

SHUMAGIN CORPORATION



SHAREHOLDER

HANDBOOK

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INTRODUCTION

The purpose of this booklet is to describe what Shumagin Corporation is and what it does. Many shareholders have asked, “What is stock? What is a dividend? What are Articles of Incorporation?”

This Handbook will answer these and other questions you might have about your corporation. The last few pages of this handbook contain a glossary with definitions for some of the words used in this handbook.

A corporation is a business entity made up of people working together. Its owners are called shareholders. They elect directors. The directors hire an administrator. The administrator hires employees to carry out the daily responsibilities of the corporation. The corporation needs all these people to operate. Working together, they are able to do much more than what only one of them could do alone.

A corporation is a group of people who get a charter from the government - in this case, the State of Alaska - which grants that group certain legal powers, rights, privileges, and liabilities that are different and distinct from those of the individuals making up the group. A charter is a written grant of specified rights made by the government.

This shareholder handbook has been prepared by the Shumagin Corporation Shareholder Affairs Department to help you learn more about the corporate structure and specifically about Shumagin Corporation. We have done our best to provide you with up-to-date information, however, laws change from time to time, and situations also change.

Questions about material used in this handbook may be directed to:

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HOW AND WHY ALASKA NATIVE CORPORATIONS STARTED

Alaska Native Claims Settlement Act

In 1867, the United States government purchased Alaska from the Russian government. At that time Aleuts, Eskimos and Indians were living here and had been living in Alaska for thousands of years. From the time of this purchase it was agreed that Alaska natives had land rights to the lands they used. For over 100 years, however, it was not clear which land Alaska natives owned and which land was owned by the United States government.

The Alaska Native Claims Settlement Act (ANCSA) was passed into law on December 18, 1971 to address these issues.

ANCSA created thirteen regional corporations which represented over 80,000 Alaska natives (Aleuts, Eskimos and Indians). The U.S. government paid \$962.5 million to the Alaska natives through their corporations. Forty-three million acres of land were also set aside for the regional corporations, one of which is The Aleut Corporation. The Aleut Corporation is the regional corporation for our area.

Alaska Native Fund

The \$962.5 million paid to Alaska natives as a result of ANCSA was paid by the State of Alaska and the United States federal government as specified in ANCSA. The U.S. Treasury established the Alaska Native Fund, an account out of which the money was to be paid. Ten years of scheduled payments were made to the ANCSA corporations by both the state and federal governments.

Land Entitlement

In addition to money, the corporations had the opportunity to select land. Shumagin Corporation's entitlement is approximately 140,000 acres. The land settlement has been by far the most complicated and expensive aspect of implementing ANCSA. Land had to be selected within a specific time but conveyance of land to the corporations has been a slow process. In addition, almost every section of ANCSA relating to land has had its day in court. Legal disagreements over definition of terms and interpretation of intent have cost the corporations a lot of time and money.

Many years have been spent in assessing the land and its value to the shareholders and the corporation. ANCSA was a land claims settlement act, and land management, carefully considered development, and land use planning is the key to the long-term success of the corporation.

ENROLLMENT

ANCSA required that in order for Alaska natives (Aleuts, Eskimos and Indians) to receive benefits from the settlement, they had to enroll, which meant that natives had to register by filling out a form and submitting it to the Bureau of Indian Affairs (BIA). The enrollment was conducted by the BIA/Alaska Native Enrollment Office in Anchorage, Alaska. Eligibility, as defined in ANCSA, required that a native be at least one-quarter blood quantum Alaska native, a United States citizen, and alive on or before December 18, 1971. This original enrollment was certified on December 17, 1973 and totaled over 80,000 Alaska natives. Shumagin Corporation had an original enrollment of 412 shareholders. As of this date, Shumagin Corporation has over 430 shareholders.

