

MINING INDUSTRY UPDATE

Senate Resources Committee
February 24, 2016



RECENT SAFETY MILESTONES

Kinross Fort Knox

1.6 million hours no Loss Time Injury (LTI)
2015: Int'l Society of Mine Safety Professionals Awards
2012-2014: 2.6 million hours no LTI

Sumitomo Pogo

2015: surpassed 2 years no LTI
2014: surpassed 1 million manhours no LTI
2009: MSHA Underground Mine Sentinels of Safety

Teck Red Dog

2009 & 2011: surpassed 1 million manhours no LTI
2009 - The Journey to Courageous Safety Leadership

Coeur Alaska – Kensington Mine

2015: Employee Led Behavior Safety Program
2011: Alaska Governor's Safety Award

Hecla Greens Creek

2013: NIOSH Safety & Health Technology Innovation Award
1997 & 2003: MSHA Underground Mine Sentinels of Safety

Usibelli Coal Mine

540 days no LTI





POTENTIAL

“If Alaska were a country, we would be the eighth most mineral-rich nation in the world.”

- Governor Bill Walker, 2016 State of the State Address

Are the right policies in place to encourage development and production of critical and strategic minerals in Alaska?



ONLY 6 LARGE MINES

2014



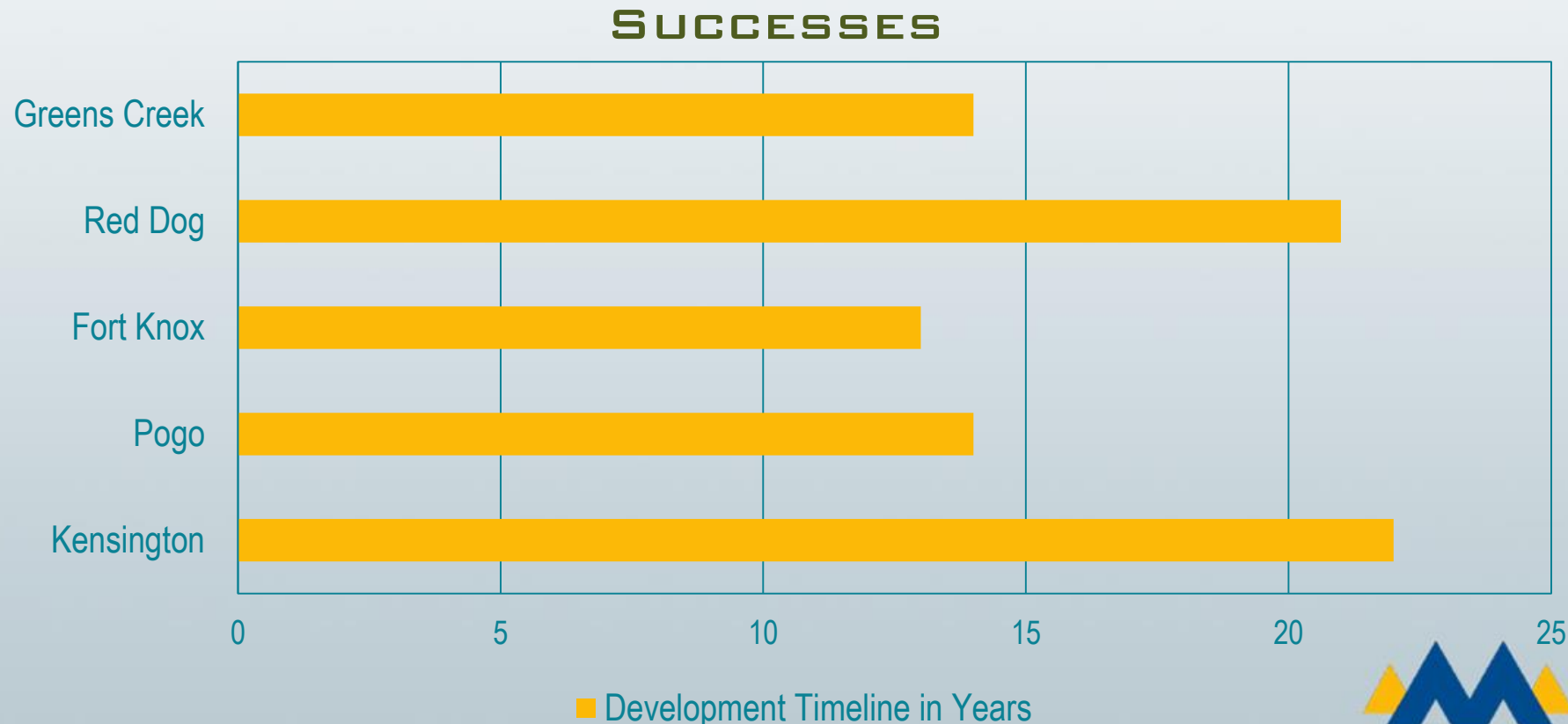
8,700 direct & indirect jobs
\$83.7 million to state gov't
\$18.5 million to local gov't
\$144 million to Native Corps
\$500 million to Alaska businesses
...while maintaining highest
environmental and safety standards.

