



December 17, 2018

Mr. Jason Werner
Chief Financial Officer
Petro Marine
1813 East First Avenue
Anchorage, AK 99501

Dear Mr. Werner;

The Petersburg Borough Assembly has directed me to open discussions with Petro 49 on the proposed land swap for property located within the Borough. The Borough Assembly approved moving forward in the process despite some major concerns regarding the potential for remediation of contamination on the property and the long-term loss of the lease revenue. The Borough has reached out to Alaska's Department of Environmental Conservation and it appears the Borough would likely be responsible for any cleanup of contaminants if they were discovered in the future on the property. In the opinion of the Borough, this lessens the overall value of the property and potentially limits the Borough's ability to make full use of the property due to these potential contamination issues. While it is unknown if this limitation will affect the appraised value of the property, it does present a future financial risk that the Borough will need to account for.

In addition, the Borough Assembly is concerned regarding the loss of the future lease revenue from the property currently leased by Petro. All things being equal, the value of the leased property has more positive financial impact to the Borough than the potential sale. While Petro's offer to give any "excess" proceeds to a potential berthing dolphin project is appreciated by the Borough, it is clear Petro will also benefit from the addition of the berthing dolphin through increased fuel sales at the facility. It is the Assembly's contention that the overall decision to move forward with the land swap must consider all the aforementioned issues. As a basis of discussion, I have outlined the Borough's position below.

Please let me know when you would be available to discuss.

Sincerely,

Stephen Giesbrecht
Borough Manager
Petersburg Borough
907-772-5402

Petersburg Borough's position

Petro 49 agrees to coordinate with the Borough for a Phase 1 Environmental Assessment to be conducted on the properties which would be transferred to the Borough. The costs of such an assessment will be the responsibility of Petro 49.

The Borough and Petro 49 will agree to a straight swap of the properties involved despite any differences in appraised values.

The Borough will waive the requirement for Petro to pay to have the properties appraised if the straight swap of the properties is agreed upon.

Petro 49 agrees to pay an equivalent amount of 7 years lost lease revenue, or \$199,500 (\$28,500 x 7) to the Borough. These funds will be payable upon both parties agreeing to the transaction and will be dedicated by the Borough to the design and construction of a berthing dolphin at the Petro 49 dock in Petersburg. The Borough will be responsible for any costs for the berthing dolphin design and construction over and above this amount. Any excess will be dedicated to ongoing maintenance of the berthing dolphin until such time as the funds are exhausted.

The Borough will have a period of five (5) years to design and construct the berthing dolphin. The current estimate from PND Engineering has the cost of the dolphin near \$400,000. Extension of the time period will be necessary to build up enough fund reserves for the Harbor to enter the construction process.

Petro 49 agrees and understands that the berthing dolphin, when completed, will become a component of the existing lease on the fuel dock, and that there will be an equivalent valuation increase in the lease as the result of the berthing dolphin construction.

Both parties agree that any attorney costs incurred during the negotiations are the responsibility of the parties themselves.