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2006-001708-0

Recording Dist: 102 - Ketchikan

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SUBORDINATION AGREEMENT

This Subordination Agreement ("this Agreement"), made and entered into this 1 day of May, 2006 by, between and among **KETCHIKAN PULP COMPANY**, a Washington corporation, Post Office Box 6600, Ketchikan, Alaska 99901 ("KPC"), the **KETCHIKAN GATEWAY BOROUGH**, a municipal corporation, 344 Front Street, Ketchikan, Alaska 99501 ("Borough"), for the benefit of the **STATE OF ALASKA**, whose address is State of Alaska, Department of Natural Resources, Division of Mining, Land and Water, Realty Services Section, 550 West Seventh Avenue, Suite 1050A, Anchorage, Alaska 99501-3579 ("State"), WITNESSETH:

RECITALS

WHEREAS, all real property referred to in this Agreement is located in, and all documents and plats referred as filed or recorded, are filed or recorded in the Ketchikan Recording District, First Judicial District, State of Alaska;

WHEREAS, by Quitclaim Deed executed on or about July 11, 2003 and recorded July 18, 2003 under Ketchikan Recording District Serial No. 2003-004125-0 ("the USS 3400 Quitclaim"), KPC quitclaimed to the Borough parcels of real property and related interests, including fee ownership of U. S. Survey 3400;

WHEREAS, the USS 3400 Quitclaim set forth the following Acknowledgment and Acceptance of Conveyance ("Borough Acceptance"), which was duly executed on behalf of the Borough on or around July 14, 2003:

The Ketchikan Gateway Borough ("Borough") hereby acknowledges and accepts the conveyance from

Ketchikan Pulp Company ("KPC"), set forth in the within and foregoing Quitclaim Deed, of KPC's right, title and interest in and to U.S. Survey 3400..., which conveyance and acceptance is subject to (1) the reservations stated therein; and, (2) the terms and conditions of the Agreement by and between the Borough and KPC dated July 14, 2003 ("Agreement"). Upon the terms and conditions of the Agreement, the Borough hereby assumes all obligations arising from or related to U.S. Survey 3400...

Any and all right, title and interest reserved to or otherwise arising for the benefit of KPC with respect to U. S. Survey 3400 by reason of the USS 3400 Quitclaim including, without limitation, by reason of the Borough Acceptance, are hereinafter referred to as "USS 3400 Quitclaim Interests;"

WHEREAS, on or about July 14, 2003 the Borough, KPC and Gateway Forest Products, Inc., an Alaska corporation, entered into the Environmental Easement and Declaration of Covenants, recorded July 18, 2003 under Ketchikan Recording District Serial No. 2003-004128-0 and hereinafter referred to as "the 2003 Covenants and Easement."

WHEREAS, the 2003 Covenants and Easement recognized and established certain covenant and easement rights for the benefit of KPC with respect to U. S. Survey 3400 and portions of U. S. Survey 2923, hereinafter referred to as the "USS 3400 and USS 2923 Covenant and Easement Interests."

WHEREAS, the 2003 Covenants and Easement also recognized and established certain covenant and easement rights for the benefit of KPC with respect to Lot 1, Section 34, T.74S., R.90E., C.R.M., as more particularly described in Exhibit A thereof; said parcel is hereinafter referred to as "Lot 1, Section 34;"

WHEREAS, the covenant and easement rights recognized and established under the 2003 Covenants and Easement with respect to Lot 1, Section 34, for the benefit of KPC are hereinafter referred as the "Lot 1, Section 34 Covenant and Easement Interests;"



Whereas, on or about July 14, 2004 the Borough and KPC entered into the Environmental Easement and Declaration of Covenants, recorded July 15, 2004 under Ketchikan Recording District Serial No. 2004-002967-0 and hereinafter referred to as "the 2004 Covenants and Easement."

WHEREAS, the 2004 Covenants and Easement recognized and established certain covenant and easement rights for the benefit of KPC with respect to portions of U. S. Survey 2923, hereinafter referred to as the "USS 2923 Covenant and Easement Interests."

