written consent shall be delivered to the Members of the Company for inclusion in the minutes or for filing with the Company records. Action taken by written consent under this Section shall be effective on the date the required percentage or number of the Members have signed and delivered the consent to all Members, unless the consent specifies a different effective date. The record date for determining Members entitled to take action without a meeting shall be the date the written consent is circulated to the Members.

6.11. *Telephonic Communication*. Members may participate in and hold a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such meeting shall constitute attendance and presence in person, except where the Member participates in the meeting for the express purpose of objecting to the transaction of any business on the ground the meeting is not lawfully called or convened.

6.12. *Waiver of Notice*. When any notice is required to be given to any Member, a waiver thereof in writing signed by the Person entitled to such notice, whether before, at, or after the time stated therein, shall be equivalent to the giving of such notice.

Section VII
Transfers and Withdrawals

7.1. *Transfers*. Except as otherwise provided in this Section VII no Member may Transfer all, or any portion of, or any interest or rights in, the Membership Rights owned by the Member, and no Interest Holder may Transfer all, or any portion of, or any interest or rights in, any Interest without the prior written consent of the other Members, which consent may be withheld in the Members' sole and absolute discretion. Any sale or foreclosure of a security interest will itself constitute a Transfer independent of the grant of security. Each Member hereby acknowledges the reasonableness of this prohibition in view of the purposes of the Company and the relationship of the Members. The Transfer of any Membership Rights or Interests in violation of the prohibition contained in this Section shall be deemed invalid, null, and void, and of no force or effect. Any Person to whom Membership Rights or an Interest are attempted to be transferred in violation of this Section shall not be entitled to vote on matters coming before the Members, participate in the management of the Company, act as an agent of the Company, receive allocations or distributions from the Company, or have any other rights in or with respect to the Membership Rights or Interest.

7.2. *Withdrawal*. Except as otherwise provided in this Agreement, no Member shall have the right to withdraw from the Company. Any such withdrawal shall constitute a material breach of this Agreement and the Company shall have the right to recover damages from the withdrawn member and to offset the damages against any amounts otherwise distributable to such Member under this Agreement.

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7.3. *Option on Death, Bankruptcy or Involuntary Transfer*. On the death, bankruptcy, or similar event (whether voluntary or involuntary) of a Member or Interest Holder, and upon any Involuntary Transfer, the Member or Interest Holder (or such Person's estate) shall offer, or shall automatically be deemed to have offered, to sell the Member's or Interest Holder's Interest to the Company or its nominee. Upon the approval of a Majority of the Members other than the offering Member, the Company or its nominee shall have the right and option, within seventy-five (75) days after the Members' actual knowledge of the death, bankruptcy, or similar event, to acquire the Interest, for the purchase price and on the terms set forth in **Exhibit C** attached hereto and made a part hereof. If the Interest is not purchased by the Company or its nominee, the Interest shall be transferred to the assignee of the Interest but shall remain fully subject to and bound by the terms of this Agreement.

7.4. *No Transfer of Membership Rights*. The Transfer of an Interest shall not result in the Transfer of any of the Transferring Member's other Membership Rights, if any, and unless the transferee is admitted as a Member pursuant to Section VII of this Agreement, the transferee shall only be entitled to receive, to the extent transferred, the share of distributions, including distributions representing the return of contributions, and the allocation of Profits and Losses (and other items of income, gain, or deduction), to which the Transferring Member would have otherwise been entitled with respect to the Transferring Member's Interest. The transferee shall have no right to participate in the management of the business and affairs of the Company or to become or to exercise any rights of a Member.

7.5. *Substitute Members*. Notwithstanding any provision of this Agreement to the contrary, an assignee of a Member may only be admitted as a substitute Member upon the written consent of a Majority of the non-transferring Members, which consent may be withheld in the Members' sole and absolute discretion.

7.6. *Additional Members*. The Company shall not issue additional Interests after the date of formation of the Company without the written consent or approval of a Majority of the Members, which consent may be withheld in the Members' sole and absolute discretion.

7.7. *Expenses*. Expenses of the Company or of any Interest Holder occasioned by transfers of Interests shall be reimbursed to the Company or Interest Holder, as the case may be, by the transferee.