In 1987 Congress passed H.R. 278, commonly referred to as the ANCSA 1991 amendments. In February 1988, President Ronald Reagan signed the bill into law. A part of these amendments includes a provision that allows corporations - upon a vote of their shareholders - to permit Alaska natives born after December 18, 1971, and other Alaska natives, who for various reasons missed the original enrollment deadline, to become shareholders in the corporation. The voting process and implementation of this provision are complex and must be studied carefully before putting the question to shareholders for consideration. Shumagin Corporation has not adopted such a position.

SHUMAGIN CORPORATION

Shumagin Corporation was formed in Sand Point, Alaska on February 25, 1974, as a direct result of ANCSA.

Four people were named as incorporators of the newly formed corporation. They were Peter Calugan, Andrew M. Jones, Sr., Hubert G. McCallum and Jack Gronholdt.

Shumagin Corporation is a for-profit business corporation. A for-profit corporation concentrates on investing in businesses and involving itself in other activities such as land and resources development for the purpose of earning revenues for the benefit of Shumagin Corporation shareholders. Many shareholders consider the approximately 140,000 acres of land awarded to Shumagin Corporation under ANCSA to be its most precious asset.

Shumagin Corporation leases hunting rights on our land to Profession Guides for bear hunting. We also are cooperating in several mineral exploration efforts underway in the region.

ARTICLES OF INCORPORATION

The Articles of Incorporation are the birth certificate of the corporation. They give it a name. They state the date it came into existence and the purpose for which the

corporation is organized. The Articles of Incorporation specify how many shares of stock are issued.

CORPORATE OWNERSHIP UNDER ANCSA

Stock is defined as part of an interest in something, in this case in Shumagin Corporation. A stock certificate is a document stating how many shares you own in the corporation and the class of your stock. Each unit of ownership is called a share. A person who owns shares is called a shareholder or stockholder.

Under ANCSA, each eligible Alaska native of $\frac{1}{4}$ or more Alaska native blood quantum that could prove a relationship to the village of Sand Point was issued 100 shares of stock in Shumagin Corporation.

It was a requirement of ANCSA that enrollees be $\frac{1}{4}$ or more ANCSA native blood quantum. ANCSA also required that in order to have voting rights in Shumagin Corporation elections, shareholders must be at least $\frac{1}{4}$ or more blood quantum. Because all original shareholders were $\frac{1}{4}$ or more native blood quantum, all of them had voting stock. As years passed shareholders died and their shares were transferred to inheritors. Some of the inheritors had $\frac{1}{4}$ or more native blood quantum and they remained as voting status shareholders. Inheritors who had less than $\frac{1}{4}$ ANCSA native blood inherited stock but the status of their stock became non-voting. This meant that they did not have the right to vote in Shumagin Corporation elections.

ANCSA AMENDMENTS AND STOCK OWNERSHIP

In 1987 Congress passed the 1991 Amendments. The 1991 amendments changed the definition of native under ANCSA. Originally ANCSA said an Alaska native had to be $\frac{1}{4}$ or more native blood quantum to maintain voting rights in shareholder elections. The 1991 amendments added that a native is a person with $\frac{1}{4}$ or more Alaska native blood quantum *or a descendant of a Native*. As a result of the 1991 amendments to ANCSA, voting rights are now extended to descendants of natives without regard for their quantum of native blood. The 1991 amendments also gave shareholders the right to gift some or all of their stock to eligible descendants.

Stock in a non-ANCSA corporation can be bought and sold with few or no restrictions. Corporations created by ANCSA, however, are set up with certain restrictions that non-ANCSA corporations do not have. Originally ANCSA stock could not be sold until 1991. The 1991 amendments extended the restriction on the sale of stock indefinitely or until a vote of the shareholders allows such a sale. The ANCSA 1991 amendments gave corporation shareholders the authority to determine, in the future, if they want their stock to be for sale. Various procedures are outlined in detail in the 1991 amendments should a corporation decide to consider this issue. Shumagin Corporation stock may not be sold.

