shall upon written notice thereof be relieved of all further responsibility as to their maintenance, repair, and eventual abandonment and the rehabilitation of the Leased Area.
- (i) Subject to the conditions set out in this paragraph, Lessee shall deliver up the Leased Area or portion of the Leased Area in good condition.

## 16. GENERAL.

- a. **Most Favored Nations.** Notwithstanding any other provision of this Lease, if the Lessee either currently or at any time in the future that this Lease is in effect, pays higher rental or royalty rates for coal leases in the general area of this Lease, the rental and royalty rates described herein will be adjusted to conform to those higher rates. The effective date for adjustment will be the date at which the higher rates are effective as to the other property.

b. **Bonds.** In order to secure its performance hereunder and to secure return of the Lease Area in good condition, Lessee shall furnish a bond or evidence of an existing bond before agreement issuance in an amount as set forth on Schedule 2. In lieu of the bond required under the preceding sentence Lessee may, with the Lessor's approval, furnish and maintain a statewide bond, in accordance with any applicable regulations.

c. **Notice.**

(1) Any notice required or permitted under this Lease must be in writing and must be given personally or by registered or certified mail, return receipt requested, or by telecopy producing a permanent record addressed as follows:

TO LESSOR:

Mental Health Trust Land Office  
2600 Cordova Street, Suite 100  
Anchorage, Alaska 99503

Phone No.: (907) 269-8658  
Fax No.: (907) 269-8905  
Attention: Executive Director

TO THE LESSEE:

(2) Any notice given under (1) of this Paragraph shall be effective when received by the authorized representative or party as specified in (1).

(3) If Lessee wishes to protest the amount of money due Lessor under this Lease or any action of Lessor regarding a provision of this Lease, Lessee must file a written protest with Lessor within sixty (60) days after the mailing date of Lessor's notice or bill or other action. Lessee's failure to file a protest within the required time shall constitute a waiver of any further right to protest such action. Lessor shall establish the administrative appeal procedure to be followed, if any, and shall inform Lessee of such procedure no later than sixty (60) days after the filing of the written protest.

- d. **Insurance.** Without limiting Lessee's indemnification, Lessee shall purchase, at its own expense, and maintain in force at all times during the term of this Lease, the policies of insurance specified in Schedule 3. Where specific limits are shown, it is understood that they shall be the minimum acceptable limits. If the Lessee's policy contains higher limits, Lessor shall be entitled to coverage to the extent of such higher limits. Certificates of insurance must be furnished to Lessor upon execution of this Lease and must provide for a thirty (30) day prior notice to Lessor of cancellation, nonrenewal or material change of the policies. Failure to furnish satisfactory evidence of insurance or the lapse of a policy is a material breach and grounds for termination of this Lease.
- e. **Hazardous Material.** If the presence of any Hazardous Material on the Leased Area caused or permitted by Lessee results in any contamination of the Leased Area, Lessee shall promptly take all actions at its sole expense as are necessary to return the Leased Area to the condition existing prior to the introduction of any such Hazardous Material to the Leased Area, and to the satisfaction of any governmental agency having jurisdiction over the matter. As used herein, the term "Hazardous Material" means hazardous substances or materials (as defined in Alaska Statutes 46.03.826 and 46.08.900 and in 42 U.S.C.A. § 9601-9657 (CERCLA) and in 40 C.F.R. U.S.C. § 302, as such statutes and regulations may be amended from time to time) and any hazardous and toxic substance, material or waste which is or becomes regulated by any governmental authority. Without limiting the foregoing, all "Hazardous Substance" includes hydrocarbon fuels such as diesel oil and gasoline, and lubricating oil. The duties imposed on Lessee under this Paragraph 16 shall survive termination, surrender and assignment of this Agreement.
- f. **Exploration Incentive Credits.** Exploration Incentive Credits, as provided for in AS 27.30.010, are not applicable to Trust lands covered by this Lease if the application of such credits diminishes the production royalty due to the Trust as required by Paragraph 11 above.
- g. **Statutes and Regulations.** This Lease is subject to all applicable local, state and federal statutes and regulations in effect on the Effective Date of this Lease, and to all such statutes and regulations placed in effect after the Effective Date of this Lease, except those inconsistent with AS 38.05.801 and the Alaska Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 709. All references to statutes or regulations in this Lease include any subsequent change in that statute or regulation whether by amendment, repeal or replacement and any successor

statute or regulation. All references to specific governmental agencies made herein include any successor agency or different agency which may assume the duties or jurisdiction of the referenced agency.