7.8. *Distributions on Withdrawal*. Upon the occurrence of an Event of Withdrawal with respect to a Member, the withdrawn Member shall not be entitled to receive a withdrawal distribution but the withdrawn Member (or the withdrawn Member's

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personal representatives, successors, and assigns) shall be entitled to receive the share of distributions, including distributions representing a return of Capital Contributions, and the allocation of Profits and Losses, to which the withdrawn Member otherwise would have been entitled if the Event of Withdrawal had not occurred, during the continuation of the business of the Company and during and on completion of winding up. If the Event of Withdrawal violated this Agreement, the distributions paid to the withdrawn Member shall be offset by any damages suffered by the Company or its Members as a result of the Event of Withdrawal.

Section VIII
Dissolution and Termination

8.1. *Dissolution.*

8.1.1. *Events of Dissolution.* The Company will be dissolved upon the occurrence of any of the following events:

8.1.1.1. Upon the written consent of a Majority of the Members;

8.1.1.2. Upon the entry of a decree of dissolution under Section 10.50.405 of the Act or an administrative dissolution under Section 10.50.408 of the Act;

8.1.1.3. Upon the sale or other disposition of all or substantially all of the Company's assets and receipt by the Company of the proceeds therefrom; or

8.1.1.4. Upon the occurrence of an Event of Withdrawal of the last remaining Member unless within ninety (90) days all assignees of Interests in the Company consent in writing to admit at least one member to continue the business of the company.

8.2. *Continuation.* An Event of Withdrawal with respect to a Member shall not cause dissolution, and the Company shall automatically continue following such an Event of Withdrawal.

8.3. *Distributions and Other Matters.* The Company shall not terminate until its affairs have been wound up and its assets distributed as provided herein. Promptly upon the dissolution of the Company, the Members shall cause to be executed and filed a Notice of Winding Up with the Alaska Department of Commerce, Community, and Economic Development, and will liquidate the assets of the Company and apply and distribute the proceeds of such liquidation, or distribute the Company's assets in kind, as follows and in the following order:

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8.3.1. *Ordinary Debts*. To payment of the debts and liabilities of the Company, including debts owed to Interest Holders, in the order of priority provided by law; provided that the Company shall first pay, to the extent permitted by law, liabilities with respect to which any Interest Holder is or may be personally liable;

8.3.2. *Reserves and Distributions*. To the setting up of such reserves as the Members may deem reasonably necessary for any contingent or unforeseen liabilities or obligations of the Company arising out of or in connection with the Company business;

8.3.3. *Remainder*. The balance of the proceeds shall be distributed to the Interest Holders in accordance with the positive balance in their Capital Accounts, determined as though all of the Company assets were sold for cash at their fair market value as of the date of distribution. Any such distributions shall be made in accordance with the timing requirements of Treasury Regulation Section 1.704-1(b)(2)(ii)(b)(2).

8.4. *Deficit Capital Accounts*. Notwithstanding anything to the contrary in this Agreement, if any Interest Holder's Capital Account has a deficit balance (taking into account all contributions, distributions, and allocations for the year in which a liquidation occurs), the Interest Holder shall not be obligated to make any contribution to the capital of the Company and the negative balance of such Interest Holder's Capital Account shall not be considered a debt owed by the Interest Holder to the Company or to any other person for any purpose whatsoever.

8.5. *Rights of Interest Holders—Distributions of Property*. Except as otherwise provided in this Agreement, each Interest Holder shall look solely to the assets of the Company for the return of his or her Capital Contribution and shall have no right or power to demand or receive property other than cash from the Company. No Interest Holder shall have priority over any other Interest Holder for the return of his or her Capital Contributions, distributions, or allocations.

8.6. *Articles of Termination*. When all the assets of the Company have been distributed as provided herein, the Members shall cause to be executed and filed Articles of Termination as required by the Act.

Section IX
Other Interests of an Interest Holder

Any Interest Holder may engage in or possess interests in other business ventures of every nature and description, independently or with others. Neither the Company nor any Interest Holder shall have any right to any independent ventures of any other Interest Holder or to the income or profits derived therefrom. The fact that an Interest Holder, a member of his or her Family, or an Affiliate is employed by, or owns, or is otherwise

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directly or indirectly interested in or connected with, any person, firm, or corporation employed or retained by the Company to render or perform services, including without limitation, management, contracting, mortgage placement, financing, brokerage, or other services, or from whom the Company may buy property or merchandise, borrow money, arrange financing, or place securities, or may lease real property to or from the Company, shall not prohibit the Company from entering into contracts with or employing that person, firm, or corporation or otherwise dealing with him or it, and neither the Company nor any of the Interest Holders as such shall have any rights in or to any income or Profits derived therefrom.

