OPERATIONAL GUIDELINES

FOR

DENALI DISPENSARIES, LLC

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OPERATIONAL GUIDELINES

FOR

DENALI DISPENSARIES, LLC

The essential steps in the formation of Denali Dispensaries, LLC (the "Company") are now complete. The Articles of Organization have been filed with the Division of Corporations, Business and Professional Licensing and the Operating Agreement has been signed by the members and adopted by the Company.

The Articles of Organization and the Operating Agreement (the "governing documents") define the rights and obligations of the members with respect to the Company's management and financial affairs and prescribe rules and procedures for the conduct of the Company's activities. The Company's members should read the governing documents with care and establish policies and procedures that ensure compliance with their provisions.

This memorandum summarizes some of the requirements and procedures prescribed by the governing documents and applicable state and federal law. Careful and continuous observance of those requirements and procedures is essential to the maintenance of the Company's legal status as a limited liability company. Additionally, members should read the following case law to know and understand the factors used to determine whether or not to pierce the corporate veil, which factors would likely be used to determine whether or not members should be held personally liable for the debts and obligations of the Company: *McCormick v. City of Dillingham*, 16 P.3d 735 (Alaska 2001); *Eagle Air, Inc. v. Carroon and Black*, 648 P.2d 1000 (Alaska 1980); *Uchitel Company v. The Telephone Company*, 646 P.2d 229 (Alaska 1982).

FAILURE TO COMPLY WITH THE REQUIRED FORMALITIES MAY SUBJECT THE MEMBERS TO LIABILITY FOR THE COMPANY'S DEBTS AND OBLIGATIONS.

Statutory Liability

While AS 10.50.265 limits a member's liability to third parties, a member may be liable to the Company, or to creditors in bankruptcy, for failure to make agreed contributions. AS 10.50.280. Moreover, under AS 10.50.280(b), a member is "liable for performing an enforceable promise made to the [C]ompany to contribute property or services, even if the member is unable to perform because of death, disability, or another reason." Pursuant to AS 10.50.280(a), "a promise by a member or a limited liability company to contribute property or services to the company is not enforceable unless the promise is stated in a writing signed by the member."

Further, a member who receives a distribution prohibited by the Act with knowledge that the distribution is improper is liable to the LLC for the benefit of all creditors or members. AS

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10.50.320(a). A member who is sued under AS 10.50.320(a) may compel contribution from all other members liable under that section. AS 10.50.320(c).

The Company as a Separate Entity

Maintenance of the Company's status as a legal entity separate from its members is essential to the preservation of the statutory protection against member liability. Accordingly, the members should take care to relate to the Company and third parties only in ways that affirm and respect the Company's separate status. To that end, the following guidelines should be strictly observed:

1. Adequacy of Capital and Insurance. The Company's capital should be maintained in amounts sufficient to discharge reasonably foreseeable debts and obligations. The Company should purchase adequate amounts of insurance to protect it against foreseeable risks that cannot reasonably be funded out of the Company's capital.

2. Company Property. Property contributed to the Company's capital or acquired with its financial resources should be titled in its name and reflected on its books. Funds belonging to the Company should be deposited in bank and brokerage accounts established and maintained in the Company's name. Only persons authorized to act for the Company should be given access to those accounts.

Property belonging to the Company should not be commingled with the members' property or diverted to the members' use, without accounting to the Company. The only way the members can legally obtain ownership of the Company's property is through purchase or interim or liquidating distributions properly reflected on the Company's books.

3. Transactions with Members. The terms of business transactions between the Company and the members should be no less favorable to the Company than those of a similar transaction with an independent third party. To avoid the appearance of impropriety, all such transactions should be approved by the disinterested members.

4. Transactions with Third Parties. The Company should hold itself out to the public and transact business with third parties only in its full legal name: Denali Dispensaries, LLC. Particular care should be taken to include the portion of the name identifying the Company as a limited liability company. All letterheads, billheads, business cards, checks, directories, telephone listings, standard forms and advertising materials should bear the Company's full name. Logos or name abbreviations should be used only in association with the Company's full legal name.

A member and others who act on the Company's behalf should clearly disclose their representative capacity. Members should never refer to themselves as "partners" when dealing with third parties. A member or employee who signs a document on the Company's behalf should always follow the signature with a specific reference to the signer's office or status. If the signer fails to disclose agency capacity, he or she may be personally bound, even if the

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Company's full name appears in another place in the document. If a member or employee is required to sign a document both as an individual (for example, as a guarantor) and as the Company's agent, the signer should sign in separate places indicating in each the capacity in which he or she is acting. Following is a form of signature block that is adequate to disclose the signer's representative capacity:

Denali Dispensaries, LLC

By: _____
Bradley Bartlett, Member

Nature of the Company's Business

The Company's purposes are (a) miscellaneous store retailers and (b) to engage in any other lawful activity for which a limited liability company may be organized under the Act. Acting through its member and other agents, it may take any action that is incidental or conducive to the furtherance of those purposes. A change in the scope of the Company's authorized activities can be effected only by amendment of the governing documents.

