



3909 Arctic Boulevard, Suite 400  
Anchorage, Alaska 99503  
907) 222-9500  
Fax (907) 222-9501 / (907) 222-9503

December 31, 2013

**RE: Corporation Resolves Trespass on Afognak Land**

Dear Shareholders,

Over the past month, Afognak has drawn unwarranted criticism in the media for reasonable efforts it has taken to protect land received in connection with the Alaska Native Claims Settlement Act of 1971 ("ANCSA"). The media attention has focused on a trespass dispute involving Afognak and Thomas and Grace Malmberg. After many years of attempting to resolve that trespass dispute, Afognak filed a lawsuit to stop the Malmbergs from using Afognak's land. The purpose of this letter is to clear up any confusion Shareholders may have regarding the situation.

The land involved in the lawsuit is located near Dry Spruce Bay on the northern part of Kodiak Island. Afognak received title to the land in July 1979 through ANCSA. Four years later, the Malmberg's purchased 10 acres of land on top of a hill that bordered Afognak's undeveloped ANCSA land. At some point after June 1983, the Malmbergs had a house towed to Dry Spruce Bay. When the Malmbergs relocated their house, they placed it on beachfront land owned by Afognak rather than placing it upon the land that they had actually purchased.

The encroachment came to Afognak's attention in February 2005. The beachfront land on which the Malmbergs' house encroached was conveyed to Afognak by the federal government for the benefit of all Afognak Shareholders. The Afognak Board recognized that the issue needed to be resolved and, over the course of the next several years, the Corporation explored options for removing the encroachments and cleaning up the land.

In October 2008, Afognak's Lands Department met with Grace Malmberg. At the time, Grace Malmberg shared that her family might be interested in a long-term lease; however, she expressed concern about whether they could make payments on a lease. Grace Malmberg shared that the house was used solely for recreational purposes and was no longer their primary residence. From 2008 to 2011, the Lands Department attempted to contact the Malmbergs on multiple occasions to request they meet to discuss the trespass dispute. For three years, the Malmbergs refused to respond to any of Afognak's requests for a meeting.

In 2011, the Board of Directors decided to take formal action to evict the Malmbergs from Afognak's land. The Board's decision was based in part on the following factors: 1) the Malmbergs had refused to respond to any of the Corporation's requests to meet; 2) the Malmbergs had not removed their house and other property from Afognak land despite knowing they were on Afognak land; and 3) the land being used by the Malmbergs was not being taken care of, as it was strewn with garbage and debris. Attached are several photos showing the state of the land and a map with the location of the Malmberg encroachment.

Afognak wrote the Malmbergs in October 2011 and explained that if their buildings and other property were not moved off Afognak land by June 15, 2012, Afognak would demolish them. In other words, Afognak provided the Malmbergs approximately eight months to remove all encroachments. A month before the deadline, Afognak received a letter from the Malmbergs' attorney offering to swap one of the Malmbergs' five acre lots for a one acre portion of Afognak's beachfront property where the Malmbergs' house now sits. The Board reviewed the offer and determined that swapping properties was not in the Shareholders best interests.

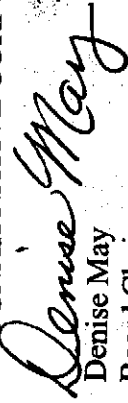
The land received in the swap would not have the protections afforded to ANCSA land under federal law. Land conveyed to Alaska Native Corporations through ANCSA is exempt under federal law from state, borough and municipal government taxation. Had the Corporation agreed to swap parcels with the Malmbergs, the land received by the Corporation in the swap would be subject to taxation. In addition, the Board considered the beachfront land (and the isthmus which separates Dry Spruce Bay from the waters of Kupreanof Strait) to be of greater value to Shareholders than the land offered in trade by the Malmbergs.