Section X
Indemnity

10.1. *Indemnity Rights*. The Company shall indemnify each Interest Holder who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, by reason of his or her actions as an Interest Holder or by reason of his or her acts while serving at the request of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses, including attorneys' fees, and against judgments, fines, and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit, or proceeding, provided that the acts of such Interest Holder were not committed with gross negligence or willful misconduct, and, with respect to any criminal action or proceeding, such Interest Holder had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, or conviction, or upon a plea of no contest or its equivalent, shall not, in and of itself, create a presumption that the Interest Holder acted with gross negligence or willful misconduct, or with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

10.2. *Notice and Defense*. Any Interest Holder who is or may be entitled to indemnification shall give timely written notice to the Company, the Interest Holders that a claim has been or is about to be made against him or her, shall permit the Company to defend him or her through legal counsel of its own choosing, and shall cooperate with the Company in defending against the claim. The Interest Holder shall have the sole power and authority to determine the terms and conditions of any settlement of the claim.

10.3. *Other Sources*. The indemnification provided for herein shall apply only in the event, and to the extent that, the person is not entitled to indemnification, or other payment, from any other source (including insurance), and the Company's indemnity obligations hereunder shall be in excess of any indemnification or other payment provided by such other source.

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10.4. *Survival.* The indemnification provided for herein shall continue as to a person who has ceased to be an Interest Holder and shall inure to the benefit of the heirs, executors, and administrators of such person.

Section XI
Miscellaneous

11.1. *Notices*. Any notice, demand, offer, or other communication which any person is required or may desire to give to any other person shall be delivered in person or by United States mail, electronic mail, facsimile, or overnight or next-day delivery service. If mailed, such notice shall be deemed to be delivered two (2) days after being deposited in the United States mail, postage prepaid, addressed to the person at his or her address as it appears on the books of the Company. If transmitted by way of electronic mail or facsimile, such notice shall be deemed to be delivered on the date of such electronic mail or facsimile transmission to the electronic mail address or facsimile number, if any, for the person which has been supplied by such person and identified as such person's electronic mail address or facsimile number. If transmitted by overnight or next-day delivery, such notice shall be deemed to be delivered on the next business day after deposit with the delivery service addressed to the person at his or her address as it appears on the books of the Company.

11.2. *Bank Accounts*. All funds of the Company shall be deposited in a bank account or accounts opened in the Company's name. The Manager shall determine the institution or institutions at which the accounts will be opened and maintained, the types of accounts, and the Persons who will have authority with respect to the accounts and the funds therein.

11.3. *Partial Invalidity*. The invalidity of any portion of this Agreement will not affect the validity of the remainder hereof.

11.4. *Governing Law; Parties in Interest*. This Agreement will be governed by and construed according to the laws of the State of Alaska without regard to conflicts of law principles and will bind and inure to the benefit of the heirs, successors, assigns, and personal representatives of the parties.

11.5. *Execution in Counterparts*. This Agreement may be executed in counterparts, all of which taken together shall be deemed one original.

11.6. *Titles and Captions*. All article, section, or paragraph titles or captions contained in this Agreement are for convenience only and are not deemed part of the context thereof.

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11.7. *Pronouns and Plurals*. All pronouns and any variations thereof are deemed to refer to the masculine, feminine, neuter, singular, or plural as the identity of the person or persons may require.

11.8. *Waiver of Action for Partition*. Each of the Interest Holders irrevocably waive any right that he or she may have to maintain any action for partition with respect to any of the Company Property.

11.9. *Entire Agreement*. This Agreement contains the entire understanding between the parties, and supersedes any prior understandings and agreements between or among them with respect to the subject matter hereof.

11.10. *Estoppel Certificate*. Each Member shall, within ten (10) days after written request by any Member or the Members, deliver to the requesting Person a certificate stating, to the Member's knowledge, that: (a) this Agreement is in full force and effect; (b) this Agreement has not been modified except by any instrument or instruments identified in the certificate; and (c) there is no default hereunder by the requesting Person, or if there is a default, the nature and extent thereof.