Authority under the Alaska Revised Limited Liability Company Act to engage in a particular activity does not relieve the Company of the obligation to comply with other applicable Alaska laws and regulations. Therefore, before engaging in an activity, the Company should confirm that it is in full compliance with all legal requirements applicable to the activity.

Management and Control

1. Management Responsibility. Responsibility for managing the Company rests with the members. The members may establish policies and procedures and make all decisions pertaining to the usual conduct of the Company's business. Differences as to any matter arising in the usual course of the Company's business are resolved by the vote of members whose aggregate membership interest exceeds fifty percent.

2. Agency Authority to Bind the Company. Each member is the Company's agent for purposes of carrying on its business in the usual way. Accordingly, the act of any member in the ordinary course of business binds the Company, "unless the member does not in fact have the authority to act for the [C]ompany in the particular matter and the person with whom the member is dealing knows that the member does not have the authority to act for the [C]ompany in the particular matter." AS 10.50.250(a). A member whose unauthorized act causes the Company harm may be liable for any resulting damages.

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3. Fiduciary Duties. As the Company's agent, a member has a fiduciary duty to act with due care and in good faith in furtherance of the Company's best interests. The member breaches that duty if he or she fails to diligently perform his or her duties as prescribed by law and the governing documents or acts in furtherance of his or her own and against the Company's interests. Following are examples of "dos and don'ts" for a diligent, faithful, and loyal member.

(a) Become thoroughly familiar with the nature of the Company's business.

(b) Approve only those actions that further the Company's best interests and are within the authorized scope of its business.

(c) Monitor the Company's activities through active participation in meetings and a careful review of the Company's financial statements and other records and reports.

(d) Make all decisions based on complete and accurate information.

(e) If the information necessary to an informed judgment is complex or technical, seek and rely on expert advice.

(f) Do not, directly or indirectly:

(i) use the Company's assets for personal benefit;

(ii) take personally any profit properly belonging to the Company;

(iii) transact business with the Company on terms that are more favorable than those of a transaction with an independent third party;

(iv) appropriate for personal benefit opportunities properly belonging to the Company; or

(v) use information or knowledge obtained while acting on the Company's behalf for personal benefit or gain.

4. Manner of Acting. Members may act either at a meeting or by written consent signed by members whose voting power is at least equal to the minimum that would be required to take action at a meeting of all members. Any member whose voting power exceeds 10 percent of the voting power of all members may call a meeting of members by written notice given not less than 10 nor more than 60 days prior to the date of the meeting. The notice must specify the date of the meeting and the nature of the matters to be considered. A member may waive notice of a meeting orally, in writing or by attendance. A member may act at a meeting of members through a person authorized by signed proxy. Members whose voting power exceeds 50 percent of the voting power of all members constitutes a quorum. No action may be taken in the absence of a quorum.

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Administrative Matters

1. Accounting. The Company must establish and consistently observe accounting practices and auditing procedures customarily followed by similar businesses. The members should keep the Company's accountant informed of all transactions affecting the Company's financial results or condition. The accountant should assist in preparing and maintaining adequate financial records, provide guidance with respect to the selection of a taxable year and accounting method, advise the Company of any tax elections that may be available and assist in the preparation and filing of the Company's tax returns.

2. Periodic Reports. The Company is required to file a report with the Division of Corporations, Business and Professional Licensing at biennial intervals. The report is due by January 1 in even or odd years depending on the year in which the Articles of Organization were originally filed. The report form is furnished by the Division of Corporations, Business and Professional Licensing. If the form is not filed and the fee paid by the due date, the Company may be involuntarily dissolved.

3. Required Records. The Company must maintain at its principal office such books, records, and materials as are reasonably necessary to document and account for its activities, including, without limitation, those requested to be maintained by the Operating Agreement and the Act. AS 10.50.860.

4. Access to Records. Each member has the right to inspect and copy all books, records, and materials pertaining to the Company or its activities. A transferee of a membership interest who is not admitted as a member is not entitled to inspect the Company's records. Any expenses incurred in the exercise of such right are the responsibility of the member.

5. Licenses and Permits. Before doing business, the Company must secure any required licenses and permits. Information concerning licensing and permitting requirements is obtained from the appropriate agencies in the locales where the Company intends to do business.

6. Wage and Hour Law. Manufacturers, wholesalers, retailers, and contractors generally are subject to federal minimum wage, overtime, and child labor requirements. Information concerning the applicability of those requirements to the Company's business may be obtained from the U.S. Department of Labor. The Company also is subject to the labor laws and regulations in the jurisdictions in which it does business.