- h. **Interpretation.** This Lease shall be governed and construed in accordance with the laws of the State of Alaska. Paragraph headings are not part of this Lease and are inserted only for reference purposes. This Lease shall be interpreted so as to carry forward the intent of the Alaska Mental Health Act of 1956, (P.L. 84-830 70 Stat. 709) and AS 38.05.801 et seq. and regulations promulgated thereunder with maximum force and effectiveness. All words and phrases used in this lease are to be interpreted in conformance with AS 01.10.040.
- i. **No Discrimination.** Lessee and Lessee's contractors and subcontractors shall not discriminate against any employee or applicant because of race, religion, marital status, change in marital status, pregnancy, parenthood, physical handicap, color sex, age, or national origin as set out in AS 18.80.220. Licensee and its contractors and subcontractors shall, on beginning any operations under this Agreement, post in a conspicuous place notices setting out this nondiscrimination policy.
- j. **Failure of Title.** Lessor makes no representations or warranties, express or implied, as to title to, access to, or quiet enjoyment of the Leased Area or any portion thereof. Lessor is not liable to the Lessee for any deficiency in title to or difficulty in securing access to the Leased Area. If all or a part of the Leased Area is land that has been selected by the State of Alaska under the laws of the United States granting land to the state, but the land has not been patented to Lessor by the United States, then this Agreement is a conditional Agreement as provided by law until the patent becomes effective. If for any reason the selection is not finally approved, or the patent does not become effective, any rental, royalty, or other production or profit-based payments made to Lessor under this Agreement will not be refunded. This lease is subject to all valid existing rights within the Leased Area, if any.
- k. **Trust Land Office.** The Mental Health Trust Land office is executing this Lease as agent for the Alaska Mental Health Trust Authority ("Trust Authority"), a public corporation within the Alaska Department of Revenue under AS 47.30.011 et seq., as established by Chapter 66, Session Laws of Alaska, 1991, in order to implement the State's obligation as trustee of the trust established by the Alaska Mental Health Enabling Act of 1956, (P.L. 84-830, 70 Stat. 709), in accordance with *State v. Weiss*, 706 P.2d 681 (Alaska 1985). Neither Lessor or the Trust

Authority undertake any responsibility to act as a regulator as to this Lease, or any operations of Lessee, on the Leased Area, and Lessee is solely responsible to conduct itself in all respects in conformance with the regulations of the state and federal regulatory authorities having jurisdiction over Lessee and its activities in the Leased Area.

1. **Authorized Representatives.** The Executive Director of the Mental Health Trust Land Office, Department of Natural Resources, State of Alaska, or his designee, and the individual executing this Lease on behalf of the Lessee shall be the authorized representatives of their respective principals for the purposes of administering this Lease. Lessor or the Lessee may change the authorized representative or the address to which notices to that representative are to be sent by a notice given in accordance with Paragraph 16(c). When activities under a plan of operations or reclamation plan are underway, the Lessee shall designate by name, job title, and address, an agent who will be present in the state during all lease activities.
- m. **Venue/Interest in Real Property.** Unless otherwise dictated by law, venue for any legal action shall be in the Alaska Superior Court at Anchorage, Alaska, or other venue within Alaska at Lessor's sole election. It is the intention of the parties that the rights granted to Lessee by this Lease constitute a leasehold interest in real property in the Leased Area.
- n. **Waiver of Conditions.** Lessor reserves the right to waive any breach of a provision of this Lease, but any such waiver extends only to the particular breach expressly waived and does not limit the rights of Lessor with respect to any future breach; nor will the waiver of a particular breach prevent termination of this Lease for any cause or for the same cause occurring at another time. Any amendment or modification to this Lease to be effective must be in writing signed by Lessor and Lessee. Lessor shall not be deemed to have waived any right or remedy, unless such waiver is in writing and expressly waives such right or remedy.
- o. **Definitions.** All words and phrases used in this Lease are to be interpreted consistently with AS 01.10.040. However, the following words have the following meanings unless the context unavoidably requires otherwise:
  - (1) "**Affiliate**" means an entity that is effectively controlled by a Party. Control for purposes of this paragraph means the power directly or indirectly to control the outcome of a decision or action

or inaction of the entity by controlling the board of directors, partnership, joint venture, or other governing or decision making body of the other entity;

