

The Alaska Mental Health Trust Authority Trust Land Office

BEST INTEREST DECISION Cleary Summit Area Lease Expansion Freegold Ventures Ltd., USA

MHT 9400444
MH Parcel F70015

In accordance with AS 38.05.801 et seq. and the implementing regulations governing Alaska Mental Health Trust (“Trust”) land management (11 AAC 99), Trust land shall be managed consistently with the responsibilities accepted by the State under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)). This means that management shall be conducted solely in the best interest of The Trust and its beneficiaries.

In determining the best interest of The Trust and its beneficiaries, and in determining consistency between state law and the Alaska Mental Health Enabling Act, the Executive Director of the Alaska Mental Health Trust Land Office (“TLO”) shall, at a minimum, consider the following interactive Trust management principles in accordance with 11 AAC 99.020:

- Maximization of long-term revenue from Trust land;
- Protection of the corpus;
- Protection and enhancement of the long-term productivity of Trust land;
- Encouragement of a diversity of revenue-producing uses of Trust land; and
- Management of Trust land prudently, efficiently, and with accountability to The Trust and its beneficiaries.

I. Proposed Use of Trust Land. To add an additional 1175 acres to an existing lease of approximately 403 acres of unencumbered Alaska Mental Health Trust subsurface estate for mineral exploration and development.

II. Applicant/File #. Freegold Ventures Limited, USA/MHT 9400444.

III. Subject Property.

A. Legal Description. The subject parcels total approximately 1,175 acres and are located within a portion of Trust parcel F70015. These are irregularly shaped parcels that are located in portions of sections 26 and 35 in Township 3 North, Range 1 East and portions of sections 28-31 in Township 3 North, Range 2 East, Fairbanks Meridian, Alaska (See Attachment A).

B. Settlement Parcel Number. A portion of F70015.

C. Site Characteristics/Primary Resource Values. The topography of the property consists of a valley bottom and horseshoe shaped hillside with elevations ranging from approximately 1,100 ft. to 1,700 ft. Bedrock exposures are limited. Slopes vary

from gentle to moderately steep. Based on publicly available information, there are no known physical or ecological features associated with the parcel that would prevent planned mineral exploration activities or subsequent development/production activities, if any. The primary resource values are mineral in nature.

- D. Historical and Existing Uses of the Property.** The Property is located approximately 25 miles northeast of Fairbanks, in the vicinity of Cleary Summit. Trust Parcel F70015, within which the property is located, was selected for The Trust because of the potential mineral values associated with the area. It occurs along a mineralized belt (Tintina Gold Belt) which extends across Alaska from beyond the Canadian border on the east, arcs northwest through the Fairbanks Mining District, and then trends southwest toward the Alaska Peninsula. Located within this belt are mineral occurrences such as the Pogo and Fort Knox Gold Mines and the Livengood and Donlin Creek Prospects. The area has a long history of placer mining operations and some underground lode mining (Cleary Hill Mine). It is near the site of a gold rush in 1902, when Felix Pedro discovered gold on what is now known as Pedro Creek, and placer mining operations have continued on a steady basis to this day. The existence of lode deposits is considered probable and there are other leases currently in effect for gold mining within this parcel.
- E. Adjacent Land Use Trends.** General State land in the vicinity contains a considerable number of state/federal mining claims and patented property. Active exploration and mining continues to occur on valid state and federal claims around the property. Besides mineral exploration and development, other land uses such as snow machining and skiing also occur in the area.
- F. Previous State Plans/Classifications.** None.
- G. Existing Plans Affecting the Subject Parcel.** There are no federal, state, or local management plans that would prevent the proposed action. The property is within Unit 1J of the Tanana Basin Area Plan, which directs that state land around Cleary Summit is to be managed primarily for mineral exploration and development.
- H. Apparent Highest and Best Use.** Parties to the Mental Health Trust Settlement assumed mineral development to be the highest and best use of lands in the area when they agreed to include acreage in this area in the reconstituted trust. The proposed use corresponds with this assumption of land use, and therefore, appears to be the highest and best use of the subject lands from The Trust's perspective.

IV. Proposal Background. The TLO proposes to add to an existing lease with Freegold Ventures Ltd., USA for the exclusive right to explore for minerals and the right to mine, extract, remove and sell locatable minerals subject to 11 AAC 99.100. The company presently leases 403 acres of fee estate from The Trust and requests the addition of another 1,175 acres of adjacent and nearby lands to the lease. The company has been diligently conducting exploration in the area, and according to the company's latest NI 43-101 report (June 2013), has identified a resource consisting of approximately 6 million indicated and inferred ounces of gold. The proposed lease acreage is adjacent or in proximity to land the applicant currently leases from The Trust, and will help to solidify the overall lease block to facilitate exploration and development of the resource.