7. Unemployment Insurance. If the Company employs even one person, full or part-time, it must pay into the state's unemployment insurance fund. An application for coverage and a determination of the Company's required premium may be obtained from the Alaska Employment Security Division.

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8. Workers' Compensation Insurance. Employees generally are covered by Alaska's workers' compensation laws. The only exceptions are for certain farm, ranch, domestic, and occasional employees.

An employer of covered employees is required to maintain insurance in sufficient amounts to compensate its employees for job related injuries. The insurance may be procured from the Alaska workers' compensation insurance fund or from private carriers. In certain circumstances the employer also has the option to self-insure against the risk of job-related injuries.

An application for the state program may be obtained from the Alaska Division of Workers' Compensation. A general insurance agent is a good source of information concerning the Company's other options.

9. Additional and Substitute Members. The Company may admit additional or substitute members only with the approval of members whose aggregate membership interest exceeds 50 percent. A member may withhold approval of the admission of any person for any or no reason.

General Tax Matters

1. Income Taxes. "Check the Box" is a classification process that determines how an entity will be classified for federal tax purposes. Effective January 1, 1997, the "check the box" regulations provide that an LLC will be recognized without regard to its corporate characteristics. The LLC is allowed to "check the box" to indicate that it prefers to be recognized as a partnership for federal income tax purposes. Generally, that means that the Company's income, gain, loss, deductions, and credits will be accounted for by the members in proportion to their "distributive shares" of those items, as specified in the Operating Agreement.

Each year the Company is required to file federal and state information returns accounting for its tax items for the prior year and showing the allocation of the items among the members. It must also provide the members with official tax forms and other information necessary to enable them to account for their respective distributive shares of the items in their own tax returns.

2. Taxpayer Identification Number. In connection with the Company's organization, application will be made for a federal taxpayer identification number. The Company must use the number on all federal and state tax forms.

3. Tax Withholding. The Company is required to withhold and pay over to the Internal Revenue Service a percentage of the compensation it pays to each employee. The percentage required to be withheld is determined with reference to the number of income tax exemptions the employee has claimed and the current Social Security and Medicare tax rates. The employee indicates the number of income tax exemptions to which he or she is entitled on

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Form W-4. The tax tables, reporting and payment dates, and procedures and other pertinent information are contained in Circular E – Employer's Tax Guide, published by the Internal Revenue Service and available at its local office. Pending remittance, funds withheld should be considered trust funds and should not be used for the Company's purposes. Failure to remit these funds will subject the responsible member or members to heavy fines.

4. Sales and Use Taxes. If the Company sells goods at retail or offers certain types of services in Alaska, it may have to collect and remit sales tax. If the Company purchases or leases tangible personal property at retail in a transaction that is not subject to sales tax, and if it stores, uses or consumes the property in Alaska, it may be subject to use tax. Withholdings for sales or use taxes should be considered trust funds that are not to be used for Company purposes. Failure to collect and remit these taxes may result in personal liability for the amount of the tax.

5. Property Tax. If the Company owns property located in Alaska, it may be subject to property taxes. Generally, the tax is based on the assessed value of the property. The Company should receive notice of the assessed value and of the amount and due date of the tax.

6. Excise Taxes. Numerous excise taxes apply to specific types of businesses and products. Information concerning and forms for filing, paying, and applying for exemption from excises taxes may be obtained from the local office of the Internal Revenue Service.

Transacting Business in Other States

If the Company decides to do business in a state other than Alaska, it should first obtain and file the necessary registration materials and wait until it receives confirmation of its qualification to do business. Failure to comply with the required procedures for qualification may result in the imposition of penalties and the loss of protection against member liability.

Generally, the Company will be regarded as "doing business" in another state for purposes of the registration requirements if it is actively engaged in the jurisdiction in pursuit of profit or gain. If the Company has sufficient business contact in the jurisdiction to require registration, it will also be subject to the jurisdiction's tax laws.

Dissolution

1. Events of Dissolution. The Company will dissolve upon the first to occur of:

(a) any event enumerated in Article IV of the Articles of Organization;

(b) the vote of the members to dissolve the Company;

(c) any event that makes the Company ineligible to conduct its activities as a limited liability company under Alaska law; or

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(d) any event or circumstance that makes it unlawful or impossible for the Company to carry on its business.

2. Effect of Dissolution. Upon the Company's dissolution, after its debts have been paid or otherwise satisfied, the Company will distribute any of its remaining assets to the members in proportion to their capital accounts, adjusted to reflect their distributive shares of any gain or loss recognized during the winding-up phase or inherent in any of the Company's assets that are distributed in kind.

It is important to note that unless the members' membership interests are in proportion to their contributions to capital, liquidating distributions may be made in shares that do not correspond to their percentage interests in the Company's profit and loss. Therefore, the inclusion of a provision in the Company's governing documents requiring that liquidating distributions be made in accordance with membership interests rather than capital accounts may have adverse income tax consequences.

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