- (2) **“Commercial Quantities”** means a quantity of coal sufficient to yield a return in excess of operating costs, even if exploration and development costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss;
- (3) **“Continuous Operations”** means constant production of coal in commercial quantities, except when operations under the Lease are suspended with approval of Lessor or interrupted by force majeure;
- (4) **“Force Majeure”** means war, riots, acts of God, unusually severe weather, or any other cause beyond Lessee’s reasonable ability to foresee or control and includes operational failure of existing transportation facilities and delays caused by judicial decisions or lack thereof;
- (5) **“Gross Value”** means as described in Paragraph 11(b) hereof;
- (6) **“Mine Mouth”** means the tipple, railroad, or other load-out facility, where the coal is initially weighed or measured and loaded for transport to a buyer or user;
- (7) **“Point of Sale”** means the point of first transfer for value, if title also transfers, or point of entry into a free marketplace;
- (8) **“SMCRA”** means AS 27.21.030-210 and the Federal Surface Coal Mining Control and Reclamation Act of 1977, 30 U.S.C. §1201 et seq. as amended, all lawful orders of DMLW or the Office of Surface Mining Control, together with all regulations, rules and standards promulgated under the Alaska and Federal acts, as now existing or hereafter amended;
- (9) **“Ton”** means a short ton, equal to two thousand (2,000) pounds;
- (10) **“Trust Authority”** means the Alaska Mental Health Trust Authority, a public corporation within the Alaska Department of Revenue under AS 47.30.011 et seq., as established by Chapter 66, Session Laws of Alaska, 1991, in order to implement the state's obligation as trustee of the trust established by the Alaska Mental

Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 709, in accordance with State v. Weiss, 706 P.2d 681 (Alaska 1985);

- (11) **“Underlifted Coal”** means coal not taken by Lessor when Lessor by choice takes less than its in-kind royalty share of production.

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IN WITNESS WHEREOF, the parties hereto have executed this lease effective as of the date above written.

ALASKA MENTAL HEALTH TRUST AUTHORITY      LESSEE

By: State of Alaska

Department of Natural Resources  
Mental Health Trust Land Office

By: \_\_\_\_\_  
Gregory L. Jones  
Executive Director  
Mental Health Trust Land Office

By: \_\_\_\_\_  
\_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF ALASKA            )  
  ) ss.  
\_\_\_\_ JUDICIAL DISTRICT )

The Foregoing Instrument was acknowledged before me by Gregory L. Jones Executive Director of and on behalf of the State of Alaska, Department of Natural Resources Mental Health Trust Land Office as agent for the Alaska Mental Health Trust Authority on this \_\_\_\_ day of \_\_\_\_\_, 2011.

\_\_\_\_\_  
Notary Public for the State of Alaska  
My Commission expires: \_\_\_\_\_

STATE OF ALASKA            )  
  ) ss.  
\_\_\_\_ JUDICIAL DISTRICT )

The Foregoing Instrument was acknowledged before me by \_\_\_\_\_ the \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ Corporation, for and on behalf of the Corporation on this \_\_\_\_ day of \_\_\_\_\_, 2011.