- V. **Terms and Conditions.** Key lease terms and conditions remain the same; the acreage increases from 403 to 1,578 acres, more or less.
- A. **Lease Term:** The Initial Term of the original lease (effective June 1, 2012) is for three years with an option to renew the term for two, three year extensions. Thereafter, the lease may only be maintained by continuous production.
 - B. **Annual Rental:** Annual rentals range from \$10 per acre for the first lease term to \$15 and \$20 for lease terms two, three, and beyond. The rental for each year shall be credited against the production royalty as it accrues for that year only.
 - C. **Production Royalty:** A sliding scale net royalty based on the price of gold, with a minimum of 1.0% ranging to 4.5%, depending on the price of gold.
 - D. **Work Commitment:** The Lessee work commitment starts at \$125 per acre and increase by \$125 per acre for each lease extension.
 - E. **Data:** The TLO will receive copies of all data and information obtained as a result of the lease operations.
 - F. **Allowable Deductions.** Lessee will offset rental payments by production royalties due The Trust in the year those payments are due.
 - G. **Environmental Laws and Considerations.** Lessee will be required to enter into an upland mining lease with the TLO, with the lease requiring full compliance with all applicable environmental laws.
 - H. **Other.** In the event that significant changes occur in the market place or knowledge of the subject lands is significantly improved, the TLO, after consultation with The Trust Authority and public notice, may alter the terms and conditions of subsequent offerings in this area.

VI. **Resource Management Considerations.** The proposal is consistent with the Resource Management Strategy “Strategy”, which was developed in consultation with the Trust Authority and provides for the TLO to focus first on land or resources at the high end of their market values “best markets”. The applicant has been diligently working to consolidate the land ownership in this area in order to facilitate development of the resource that has been identified here. Therefore, the mineral resources affected by this decision are resources that should be offered now rather than later. Additionally, as noted above, the action is a required step towards generating potentially significant revenues from Trust mineral resources, consistent with a key trust land management principle of encouraging a diversity of revenue generating uses of Trust land.

VII. **Alternatives.**

- A. Make available the Trust land acreage for lease as proposed.
- B. Do not lease the additional land and discourage further development of mineral resources on Trust land in this area.

VIII. **Risk Management Considerations.**

- A. **Performance Risks.** Performance risks will be minimized through aggressive enforcement of the terms and conditions of the mineral lease, including, but not limited to those provisions that address royalty payments, work commitments, development plan approval and diligent resource development over time.

- B. Environmental Risks.** The exploration, development, and mining activities performed under the lease will be done within the parameters of local, state and federal environmental protection laws that generally apply to private lands. Lease stipulations require compliance with CERCLA, RCRA, as well as state reclamation requirements. The Lessee will be adequately bonded and insured.
- C. Public Concerns.** Historically, significant concern has been expressed about the impact of the leasing activities on public resources, such as fish and wildlife resources. Environmental laws and regulations have been promulgated over time to address these concerns. As noted above, the TLO lease will require full compliance with those laws and regulations and, additionally, may contain some operating stipulations that exceed the requirements of those laws and regulations. Further, since land in the vicinity has been previously leased, there are no known concerns that suggest that the proposed transaction is inconsistent with Trust principles. Additionally, the acreage originally requested for lease by the applicant that has also been used as a local downhill ski area has been deleted from the applicant's lease request.

IX. Due Diligence.

- A. Site Inspection.** The area proposed to be offered for lease has been inspected by TLO personnel.
- B. Valuation.** The subject lands will be leased pursuant to the terms and conditions of the existing Trust Upland Mining Lease -- a standard form substantially the same as has been used in previous TLO mineral lease transactions, and includes the terms and conditions outlined above.
- C. Terms and Conditions Review.** The TLO contracted with a private law firm and other public and private land managers for the purposes of developing terms and a lease form that best serves the interest of The Trust.

X. Authorities.

- A. Applicable Authority.** AS 37.14.009(a), AS 38.05.801, and 11 AAC 99 (key statutes and regulations applicable to Trust Land management and disposal).
- B. Inconsistency Determination.** As the proposed negotiated mineral lease is specifically authorized under 11 AAC 99, any relevant provision of law applicable to other state lands is inapplicable to this action if it is inconsistent with Trust responsibilities accepted by the state under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)) as clarified by AS 38.05.801 and Alaska Mental Health Trust land regulations (11 AAC 99). 11 AAC 99 includes determinations that certain state statutes applicable to other state land do not apply to trust land unless determined by the executive director, on a case-by-case basis, to be consistent with 11 AAC 99.020. The state statutes deemed inconsistent with trust management principles and inapplicable to trust land by these regulations have not been applied to this decision or this action, including, but not limited to, AS 38.04 (Policy for Use and Classification of State Land Surface), AS 38.05.035 (Powers and duties of the director), AS 38.05.300 (Classification of land), AS 38.05.945 (Notice), AS 38.05.946 (Hearings), and 11 AAC 02 (Appeals).