Section XII
Arbitration

If the parties are unable to resolve any dispute arising out of this Agreement either during or after its term informally, including the question as to whether any particular matter is arbitrable, the parties agree to submit the matter to binding arbitration. In the event the parties have not agreed upon an arbitrator within twenty (20) days after either party has demanded arbitration, either party may file a demand for arbitration with an Alaska regional office of the American Arbitration Association ("AAA") and a single arbitrator shall be appointed in accordance with the then existing Commercial Arbitration Rules of the AAA. At all times during arbitration, the arbitrator shall consider that the purpose of arbitration is to provide for the efficient and inexpensive resolution of disputes, and the arbitrator shall limit discovery whenever appropriate to insure that this purpose is preserved. The dispute between the parties shall be submitted for determination within sixty (60) days after the arbitrator has been selected. The decision of the arbitrator shall be rendered within thirty (30) days after the conclusion of the arbitration hearing. The decision of the arbitrator shall be in writing and shall specify the factual and legal basis for the decision. Upon stipulation of the parties, or upon a showing of good cause by either party, the arbitrator may lengthen or shorten the time periods set forth herein for conducting the hearing or for rendering a decision. The decision of the arbitrator shall be final and binding upon the parties. Judgment to enforce the decision of the arbitrator, whether for legal or equitable relief, may be entered in any court having jurisdiction thereof, and the parties

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hereto expressly and irrevocably consent to the jurisdiction of the Alaska Courts for such purpose. The arbitrator shall conduct all proceedings pursuant to the then existing Commercial Arbitration Rules of the AAA, to the extent such rules are not inconsistent with the provisions of this Article III. The AAA Uniform Rules of Procedure shall not apply to any arbitration proceeding relating to the subject matter or terms of the documents. In the event a dispute is submitted to arbitration pursuant to this Section, the prevailing party shall be entitled to the payment of its reasonable attorneys' fees and costs, as determined by the arbitrator. Each of the parties shall keep all disputes and arbitration proceedings strictly confidential, except for disclosures of information required by applicable law or regulation.

Section XIII
Agreement of Spouses of Members

By executing this Agreement, the spouse of each Interest Holder acknowledges and consents to the terms and conditions of this Agreement and agrees, for himself or herself and for the community of himself and herself and the Interest Holder, to be bound hereby. Each spouse of an Interest Holder, for himself or herself and the community of which he or she is a member, hereby irrevocably appoints the Interest Holder as attorney-in-fact with an irrevocable proxy coupled with an Interest to vote on any matter to come before the Members or to agree to and execute any amendments of this Agreement without further consent or acknowledgment of the spouse and to execute proxies, instruments, or documents in the spouse's name as may be required to effect the same. This power of attorney is intended to be durable and shall not be affected by disability of the spouse.

Section XIV
Representation

The parties hereby acknowledge that (i) JDW, LLC (the "Firm") has represented Alaskan Grown Products, LLC in connection with the drafting of this Operating Agreement; (ii) that each of the signatories has been advised to seek independent counsel in connection with such matters; and (iii) that the Firm does not represent any Member individually either directly or indirectly, but rather represents the Company. Payment of the Firm's fees by the Company shall not alter or amend any of the relationships.

IN WITNESS WHEREOF, the Members have executed this Operating Agreement, effective as of the date first set forth above.

Signatures of the Members follow on Page 21.

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MEMBERS:

Kalla Peacock

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EXHIBIT A

Members, Capital Contributions, and Interest

Member	Initial Capital Contribution	Current Capital Account	Percentage Interest
Kalla Peacock	_____		100.00%
TOTAL			**100.00%**

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EXHIBIT B

Tax Matters

1. *Definitions*. The capitalized words and phrases used in this **Exhibit B** shall have the following meanings:

1.1. *"Adjusted Book Value"* means with respect to Company Property, the Property's Initial Book Value with the adjustments required under this Agreement.

1.2. *"Adjusted Capital Account Deficit"* means, with respect to any Interest Holder, the deficit balance, if any, in the Interest Holder's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

1.2.1. the Capital Account shall be increased by the amounts which the Interest Holder is obligated to restore under this Agreement or is deemed obligated to restore pursuant to Regulation Sections 1.704-2(g)(1) and (i)(5) (i.e., the Interest Holder's share of Minimum Gain and Member Minimum Gain); and

1.2.2. the Capital Account shall be decreased by the items described in Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

This definition of Adjusted Capital Account Deficit is intended to comply with Section 1.704-1(b)(2)(ii)(d) of the Treasury Regulations and shall be interpreted and applied in a manner consistent with that Regulation.