\_\_\_\_\_  
Notary Public for the State of Alaska  
My Commission expires: \_\_\_\_\_

## **Schedule 1 to Coal Lease MHT \_\_\_\_\_**

### **Required Items for Plan of Exploration and Development**

At a minimum, the following items shall be included in the Plan of Exploration and Development required under Paragraph 6 of the Lease:

1. The sequence and schedule of the operations to be conducted on the Leased Area, including the date operations are proposed to begin and their proposed duration;
2. The location and design of surface disturbance associated with exploration and development activities, including treatment facilities, well sites, material sites, water supplies, solid waste sites, sumps, buildings, roads, utilities, airstrips, and all other facilities and a description of the type and amount of all equipment necessary to conduct the proposed operations;
3. Plans for rehabilitation and reclamation of the affected portion of the Leased Area after completion of operations or phases of those operations;
4. A description of operating procedures designed to prevent or minimize adverse effects on other natural resources and other uses of the Leased Area and adjacent areas, including fish and wildlife habitat, and any historic or archeological sites, or public use areas, including details of environmental contingency plans, and environmental monitoring programs;
5. Maps drawn on a true meridian and on a scale of not more than two hundred (200) feet to one (1) inch, depicting the extent of Lessee's operations, activities and work in the Leased Area, together with the boundaries of the Leased Area, and the location of any surface improvements; and
6. A detailed budget commensurate with the proposed activities and projections related to any Production Royalty anticipated hereunder.
7. In implementing the Plan of Exploration and Development, Lessee shall adhere to the following practices:
  - a) Except for access related activities, all surface exploration and surface development activities shall maintain a minimum buffer of 300 foot from private property boundaries, unless a reduced buffer is agreed to by the property owner.
  - b) To the extent feasible, and if requested by private property landowners, Lessee shall use its best efforts to maintain a view shed buffer from its proposed activities by locating facilities down slope, behind hills, or maintaining trees as buffers.
  - c) When competent contractors, as determined by Lessee in its reasonable discretion, exist in the local area, Lessee shall use its best efforts to utilize them in carrying out

the exploration, development, and mining operations of the Plan. Lessee shall use its best efforts to keep local and civic organizations informed of proposed activities on the Lease Area.

**Schedule 2 to Coal Lease MHT \_\_\_\_\_**

**Bond Requirements**

In addition to any bond required by AS 27.19.010-29.19.100, 11 AAC 97, if applicable, or any other statutory requirements of ASMCRA, Lessee shall have in place at all times during the term of this Agreement a bond in the amount of \$\_\_\_\_\_.

## Schedule 3 to Coal Lease MHT \_\_\_\_\_

### Insurance

Lessee shall have in place, at its sole expense, at all times during the term of the Agreement the following policies of insurance:

1. **Workers' Compensation Insurance:** Lessee shall provide and maintain, for all employees of Lessee engaged in work under this Agreement, Workers' Compensation Insurance and Employer's Liability Insurance in accordance with the laws of the State of Alaska. Lessee shall be responsible for Worker's Compensation Insurance for any subcontractor who directly or indirectly provides services under this Agreement. This coverage shall include statutory coverage for states in which employees are engaging in work and employer's liability protection not less than Five Hundred Thousand Dollars (\$ 500,000) per person, and Five Hundred Thousand Dollars (\$ 500,000) per occurrence. Where applicable, coverage for all federal acts (e.g., U.S.L.&H., Jones and Harbor Acts) shall also be included.
2. **Comprehensive (Commercial) General Liability Insurance:** With coverage limits not less than Two Million Dollars (\$ 2,000,000) combined single limit per occurrence and annual aggregate where generally applicable including premises-operations, independent contractors, products/completed operations, broad form property damage, blanket contractual, and personal injury endorsements.
3. **Comprehensive Automobile and Aircraft Liability Insurance:** Covering all owned, hired, and non-owned vehicles and aircraft with coverage limits not less than Two Million Dollars (\$ 2,000,000) combined single limit per occurrence bodily injury and property damage.
4. The TLO shall have the right, at its option, to pay any delinquent premium upon on any of Lessee's insurance policies if found necessary to prevent a cancellation, non-renewal or material alteration thereof; and Lessee shall within five (5) days, reimburse Lessor therefor. Lessor reserves the right to increase the required insurance coverage limits from time to time to reflect then current industry standards or to accommodate changed conditions or perceived risks.