WHEREAS, by the State's Patent recorded on the 15th day of ~~April~~^{May}, 2006 under Ketchikan Recording District Serial No. 2006-001705-0, the State has issued patent conveying to the Borough Lot 1, Section 34, which parcel is described therein as "Section 34: Lot 1, containing 3.09 acres more or less, according to the Survey Plat accepted by the United States Department of the Interior, Bureau of Land Management in Anchorage, Alaska on January 28, 2003, and officially filed March 3, 2003;" nevertheless, for purposes of this Agreement only, said parcel is still referred to as "Lot 1, Section 34;"

WHEREAS, the Borough, as the owner of Lot 1, Section 34, with the cooperation and consent of KPC, has granted to the State, with respect to Lot 1, Section 34, the Equitable Servitude and Easement that was recorded on the 15th day of May, 2006 under Ketchikan Recording District Serial No. 2006-001706-0, and is hereinafter referred to as the "Lot 1, Section 34 DNR Servitude and Easement;"

WHEREAS, the Borough, with the cooperation and consent of KPC has granted to the State, with respect U. S. 3400 and portions of U. S. 2923, the Equitable Servitude and Easement that was recorded on the 15th day of May, 2006 under Ketchikan Recording District Serial No. 2006-001707-0, and is hereinafter referred to as the "USS 3400 and USS 2923 DNR Servitude and Easement;"

WHEREAS, as set forth in this Agreement, the parties desire to adjust the priorities between the interests reserved or granted to KPC under the foregoing recorded



documents and the two Equitable Servitude and Easement documents recently granted by the Borough to and for the benefit of the State.

NOW, THEREFORE, in consideration of the promises and of the mutual agreements and covenants hereinafter set forth, the Borough and KPC hereby agree as follows:

1. Subordination in Favor of State's Lot 1, Section 34 DNR Servitude and Easement. Notwithstanding the prior recording of the 2003 Covenants and Easement, KPC hereby agrees to, and by this instrument hereby does, subordinate its Lot 1, Section 34 Covenant and Easement Interests to the interests in and to Lot 1, Section 34, granted by the Borough to the State in the Lot 1, Section 34 DNR Servitude and Easement.

2. Subordination of USS 3400 Quitclaim Interests in Favor of State's USS 3400 and USS 2923 DNR Servitude and Easement. Notwithstanding the prior recording of the USS 3400 Quitclaim, KPC hereby agrees to, and by this instrument hereby does, subordinate its USS 3400 Quitclaim Interests to the interests in and to U.S. Survey 3400 granted by the Borough to the State in the USS 3400 and USS 2923 DNR Servitude and Easement.

3. Subordination of USS 3400 and USS 2923 Covenant and Easement Interests in Favor of State's USS 3400 and USS 2923 DNR Servitude and Easement. Notwithstanding the prior recording of the 2003 Covenants and Easement, KPC hereby agrees to, and by this instrument hereby does, subordinate its USS 3400 and USS 2923 Covenant and Easement Interests to the interests in and to U.S. Survey 3400 and U. S. Survey 2923 granted by the Borough to the State in the USS 3400 and USS 2923 DNR Servitude and Easement.

4. Subordination of USS 2923 Covenant and Easement Interests in Favor of State's USS 3400 and USS 2923 DNR Servitude and Easement. Notwithstanding the prior recording of the 2004 Covenants and Easement, KPC hereby agrees to, and by this instrument hereby does, subordinate its USS 2923 Covenant and Easement Interests to the interests in and to U.S. Survey 2923 granted by the Borough



to the State in the USS 3400 and USS 2923 DNR Servitude and Easement.

5. Parties' Rights and Obligations Otherwise to Remain in Full Force and Effect. This Agreement shall only affect the parties' rights and obligations as expressly set forth herein. The provisions of this Agreement herein shall run with the land in perpetuity, and shall be binding upon the parties, and their respective heirs, successors, grantees, lessees, transferees, and assigns, and each of their heirs, successors, grantees, lessees, transferees, and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

KETCHIKAN PULP COMPANY

Christopher M. Keyes
Christopher M. Keyes
Assistant Secretary

By Neil Sherman
Neil Sherman
President

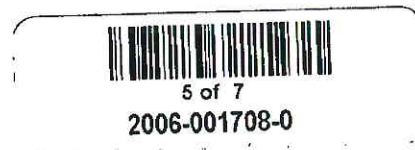
KETCHIKAN GATEWAY BOROUGH

Harriet Edwards
Harriet Edwards
Clerk

By Roy A. Eckert
Roy A. Eckert
Manager

STATE OF ALASKA)
: ss.
FIRST JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on this 1 day of May, 2006, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared **Roy A. Eckert** and **Harriet Edwards**, to me known to be the Manager and the Clerk of the Ketchikan Gateway Borough, a municipal corporation established pursuant to the laws of the State



WHEN RECORDED, RETURN TO:

Ruth Hamilton Heese
Assistant Attorney General
State of Alaska
Department of Law
Environmental Section
Post Office Box 110300
Juneau, Alaska 99811