1.3. "Capital Account" means the account maintained by the Company for each Interest Holder in accordance with the following provisions:

1.3.1. An Interest Holder's Capital Account shall be credited with the amount of money contributed by the Interest Holder to the Company; the fair market value of the Property contributed by the Interest Holder to the Company (net of liabilities secured by such contributed Property that the Company is considered to assume or take subject to under Section 752 of the Code); the Interest Holder's allocable share of Profit and items of income and gain; and the amount of Company liabilities that are assumed by the Interest Holder under Regulation Section 1.704-1(b)(2)(iv)(c);

1.3.2. An Interest Holder's Capital Account shall be debited with the amount of money distributed to the Interest Holder; the fair market value of any Company property distributed to the Interest Holder (net of liabilities secured by such distributed Property that the Interest Holder is considered to assume or take subject to under Section 752 of the Code); the Interest Holder's allocable share of Loss and items of deduction; and the amount

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of the Interest Holder's liabilities that are assumed by the Company under Regulation Section 1.704-1(b)(2)(iv)(c);

1.3.3. If Company Property is distributed to an Interest Holder, the Capital Accounts of all Interest Holders shall be adjusted as if the distributed Property had been sold in a taxable disposition for the gross fair market value of such Property on the date of distribution (taking into account Section 7701 of the Code) and the Profit or Loss from such disposition allocated to the Interest Holders as provided in this **Exhibit B**.

1.3.4. If money or other Property (other than a *de minimis* amount) is (a) contributed to the Company by a new or existing Interest Holder in exchange for an interest in the Company; or (b) distributed by the Company to a retiring or continuing Interest Holder as consideration for an interest in the Company; then, if the Members deem such an adjustment to be necessary to reflect the economic interests of the Interest Holders, the Book Value of the Company's Property shall be adjusted to equal its gross fair market value on such date (taking into account Section 7701(g) of the Code) and the Capital Accounts of all Interest Holders shall be adjusted in the same manner as if all the Company Property had been sold in a taxable disposition for such amount on such date and the Profit or Loss allocated to the Interest Holders as provided in this **Exhibit B**.

1.3.5. To the extent an adjustment to the tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the Book Value of the Company's Property and the Capital Account of the Interest Holders shall be adjusted in a manner consistent with the manner in which the Capital Accounts are required to be adjusted pursuant to that Section of the Regulations.

1.3.6. If any Interest is transferred pursuant to the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent the Capital Account is attributable to the transferred Interest. It is intended that the Capital Accounts of all Interest Holders shall be maintained in compliance with the provisions of Regulation Section 1.704-1(b), and all provisions of this Agreement relating to the maintenance of Capital Accounts or the Adjusted Book Value of Company Property shall be interpreted and applied in a manner consistent with that Section of the Regulations.

1.4. *"Code"* means the Internal Revenue Code of 1986, as amended, or any corresponding provision of any succeeding law.

1.5. *"Company Minimum Gain"* has the meaning set forth in Regulation Section 1.704-2(b)(2) for "partnership minimum gain."

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1.6. *"Initial Book Value"* means, with respect to Property contributed to the Company by an Interest Holder, the Property's fair market value at the time of contribution and, with respect to all other Property, the Property's adjusted basis for federal income tax purposes at the time of acquisition.

1.7. *"Member Nonrecourse Debt"* has the meaning set forth in Section 1.704-2(b)(4) of the Treasury Regulations for "partner nonrecourse debt."

1.8. *"Member Nonrecourse Debt Minimum Gain"* has the meaning set forth in Regulation Section 1.704-2(i) for "partner nonrecourse debt minimum gain."

1.9. *"Member Nonrecourse Deductions"* has the meaning set forth in Regulation Section 1.704-2(i) for "partner nonrecourse deductions."

1.10. *"Nonrecourse Deductions"* has the meaning set forth in Regulation Section 1.704-2(b)(1). The amount of Nonrecourse Deductions shall be determined according to the provisions of Regulation Section 1.704-2(c).

1.11. *"Nonrecourse Liability"* has the meaning set forth in Regulation Section 1.704-2(b)(3).

1.12. *"Profit" and "Loss"* means, for each Fiscal Year of the Company (or other period for which Profit or Loss must be computed), the Company's taxable income or loss determined in accordance with Code Section 703(a), with the following adjustments:

1.12.1. All items of income, gain, loss, deduction, or credit required to be stated separately pursuant to Code Section 703(a)(1) shall be included in computing taxable income or loss;

1.12.2. Any tax-exempt income of the Company, not otherwise taken into account in computing Profit or Loss, shall be included in computing Profit or Loss;

1.12.3. Any expenditures of the Company described in Code Section 705(a)(2)(B) (or treated as such pursuant to Regulation Section 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing Profit or Loss, shall be included in computing Profit or Loss;