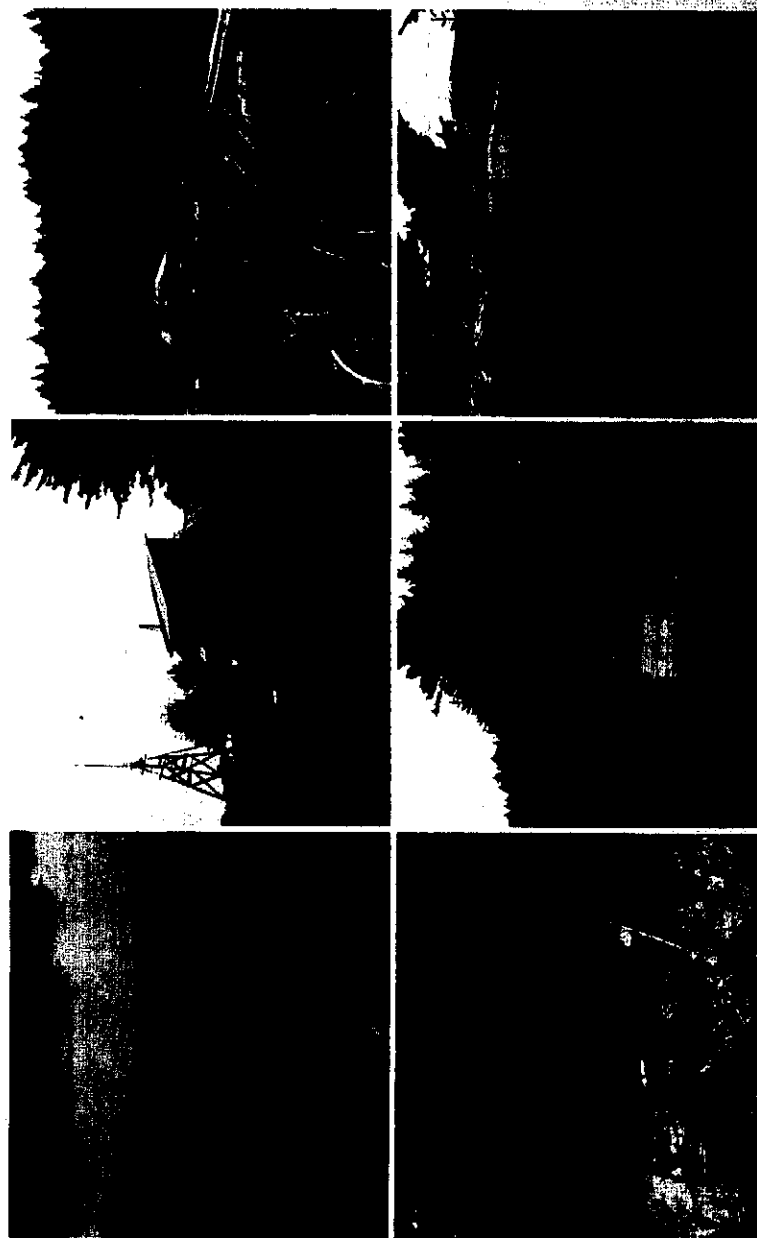
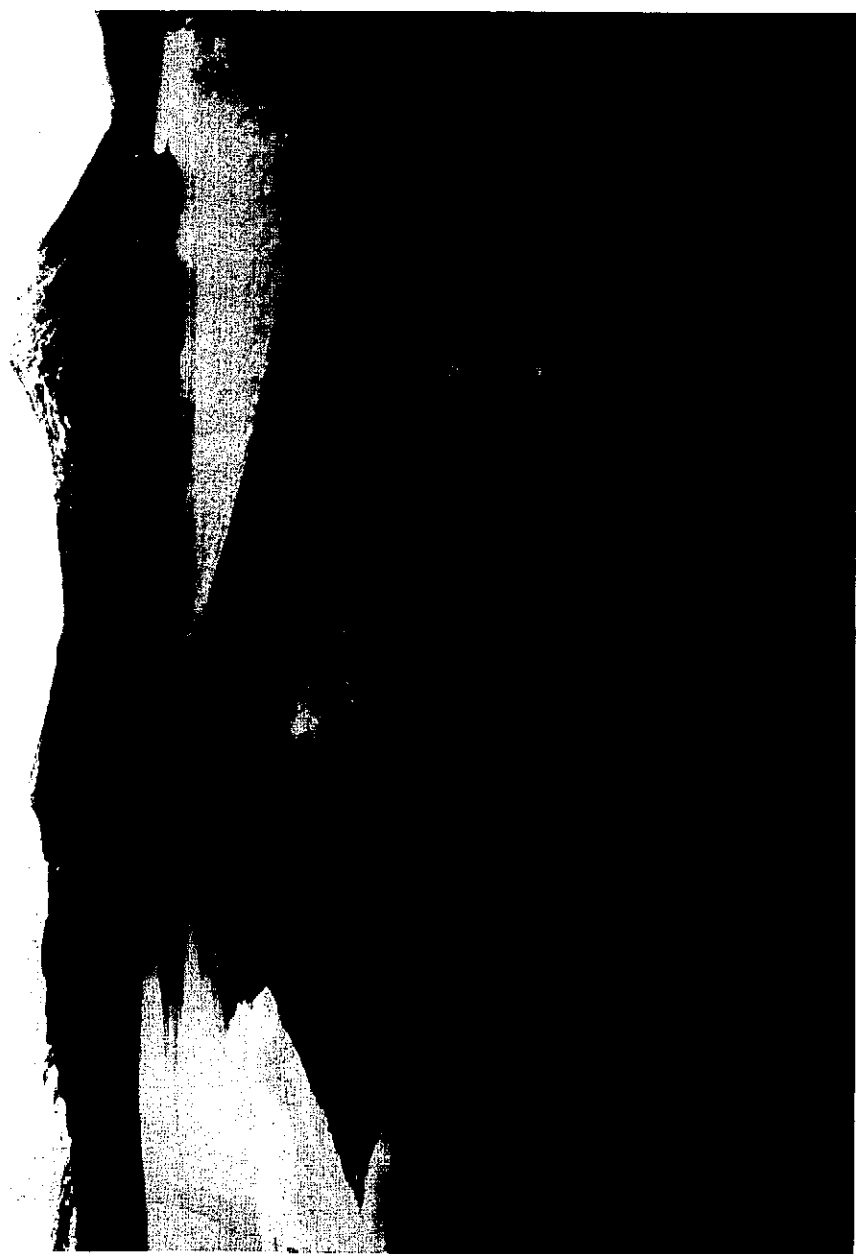
In late August 2012, Afognak sent a final letter to the Malmbergs' attorney requesting that the Malmbergs voluntarily remove the encroachments. The letter stated that if the Malmbergs did not agree to comply with the request, Afognak would seek assistance from the court. The Malmbergs continued to refuse to remove the encroachments from Afognak's land. On September 2012, Afognak filed a lawsuit in the Superior Court for the State of Alaska seeking a permanent injunction requiring the Malmbergs to remove all encroachments from Afognak land.