Shumagin Corporation stock may only be transferred by gift (within restrictions imposed by ANCSA) or by inheritance.

DIRECTORS

The shareholders of the corporation are the owners of Shumagin Corporation. They elect, from within their membership, people who are responsible for setting the goals of the corporation and protecting and preserving the corporate entity. These elected people are called directors. The directors as a group are called the Board of Directors.

The Articles of Incorporation and By-laws state how many directors are to be elected and when and how they are to be elected. Until 1981 the Shumagin Corporation board consisted of 7 directors. In 1981, the Shumagin Corporation by-laws were amended to increase the number of directors to 9. Eligibility requirements for serving on the board remain the same as in the past. An individual must be a voting shareholder of Shumagin Corporation and at least 18 years old.

Directors attend several board meetings every year. At these meetings they make important decisions. They must use all their wisdom and good judgment to decide what is best for the future of the corporation. The board sets the overall direction of the corporation's business, including setting the policies of the corporation in matters of natural resources and land management, business investments and administration. The board also selects the administrator, elects the officers of the board and appoints necessary board committees.

CORPORATE EMPLOYEES

The administrator carries out the policy decisions of the board of directors. The Administrator hires employees of the corporation to help carry out the day-to-day operations of the corporation. Employees report to the administrator of the corporation. The administrator reports to the president and the directors of the corporation. The directors, in turn, are responsible to the shareholders and must report to them every year through the corporation's annual report and at the annual shareholder meeting.

DIVIDENDS

Dividends are payments made to shareholders out of the profits earned by the corporation. The board of directors establishes the rate per share to be paid. The dividend amount each shareholder receives depends on the number of shares he or she owns. Dividends are paid to shareholders through check distribution. ANCSA, the corporation's articles of incorporation and Alaska Statutes set guidelines for issuing distributions and dividends. Dividends can only be paid out of retained earnings. In years in which the corporation does not make a profit, dividends may not be paid.

ANNUAL MEETING

The annual meeting of Shumagin Corporation shareholders is held every year, and the date, time and location of the meeting are set by the Board of Directors. In recent years, Shumagin Corporation's annual meeting has been held in early January. A notice of annual meeting, a proxy statement, proxy form, and annual report are sent to each shareholder before the meeting date, as specified in Alaska law and the corporation's by-laws. At the annual meeting, shareholders elect members of the Board of Directors as provided in the Articles of Incorporation and By-laws. They may also conduct any other business that may properly be brought before the meeting.

Before any business can be conducted at the annual meeting, a quorum must be present. A quorum is the minimum number of shareholders legally required to be present at the meeting before the corporation can conduct business. Each corporation has specific wording in its by-laws and articles of incorporation that state what is needed for a quorum, and the corporation's definition of quorum must be in compliance with Alaska statutes. Shumagin Corporation requires that shareholders owning at least 1/3 of our shares must be present in person or by proxy to constitute a quorum.

PROXY VOTING

It is not possible for all Shumagin Corporation shareholders to attend the annual meeting in person, and it would be practically impossible to get a quorum to conduct the annual meeting if personal attendance were required. That is where a "proxy" comes into play. A proxy is a written document which authorizes representation for a person who cannot physically be in attendance at the meeting.

There are two kinds of proxies. One is a general proxy that says the person holding it can vote in place of the other person. The person holding the proxy can vote it at his or her discretion (using their best judgment). The other is a special proxy, which states exactly how the votes must be cast. It may direct the person holding it to vote for certain directors in the amount specified by the shareholder or to vote "yes" or "no" on certain questions. The person holding it must vote it the way he or she is directed and no other way. Both kinds of proxies are usually on the proxy form, and the shareholder chooses which kind of proxy he or she wishes to use. Parents who are custodians for their children's stock can also execute a proxy for that stock to be voted at the shareholder's annual meeting.

In order for a proxy to be valid, it must be written, signed and dated, and it must specify who is authorized to represent the shareholder in his or her absence. Shareholders may sign more than one proxy. If more than one proxy is received for a shareholder, only the last signed proxy is counted.