APPENDIX E

BUSINESS QUESTIONNAIRE

**MENTAL HEALTH TRUST LAND OFFICE**

Alaska Department of Natural Resources  
2600 Cordova Street, Suite 100  
Anchorage, Alaska 99503

**BUSINESS QUESTIONNAIRE**

This notarized Business Disclosure Report is to be completed by individuals and organizations submitting a proposal to the Mental Health Trust Land Office. It is to be completed to the full knowledge of the authorized representative of the applicant.

Please explain any omissions and use additional pages where appropriate.

1. Name of individual completing proposal form:

Name \_\_\_\_\_

Title \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Telephone Number \_\_\_\_\_

2. Entity submitting proposal:

Entity Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Telephone Number \_\_\_\_\_

3. Type of Organization:

Individual \_\_\_\_\_ Business \_\_\_\_\_

Tax Exempt Corporation \_\_\_\_\_ General Partnership \_\_\_\_\_

Limited Partnership \_\_\_\_\_ Other (explain) \_\_\_\_\_

4. Place of incorporation

\_\_\_\_\_

How long has it been in business? \_\_\_\_\_

Was it ever organized under another name? Yes \_\_\_\_\_ No \_\_\_\_\_. If yes, please explain: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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5. List major stockholders and affiliated entities. An entity shall be considered affiliated with another if it controls, is controlled by or is under common control with the corporation.

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6. List present business activities:

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7. List three credit references:

Name/address	telephone #	contact person
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>

8. List three business references with which entity has done business in the last three years. (References may be contacted by the MHTLO).

Name/address	Telephone #	Contact Person
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>

9. Specify sources of capital for this project:

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10. List and describe your previous projects that are similar in nature and scope to the proposed use of this property:

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11. Has entity submitting proposal or any affiliated entity ever filed a petition for bankruptcy, been adjudicated bankrupt or made an assignment for the benefit of creditors?  
Yes \_\_\_\_\_ No \_\_\_\_\_

If Yes, please explain, including dates:

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12. Is entity submitting proposal or any affiliated entity now in default on any obligation, or subject to any unsatisfied judgment or lien? Yes \_\_\_ No \_\_\_ If Yes, please explain:

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13. Has entity submitting proposal or its contractors ever been served with a notice of violation of laws or regulations applicable to the proposed business activity?  
Yes \_\_\_\_\_ No \_\_\_\_\_. If yes, please explain:

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Please submit the following items as part of this questionnaire

1. Copy of current Alaska business license.
2. Designation of signatory authority for this contract or assignment. Include corporate resolution (or appropriate documents) authorizing signatory authority.
3. Most recent corporate annual financial report.

NOTE: IF REQUESTED, FINANCIAL INFORMATION OF UNSUCCESSFUL APPLICANTS THAT IS SO MARKED WILL BE KEPT CONFIDENTIAL AND RETURNED. I HEREBY CERTIFY that the information contained herein is true to the best of my knowledge.

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



APPENDIX F  
QUALIFICATION OF APPLICANTS

## Qualification of Applicants

In addition to completion of the business questionnaire, all applicants must submit the following:

### 1. Individual

- a. In the case of a person, an original, signed and dated statement including the bidder's name, current address, telephone number, e-mail address (if used) and a certification that the bidder is of the age of majority; or
- b. In the case of a guardian, trustee, or other legal representative of a person, a certified copy of the court order authorizing the representative to act in that capacity and to fulfill on behalf of the person all obligations arising under the lease and the representative's certification of the age of the person and the representative; or
- c. In the case of an agent acting on behalf of an individual, an original or certified copy of a notarized power of attorney authorizing the agent to act on behalf of the individual.

### 2. Corporation

- a. The current name, address, phone and fax number of the corporation. Bidders are also asked to provide e-mail addresses;
- b. A list of the individuals authorized to act on its behalf with respect to the bid;
- c. An original or certified copy of a notarized power of attorney authorizing any agent who is not a current officer but who has been authorized by the corporation to act on its behalf with respect to the bid;
- d. A 2011 Certificate of Compliance for a corporation qualified to do business in Alaska or, if qualifying to do business in Alaska and qualifying for a license / lease sale for the first time, either:
  - (1). A Certificate of Authority for a foreign corporation qualified to do business in Alaska (a foreign corporation is a corporation incorporated outside Alaska), or
  - (2). A Certificate of Incorporation for a domestic corporation qualified to do business in Alaska.