In February 2013, the Corporation and Malmbergs agreed to a settlement. The court approved the settlement and entered it as a final judgment. Under the settlement, the Malmbergs agreed to remove their belongings from Afognak's land, and Afognak in turn gave the Malmbergs one year to remove any property they wish to keep and paid them \$10,000. The \$10,000 was designed to encourage the Malmbergs to settle the case. Nine months after agreeing to a settlement, and after having received the \$10,000 from Afognak, an online petition was started on change.org complaining of the results of the settlement to which the Malmbergs had agreed. The Malmbergs have not contacted Afognak directly about the upcoming deadline.

The land that was conveyed to the Corporation under ANCSA is Afognak's most valuable asset. The Corporation made good faith efforts to meet with the Malmbergs to resolve this issue prior to the lawsuit, and in the settlement even went so far as to give the Malmbergs an additional year to remove their encroaching property plus \$10,000. Afognak's first and foremost obligation is to protect Shareholders' access to Corporation land. The Board believe strongly that Shareholders have the first right to use all Corporation lands for subsistence fishing and hunting. The Malmbergs are not Afognak Shareholders. They have had five years to determine and put into effect a relocation plan. We wish them the best of luck in their future endeavors; however, in the meantime, Afognak expects that the Malmbergs will comply with the terms of the settlement.

Sincerely,  
AFOGNAK NATIVE CORPORATION

  
Denise May  
Board Chair



**Afognak**  
Sodas & Carbonated



Company for Approval of the Corporation  
for the State of Utah  
for the year ending 31st December 1971  
for the Approval of Corporation for the