The Shumagin Corporation proxy form must meet all the legal requirements of a proxy as defined by Alaska Administrative Codes and Alaska Statutes. If a candidate chooses to

use a different form they must follow the guidelines spelled out in the Alaska Administrative Codes and Alaska Statutes. The filing dates for proxy receipt established by the Board of Directors and announced in the Shumagin Corporation proxy statement and notice of annual meeting apply to all proxies filed for the shareholders meeting. The inspectors of elections monitor the entire election process and are present at each annual meeting to process the election voting and announce the results to the shareholders.

CUSTODIANS

Custodians or guardians are people who are legally appointed to take care of another person's property. Some of Shumagin Corporation's shareholders are minors, which are children under 18 years old. Just like adults they have shares of stock, they are entitled to receive dividends and to have their votes represented in shareholder meetings. According to the Alaska Statutes, minors must have a custodian receive dividends and cast their votes in elections on their behalf.

Alaska Statutes provide guidelines for the appointment of custodians and the responsibilities associated with the appointment. In most cases it will be a parent, but if the child has no parents then the legal guardian of the child may be the one appointed to be custodian of that child's stocks. If a custodian is appointed for a minor child, or an adoption takes place, copies of the court orders and/or signed adoption papers must be sent to the Shumagin Corporation shareholder affairs office to be placed in the minor child's file. Every minor must have a custodian appointment form on file with Shumagin Corporation before any release of money to the shareholder can be made and before these shares can be voted.

Alaska Statutes define the age of majority as 18 years or older. When a shareholder reaches his or her eighteenth birthday, the custodian is deleted from the shareholder's records, and that shareholder gains complete control of the stock owned.

CUMULATIVE VOTING

Under Shumagin Corporation's by-laws, when shareholders vote for directors they use cumulative voting. This is a method in which the number of votes you are entitled to cast is determined by multiplying the number of shares you own by the number of director seats to be filled at that particular election. For example, if you have 100 shares of stock and 3 director seats are to be filled at an election, you multiply 100 shares by 3 director seats to arrive at 300 votes. You may cast all 300 of your votes for one candidate or you may spread those 300 votes among several of the candidates seeking election. The number of votes you have may differ from meeting to meeting, depending on how many director seats are being contested by election at that particular meeting.

Provided that a quorum has been established, the three candidates who get the most votes are elected as directors of the corporation. As specified in the by-laws of the corporation, Shumagin Corporation's Board of Directors consists of 9 members. A director's term is for 3 years, but the terms are staggered so that only three seats are contested by election each year.

INHERITANCE OF STOCK

ANCSA and its amendments and Alaska statutes set out procedures and regulations for determining inheritance of Shumagin Corporation stock through estate settlement. The stock transfer process begins when the corporation receives a notification of death (usually a death certificate) that a shareholder has died. The file of the deceased is reviewed to see if the shareholder left a Testamentary Disposition. Letters are written to the family members who might know if the deceased executed a will. If there is a testamentary disposition in our files, the deceased might have executed a more recent testament which has not been given to us, or might have executed a later will.

A will is a legal document that states a person's wishes concerning the disposal of property, such as Shumagin Corporation stock, after death. If a valid will or a testamentary disposition is found, then the shares are transferred to the inheritors in the amounts specified by the will or testamentary disposition. If a will or testament cannot be found, after a period of time it is assumed that the deceased shareholder did not leave one. When a person does not leave a will or testamentary disposition, the Alaska Native Claims Settlement Act and Amendments direct the corporation to follow Alaska laws of intestate succession for determining the heirs of the deceased.

In order to determine who is entitled to the stock, relatives of the deceased must fill out an affidavit, which is a written statement made under oath before a notary public. On this affidavit the names of surviving relatives are listed and this information is used to determine inheritance.