1.12.4. If the Adjusted Book Value of Company Property differs from its adjusted basis for federal income tax purposes, then gain or loss resulting from any taxable disposition of Company property shall be computed by reference to the Adjusted Book Value of the Property disposed of rather than the adjusted basis of the property for federal income tax purposes;

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1.12.5. If the Adjusted Book Value of Company Property differs from its adjusted basis for federal income tax purposes, then in lieu of the depreciation, amortization, or cost recovery deductions allowable in computing taxable income or loss, the depreciation, amortization (or other cost recovery deduction) shall be an amount that bears the same ratio to the Adjusted Book Value of such Property as depreciation, amortization (or other cost recovery deduction) computed for federal income tax purposes for such period bears to the adjusted tax basis of such Property. If the Property has a zero adjusted tax basis, the depreciation, amortization (or other cost recovery deduction) of such Property shall be determined under any reasonable method selected by the Company; and

1.12.6. Any items that are specially allocated pursuant to Sections 2.3 and 2.4 hereof shall not be taken into account in computing Profit or Loss.

1.13. "Treasury Regulations" or "Regulations" means the income tax regulations, including any temporary regulations, promulgated under the Code as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

2. *Allocations*. After making any special allocations contained in Section 2.5, remaining Profits and Losses shall be allocated for any Fiscal Year in the following manner:

2.1. *Profits*.

2.1.1. First, Profits shall be allocated among the Interest Holders in proportion to the cumulative Losses previously allocated to the Interest Holder under Section 2.2.3 until the cumulative Profits allocated to each Interest Holder under this subparagraph equal the cumulative Losses previously allocated to each Interest Holder under Section 2.2.3;

2.1.2. Second, Profits shall be allocated proportionately among the Interest Holders until the cumulative Profits allocated to each Interest Holder under this subparagraph equal the cumulative Priority Return each Interest Holder has received through the end of the Fiscal Year plus Losses, if any, allocated to the Interest Holder under Section 2.2.2; and

2.1.3. Third, Profits shall be allocated to the Interest Holders in accordance with their Percentage Interests.

2.2. *Losses*.

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2.2.1. First, Losses shall be allocated to the Interest Holders in proportion to the cumulative Profits previously allocated to the Interest Holders under Section 2.1.3 until the cumulative Losses allocated pursuant to this subparagraph to each Interest Holder are equal to the cumulative Profits previously allocated to each Interest Holder under Section 2.1.3.

2.2.2. Second, Losses shall be allocated to the Interest Holders in proportion to the cumulative Profits previously allocated to the Interest Holders under Section 2.1.2 until the cumulative Losses allocated pursuant to this subparagraph to each Interest Holder are equal to the cumulative Profits previously allocated to each Interest Holder under Section 2.1.2; and

2.2.3. Third, Losses shall be allocated to the Interest Holders in accordance with their Percentage Interests.

2.3. *Loss Limitations.*

2.3.1. *Adjusted Capital Account Deficit.* No Losses shall be allocated to any Interest Holder pursuant to Section 2.1 if the allocation causes the Interest Holder to have an Adjusted Capital Account Deficit or increases the Interest Holder's Capital Account Deficit. All Losses in excess of the limitations set forth in this Subsection shall be allocated to the other Interest Holders in accordance with the other Interest Holders' Percentage Interests until all Interest Holders are subject to the limitation of this Subsection, and thereafter, in accordance with the Interest Holders' interest in the Company as determined by the Members. If any Losses are allocated to an Interest Holder because of this Subsection, then notwithstanding any other provision of this Agreement, all subsequent Profits shall be allocated to the Interest Holders pro rata based on Losses allocated to them pursuant to this Subsection until each Interest Holder has been allocated an amount of Profits pursuant to this Subsection equal to the Losses previously allocated to that Interest Holder under this Subsection.

2.3.2. *Cash Method Limitation.* If the Company is on the cash method of accounting and more than 35% of the Company's Losses in any year would be allocable to Interest Holders who are limited entrepreneurs (within the meaning of § 464(e)(2) of the Code), then except as otherwise provided in Section 2.2.1, the Losses in excess of 35% otherwise allocable to those Interest Holders shall be specially allocated among the other Interest Holders in the ratio that each shares in Losses. If any Losses are allocated to an Interest Holder under this Subsection, then notwithstanding any other provision of this Agreement, all subsequent Profits shall be allocated to the Interest Holders pro rata based on Losses allocated to them pursuant to this Subsection until each Interest Holder has been allocated an amount of Profits pursuant to this Subsection in the current and previous Fiscal

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Years equal to the Losses allocated to that Interest Holder pursuant to this Subsection in previous Fiscal Years.