In addition to those provisions of law deemed inconsistent by 11 AAC 99, the following relevant provisions of law are deemed inconsistent with Trust management principles and will not apply to this action:

AS 27.30.010 - .070, Exploration Incentive Credits, and associated regulations. This statute was developed in order to attract the mineral industry to state and private land and provide general benefits statewide. Trust lands are managed solely for the benefit of the mental health beneficiaries. Exploration credits for mineral exploration may apply to Trust Land rents and royalties if this provision is negotiated in consultation with the Trust Authority under 11 AAC 99.100(d). Terms and conditions applicable to this transaction do not provide for application of exploration credits to Trust Land rents and royalties. Therefore, to the extent that AS 27.30.010 - .070 requires otherwise is inconsistent and not applicable to Trust lands. Further, numerous provisions of law require levels of performance that are less than those required by terms and conditions negotiated in consultation with the Trust Authority under 11 AAC 99.100(d). To allow application of those provisions of law would result in a transaction that does not comply with trust management principles provided for in 11 AAC 99.020. Therefore, provisions of law applicable to other state lands that are inconsistent with the negotiated terms of this proposed transaction are hereby deemed inconsistent with 11 AAC 99.020 and do not apply to this transaction. These provisions and their associated regulations include, but are not limited, to the following: AS 38.05.210, 215, 225, 230, 235, 240 (Annual Labor); AS 38.05.255, 265, 270, 275, (Surface Use of Land and Water); AS 38.05.135, 137, 140, 145 (Leasing of Mineral Land); and AS 38.05.285 (Multiple Use)

- XI. Trust Authority Consultation.** The Alaska Mental Health Trust Resource Management Committee was consulted on October 22, 2014. The Committee recommended that the proposed transaction be forwarded to the Alaska Mental Health Trust Board of Trustees. The Board of Trustees was consulted on November 19, 2014, and the Board of Trustees concurred with the proposed lease expansion, subject to the outcome of the notice process.
- XII. Best Interest Decision.** Given the information above and the information contained in the complete record, the Executive Director finds that the proposed transaction is in the best interest of The Trust, subject to the terms and conditions addressed in this decision. The decision is based upon the consideration of the five Trust management principles set out in 11 AAC 99.020 and is in full compliance with 11 AAC 99. This decision does not preclude the TLO from determining that an alternative proposal will serve the best interest of The Trust. A future determination of that nature will require a best interest decision specific to the proposal.
- XIII. Opportunity for Comment.** Notice of this Best Interest Decision will take place as provided under 11 AAC 99.050. Persons who believe that the decision should be altered because it is not in the best interest of The Trust or its beneficiaries, or because the

decision is inconsistent with Trust management principles set out in 11 AAC 99.020 or any other provision of 11 AAC 99, must provide written comments to the TLO during the notice period. Following the comment deadline, the Executive Director will consider timely written comments that question the decision on the basis of the best interest of The Trust and its beneficiaries or inconsistency with 11 AAC 99. The Executive Director will then, in his or her discretion, modify the decision in whole or in part in response to such comments or other pertinent information, or affirm the best interest decision without changes. The best interest decision as modified or affirmed will become the final agency action, subject to reconsideration procedures under 11 AAC 99.060. Additional notice will be provided for a substantially modified decision. If no comments are received by the end of the notice period, this best interest decision will be affirmed and the proposed action taken. (See notice for specific dates)

- XIV. Reconsideration.** To be eligible to file for reconsideration of this Best Interest Decision, or to file a subsequent appeal to the Superior Court, a person must submit written comments during the notice period.

Persons who submit timely written comments will be provided with a copy of the final written decision, and will be eligible to request reconsideration within 20 calendar days after publication of the notice or receipt of the decision, whichever is earlier under 11 AAC 99.060(b). The Executive Director shall order or deny reconsideration within 20 calendar days after receiving the request for reconsideration. If the Executive Director takes no action during the 20-day period following the request for reconsideration, the request is considered denied. Denial of a request for reconsideration is the final administrative decision for purposes of appeal to the superior court under AS 44.62.560.

- XV. Available Documents.** Background documents and information cited herein is on file and available for review at the TLO, located at 2600 Cordova Street, Suite 100, Anchorage, Alaska 99503. Phone (907) 269-8658. Email: mhtlo@alaska.gov.

The disposal action proposed by this decision will occur no less than 30 days after the first publication date of this decision, and after the conclusion of the TLO administrative process. For specific dates or further information about the disposal, interested parties should contact the TLO at the above address, or visit the website at: www.mhtrustland.org.

XVI. APPROVED:

 FOR

Marcie Menefee
Executive Director
Alaska Mental Health Trust Land Office

11-24-14

Date

Attachment A