TESTAMENTARY DISPOSITION

Shumagin Corporation has a Testamentary Disposition form that may be used by any shareholder only for the purposes of inheritance for Shumagin Corporation stock. To receive a copy of the form please write to Shumagin Corporation, P. O. Box 189, Sand Point, AK 99661. Or you can download a copy from our website at www.shumagin.com. You may also email shareholder affairs at www.cgundersen@artic.net for a copy. These Testamentary Disposition forms are also available at our corporate office in Sand Point.

Some shareholders prefer to include a provision in their personal will describing what they want done with the ANCSA stock when they die, rather than using a Shumagin Corporation Testamentary Disposition. If this is your choice please send a copy of the will, and information about where the original can be located.

The latest dated valid testament or will at the time of death of a shareholder is used to determine inheritance. If you execute another will or a codicil to an existing will, please be sure to send Shumagin Corporation a copy at the address above. By doing so we will be better able to carry out your wishes with regard to the transfer of your ANCSA stock.

RECORDS OF SHAREHOLDERS

All records of Shumagin Corporation shareholders are kept in individual file folders in the Shumagin Corporation Shareholder Affairs Department.

Maintaining over 400 shareholder records is an on-going job. Any changes we make to the shareholder enrollment lists must be backed up by paperwork. For example, if your name has changed due to marriage, you must send a copy of your marriage certificate to Shumagin Corporation before we can change your name on the stock records. Or you can notify us and we will send an Affidavit of Name Change form to you, which must be filled out, signed, dated and witnessed by a notary public. Once the required paperwork has been received, the change(s) are made on our computer records and the paperwork is put in your shareholder file.

The contents of a shareholder file are confidential information, and will only be released to the shareholder, or in some instances, to a third party with the shareholder's permission or by court order and/or applicable state law.

SHUMAGIN CORPORATION NEWSLETTER

The Shumagin Corporation newsletter is published by Shumagin Corporation and provides shareholders with information about corporate business and other information of interest to the Sand Point region. This newsletter is mailed to shareholders to inform them about current issues facing the corporation and other related activities. In order to receive the newsletter you must have a current address on file at the Shumagin Corporation office. Copies of the most recent newsletter may be down loaded or viewed at our website www.shumagin.com.

SHUMAGIN CORPORATION SCHOLARSHIP FUND

The Shumagin Corporation annually budgets money for a scholarship fund. Shareholders and their descendants can apply for scholarship funding. To be eligible for consideration you must be a shareholder or a lineal descendant of a shareholder. Application requirements change from time to time. Current requirements and applications can be obtained from the Shumagin Corporation office, or may be downloaded from our website www.shumagin.com.

OTHER SERVICES

Shareholder Handbook

Shumagin Corporation published this Shareholder Handbook for the purpose of providing information to shareholders on subjects such as testamentary disposition, stock, enrollment, estate settlement, dividends, proxy, newsletter, regional corporations, custodians, etc. The handbook will help you to become more familiar with your corporation and its responsibilities as an ANCSA corporation.

Shareholder Assistance

The Shareholder Affairs Department also offers assistance to shareholders when filling out testamentary dispositions, affidavits and other special forms.

DEFINITIONS OF SOME OF THE TERMS USED IN THIS HANDBOOK

Affidavit. A written statement made under oath before a notary public or other person authorized to administer oaths.

Alaska Administrative Code. A set of regulations published to regulate the executive branch of the state government. Corporations are dealt with under the Department of Commerce and Economic Development.

Alaska Statutes. Laws passed by the legislature and set forth in a formal document. Title 10 is the section that deals with laws regulating corporations.

ANCSA. Public Law 92-203 titled the Alaska Native Claims Settlement Act. Passed into law by the United States Congress on December 18, 1971.

ANCSA Native. In 1971 ANCSA Native was defined as a person with $\frac{1}{4}$ or more Alaska Native blood quantum. Under 1991 amendments, passed in 1987, ANCSA Native definition changed to the following: $\frac{1}{4}$ or more Alaska Native blood quantum or descendant of a Native.