2.4. *Section 704(c) Allocations.*

2.4.1. *Contributed Property.* In accordance with Code Section 704(c) and the Regulations thereunder, as well as Regulation Section 1.704-1(b)(2)(iv)(d)(3), income, gain, loss, and deduction with respect to any property contributed (or deemed contributed) to the Company shall, solely for tax purposes, be allocated among the Interest Holders so as to take account of any variation between the adjusted basis of the property to the Company for federal income tax purposes and its fair market value at the date of contribution (or deemed contribution).

2.4.2. *Adjustments to Book Value.* If the Adjusted Book Value of any Company asset is adjusted as provided in clause (iv) of the definition of Capital Account, subsequent allocations of income, gain, loss, and deduction with respect to the asset shall, solely for tax purposes, take account of any variation between the adjusted basis of the asset for federal income tax purposes and its adjusted book value in the manner as provided under Code Section 704(c) and the Regulations thereunder.

2.5. *Regulatory Allocations.* The following allocations shall be made in the following order:

2.5.1. *Company Minimum Gain Chargeback.* Except as set forth in Regulation Section 1.704-2(f)(2), (3), (4), and (5), if during any Fiscal Year there is a net decrease in Company Minimum Gain, each Interest Holder, prior to any other allocation pursuant to this Section IV, shall be specially allocated items of gross income and gain for such taxable year (and, if necessary, succeeding taxable years) in an amount equal to that Interest Holder's share of the net decrease of Company Minimum Gain, computed in accordance with Regulation Section 1.704-2(g)(2). Allocations of gross income and gain pursuant to this Subsection shall be made first from gain recognized from the disposition of Company assets subject to Nonrecourse Liabilities to the extent of the Minimum Gain attributable to those assets and, thereafter, from a pro rata portion of the Company's other items of income and gain for the taxable year. It is the intent of the parties hereto that any allocation pursuant to this Subsection shall constitute a "minimum gain chargeback" under Regulation Section 1.704-2(f).

2.5.2. *Member Nonrecourse Debt Minimum Gain Chargeback.* Except as set forth in Regulation Section 1.704-2(i)(4), if during any Fiscal Year there is a net decrease in Member Nonrecourse Debt Minimum Gain, each Interest Holder with a share of that Member Nonrecourse Debt Minimum Gain (determined under Regulation Section 1.704-2(i)(5)) as of the beginning of the Fiscal Year shall be specially allocated items of

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income and gain for such Fiscal Year (and, if necessary, succeeding Fiscal Years) in an amount equal to that Interest Holder's share of the net decrease in Member Nonrecourse Debt Minimum Gain, computed in accordance with Regulation Section 1.704-2(i)(4). Allocations of gross income and gain pursuant to this Subsection shall be made first from gain recognized from the disposition of Company assets subject to Member Nonrecourse Debt to the extent of the Member Minimum Gain attributable to those assets and, thereafter, from a pro rata portion of the Company's other items of income and gain for the Fiscal Year. It is the intent of the parties hereto that any allocation pursuant to this Subsection shall constitute a "minimum gain chargeback" under Regulation Section 1.704-2(i)(4).

2.53. *Qualified Income Offset*. If an Interest Holder unexpectedly receives an adjustment, allocation, or distribution described in Regulation Section 1.704-1(b)(2)(ii)(d)(4), (5), or (6), then to the extent required under Regulations Section 1.704-1(b)(2)(d), such Interest Holder shall be allocated items of income and gain of the Company (consisting of a pro rata portion of each item of Company income, including gross income and gain for that Fiscal Year) before any other allocation is made of Company items for that Fiscal Year, in the amount and in proportions required to eliminate the Interest Holder's Adjusted Capital Account Deficit as quickly as possible. This Subsection is intended to comply with, and shall be interpreted consistently with, the "qualified income offset" provisions of the Regulations promulgated under Code Section 704(b).

2.54. *Nonrecourse Deductions*. Nonrecourse Deductions for a Fiscal Year or other period shall be allocated among the Interest Holders in proportion to their Percentage Interests.

2.55. *Member Nonrecourse Deductions*. Any Member Nonrecourse Deduction for any Fiscal Year or other period attributable to a Member Nonrecourse Liability shall be allocated to the Interest Holder who bears the risk of loss for the Member Nonrecourse Debt in accordance with Regulation Section 1.704-2(i).