The Alaska Certificate of Compliance provides written proof that the corporation has paid all taxes, complied with all applicable laws and thus remains qualified to do business in the state. It remains the bidders responsibility to assure that the required certificate is filed with the TLO.

The required Alaska Certificate of Compliance, Certificate of Authority, or Certificate of Incorporation, must be requested from the Alaska Department of Commerce, Community and Economic Development, (DCC&ED). For information on obtaining a certificate, write the Division of Corporations, Business and Professional Licensing<sup>7</sup>, 550 W. 7th Avenue, Suite 1500, Anchorage, Alaska 99501 or call (907) 269-8160. Upon proper application, the DCC&ED will issue the requested certificate. Please allow 3 weeks for the processing of the certificate.

3. **Partnership, joint venture, or other unincorporated association**

- a. A statement describing the business relationship between the members of the association, joint venture or partnership; and
- b. The documents required for individuals or corporations for each participant as appropriate.

***It remains the applicant's responsibility to assure that all requirements are fulfilled. Failure to provide the TLO with any of the above required documents or information may result in disqualification and the rejection of any applications submitted***

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<sup>7</sup> <http://www.commerce.state.ak.us/occ/>

## **APPENDIX G**

### **TRACT “A” LAND DESCRIPTION**

# FALL 2011 CHICKALOON COAL LEASE OFFERING

## TRACT A LAND DESCRIPTION

### T. 020 N., R. 005 E., SEWARD MERIDIAN, ALASKA

SECTION 5: ALL, UNSURVEYED WITHIN TRACT A;  
SECTION 6: W1/2, UNSURVEYED WITHIN TRACT A;  
SECTION 7: ALL, UNSURVEYED WITHIN TRACT A;

ACCORDING TO THE SURVEY PLAT ACCEPTED BY THE UNITED STATES  
DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT IN DENVER,  
COLORADO ON MAY 14, 1980.

SECTION 8: NE1/4, W1/2NE1/4NW1/4, NW1/4NW1/4, S1/2NW1/4, S1/2;  
SECTION 12: S1/2;  
SECTION 13: ALL;  
SECTION 14: ALL;  
SECTION 15: ALL;  
SECTION 17: ALL;  
SECTION 18: Lots 1-4 inclusive, and E1/2, E1/2W1/2;  
SECTION 19: Lots 1-4 inclusive, and E1/2, E1/2W1/2;  
SECTION 20: ALL;  
SECTION 21: S1/2, NW1/4;  
SECTION 22: S1/2, NE1/4, S1/2NW1/4, NE1/4NW1/4, E1/2NW1/4NW1/4;  
SECTION 23: N1/2, N1/2SW1/4, SE1/4SW1/4, N1/2SE1/4, N1/2SW1/4SE1/4,  
W1/2SW1/4SW1/4SE1/4, SE1/4SW1/4SE1/4, SE1/4SE1/4;  
SECTION 24: ALL;  
SECTION 27: NW1/4;  
SECTION 28: N1/2, SW1/4, W1/2SE1/4;  
SECTION 29: ALL;

SECTION 30: Lots 1-4 inclusive, and NE1/4, E1/2NW1/4, NE1/4SW1/4,  
NW1/4SE1/4;  
SECTION 31: Lots 1-4 inclusive, and E1/2SW1/4;  
SECTION 32: W1/2NE1/4, NW1/4;

ACCORDING TO THE SURVEY MAP EXAMINED AND APPROVED BY THE U.S.  
SURVEYOR GENERAL'S OFFICE IN JUNEAU, ALASKA ON MARCH 14, 1916.

CONTAINING 11,487.60 ACRES, MORE OR LESS.

Parcel Numbers:

SM-0178-A ,SM-0178-D ,SM-0179-G ,SM-0180 ,SM-0181 ,SM-0182 , SM-0183 ,SM-0184 ,SM-0185,  
SM-0186 ,SM-0187 ,SM-0188 ,SM-0189 ,SM-0190 ,SM-0191 ,SM-0192 ,SM-0193 ,SM-0194 ,SM-0195