Articles of Incorporation. Document forming a legal corporation, spelling out the purposes, goals and organizational makeup of that corporation.

Charter. A franchise or written grant of specified rights made by a government or ruler to a person, or a group of people such as a corporation.

Class of Stock. Voting stock is shares owned by $\frac{1}{4}$ or more Alaska Native blood quantum or descendant of a Native. Non-voting stock is shares own by a non-native.

Conveyance. The transfer of ownership of real property from one person or group of persons to another. The document by which this is done is a deed.

Corporation. A group of people banded together by a charter which grants that group certain legal powers, rights, privileges, and liabilities distinct from those of the individuals making up the group.

Cumulative voting. A method of voting in which the number of votes a shareholder can cast is determined by the number of shares he or she owns multiplied by the number of members to be elected. These votes can be cast all for one candidate, or be distributed to any number of candidates.

Custodian. A person who has the custody or care of something or someone. One who guards, protects or takes care of another person or property. See also guardian.

Dividends. A sum or quantity, usually of money, to be divided among stockholders. An individual's share of such sum of money.

Document. Anything printed or written.

Enroll. To register, enlist, become a member.

Entitlement. The right or legal title to something.

Guardian. A person legally placed in charge of the affairs of a minor or someone incapable of managing his or her own affairs. Custodian.

Heir. Anyone who receives property upon another person's death, either by will, testamentary disposition or by laws of intestate succession.

Incorporated. Organized as a legal corporation. Combined into one body or unit, usually through a legal document called articles of incorporation.

Inherit. To receive something from another person upon that person's death.

Inheritance. That property which is received from a deceased.

Inspector of Elections. An impartial individual or group that examines, oversees, and reports the results of an election to the shareholders.

Intern. A learner or beginner. A person acquiring skills by working with a person or group with expertise or knowledge in a certain area. The period in which an intern works and learns is called an internship.

Intestate Succession. The order of lineal descent in which heirs are determined if a person dies without leaving a will or testament. Alaska statutes called laws of intestate succession spell out and specify this order of descent.

Majority. More than fifty percent, or half, of a total whole. With reference to age, anyone eighteen or older is said to have reached the age of majority.

Minor. Any person under a specified age, usually under the age of eighteen. Once a person reaches eighteen, that person is said to have reached the age of majority. Corporate stock owned by a minor is controlled and directed by a custodian or guardian.

Minority. Less than fifty percent, or half, of a total whole. Often refers to racial or ethnic makeup of a group of people. With reference to age, anyone under eighteen is said to be in the age of minority.

1991 Amendments (Public Law 100-241). Amendments to the Alaska Native Claims Settlement Act which passed into law on February 3, 1988. The purpose was to amend ANCSA to provide Alaska Natives with certain options for continued ownership of lands and corporate stock received pursuant to ANCSA and for other purposes.

Percentage. A part or portion of the whole, expressed as a percent (%), and computed by dividing the part by the whole and multiplying that figure by 100. For example, 3 out of 6 as a percentage would be computed: $3/6 \times 100$, which would be 50%.

Proxy. A document empowering one person to act or vote for another, as in voting at a shareholders meeting.

Quorum. The minimum number of members required to be present in person or by proxy at a meeting before it can validly begin to transact business.

Scholarship. A specific gift of money or other assistance to help a student continue his or her studies, particularly after high school.

Share. A portion of ownership in a corporation belonging to an individual or organization.

Shareholder. The person or group which owns shares in a corporation. Also sometimes referred to as a stockholder.

Statutes. Laws, regulations and rules of governing bodies such as the State of Alaska or the United States government.

Stock. The ownership element in a corporation usually divided into shares and represented by transferable certificates.

Stock Certificate. A document providing evidence of ownership of shares of stock in a corporation.

Will. The legal statement of a person's wishes concerning the disposal of property after his or her death, made under that person's own free will and choice.