2.56. *Regulatory Allocations*. The allocations contained in Section 2.5 are contained herein to comply with the Regulations under Section 704(b) of the Code. In allocating other items of Profit or Loss, the allocations contained in Section 2.5 shall be taken into account so that to the maximum extent possible the net amount of Profit or Loss allocated to each Interest Holder will be equal to the amount that would have been allocated to each Interest Holder if the allocations contained in Section 2.4 had not been made.

2.6. *Varying Interests; Allocations in Respect to Transferred Interests*. Profits, Losses, and other items shall be calculated on a monthly, daily, or other basis permitted under Code Section 706 and the Regulations. If any Interest is sold, assigned, or transferred in compliance with the provisions of this Agreement, profits, losses, each item thereof, and all other items attributable to such Interest for such period shall be divided and allocated

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between the transferor and the transferee by taking into account their varying interests during the period in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Company.

2.7. *Tax Matters Partner*. The Manager shall be the Company's tax matters partner ("Tax Matters Partner") unless the Members designate a different Person to serve in this capacity. The Tax Matters Partner shall have all powers and responsibilities provided in Code Section 6221, et seq. The Tax Matters Partner shall keep all Members informed of all notices from government taxing authorities which may come to the attention of the Tax Matters Partner. The Company shall pay and be responsible for all reasonable third-party costs and expenses incurred by the Tax Matters Partner in performing those duties. The Company shall be responsible for any costs incurred by any Member with respect to a tax audit or tax-related administrative or judicial proceeding against the Member. The Tax Matters Partner shall not compromise any dispute with the Internal Revenue Service without the approval of the Members.

2.8. *Returns and Other Elections*. The Manager shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns deemed necessary and required in each jurisdiction in which the Company does business.

2.9. *Annual Accounting Period*. The annual accounting period of the Company shall be its Fiscal Year. The Company's Fiscal Year shall be selected by the Manager, subject to the requirements and limitations of the Code.

2.10. *Knowledge*. The Interest Holders acknowledge that they understand the economic and income tax consequences of the allocations and distributions under this Agreement and agree to be bound by the provisions of this **Exhibit B** in reporting their taxable income and loss from the Company.

2.11. *Amendment*. The Manager is hereby authorized, upon the advice of the Company's tax counsel, to amend this **Exhibit B** to comply with the Code and the Regulations promulgated under Code Section 704(b); provided, however, that no amendment shall materially affect the distributions to an Interest Holder without the Interest Holder's prior written consent.

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EXHIBIT C

Formula For Determining The Purchase Price Of A Member's Interest And Payment Terms Pursuant To Section VII

When required pursuant to Section VII of this Agreement, the value of an Interest will be determined by a valuation professional accredited in business valuation by the AICPA or American Society of Appraisers ("Appraiser"). Such Appraiser shall be jointly selected by the Company and the offering Member, Interest Holder, or such Person's estate (the "Offering Member") within fifteen (15) days after the other Members' actual knowledge of the Offering Member's death or bankruptcy. The cost of the Appraiser shall be borne equally by the Company and the Offering Member. If a mutually satisfactory Appraiser cannot be selected, then the Company and the Offering Member each shall select and pay for its own Appraiser and the two Appraisers shall attempt to reconcile their valuations to arrive at a single valuation. If they are unable to do so, they shall jointly select a third Appraiser to value the Offering Member's Interest. The cost of the third Appraiser shall be borne equally by the Company and the Offering Member. The three Appraisers shall attempt to reconcile their valuations to arrive at a single valuation. If they are unable to do so, then the middle of the three appraisals shall be used as the valuation. The standard of value shall be fair market value.

If applicable, each party shall appoint its Appraiser within seven (7) days after the parties determine they cannot agree on a single Appraiser. The two Appraisers appointed shall select a third Appraiser within seven (7) days after they determine they cannot agree on a single valuation. The Appraisers shall be instructed to provide their valuations within thirty (30) days after their appointment.

Payment of the Offering Member's Interest shall be due and payable by the Company as follows: ten percent (10%) in cash within sixty (60) days after acceptance by the Company of the offer to purchase the Offering Member's Interest and the balance in ten (10) equal semi-annual installments commencing on the six (6) month anniversary of the initial down payment, together with interest on the unpaid balance from time to time outstanding until paid at the prime rate of interest reported by *The Wall Street Journal - Western Edition* (such rate to be determined and fixed as of the date of the initial payment hereunder), payable at the same time as and in addition to the installments of principal.

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OPERATING AGREEMENT

Alaskan Grown Products, LLC
an Alaska limited liability company

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