Plus the impact of small mines and exploration



ALASKA MINERAL DEVELOPMENT TIMELINES AND INVESTMENT

Longer lead times and more \$\$





MINING PAYS ITS WAY

- Companies pay exploration, development and construction costs
- This often includes access and infrastructure, unlike in L48
- Reimbursable Service Agreements
- Financial assurance for reclamation and closure



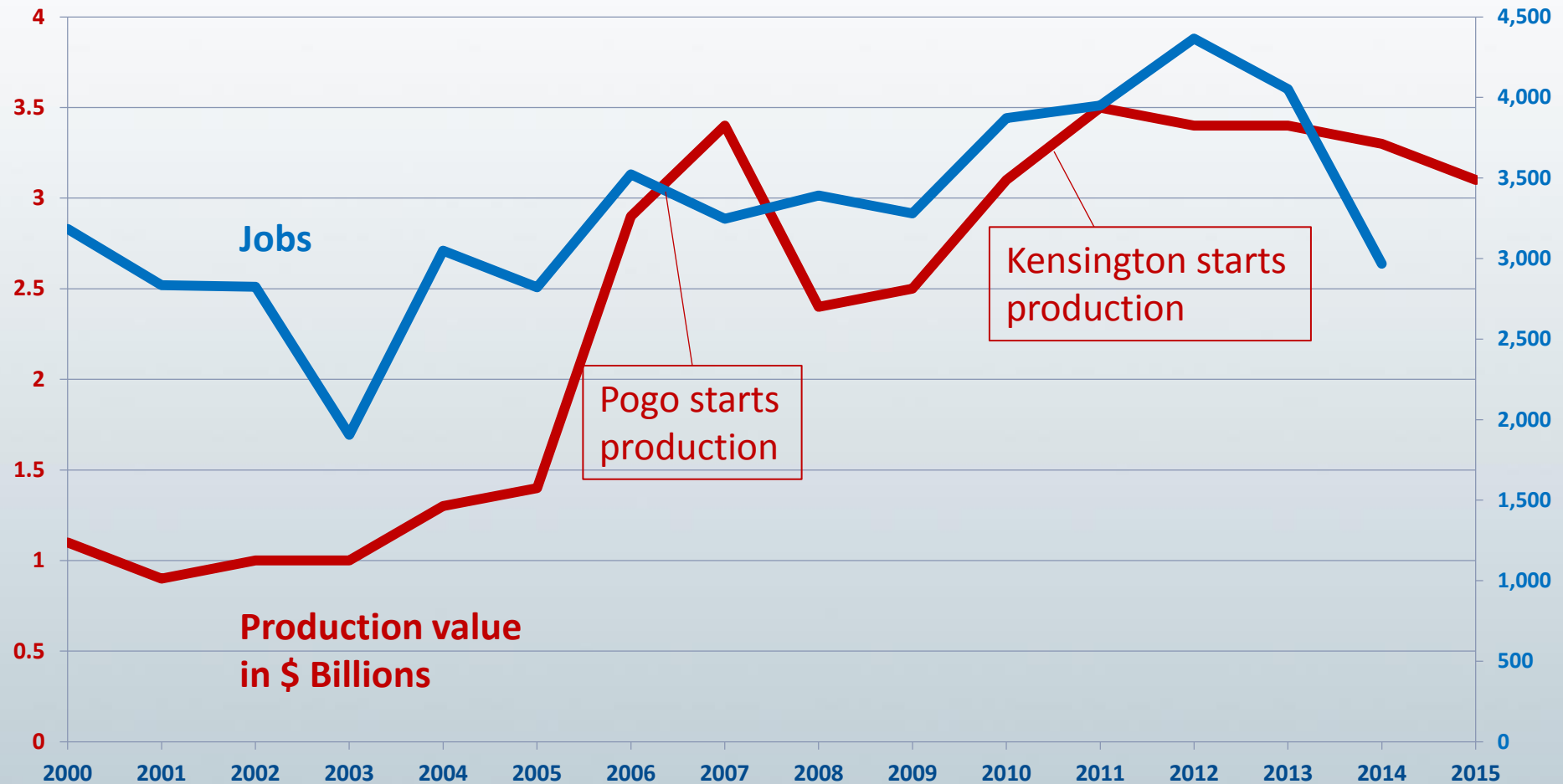


AIDEA'S RETURN ON INVESTMENT

- Mission: encourage Alaska's economic growth
- By 2014, AIDEA had already received >\$355 million in payments from its \$265 million investment in the Red Dog port and road and will continue to receive payments until 2034



MINING INDUSTRY TRENDS





RESIDENT HIRE

- 100% of Fort Knox employees live in the Fairbanks North Star Borough
- 70% of Greens Creek employees live in Alaska
- Usibelli's local hire is 99%
- Kensington Mine's local hire is 70%
- NANA shareholders fill 57% of 610 year-round jobs at Red Dog
- Pogo's local hire rate is 70%
- The industry supports scholarships and training programs to increase the resident hire rate



ALASKA MINERAL DEVELOPMENT TIMELINES

STILL SEEKING SUCCESS



LACK OF INVESTOR CONFIDENCE



EXPLORATION SPENDING DECLINES

Global

Exploration spending (\$ billions)*



50% decline between 2012 and 2014

Alaska

Exploration spending (\$ millions)**

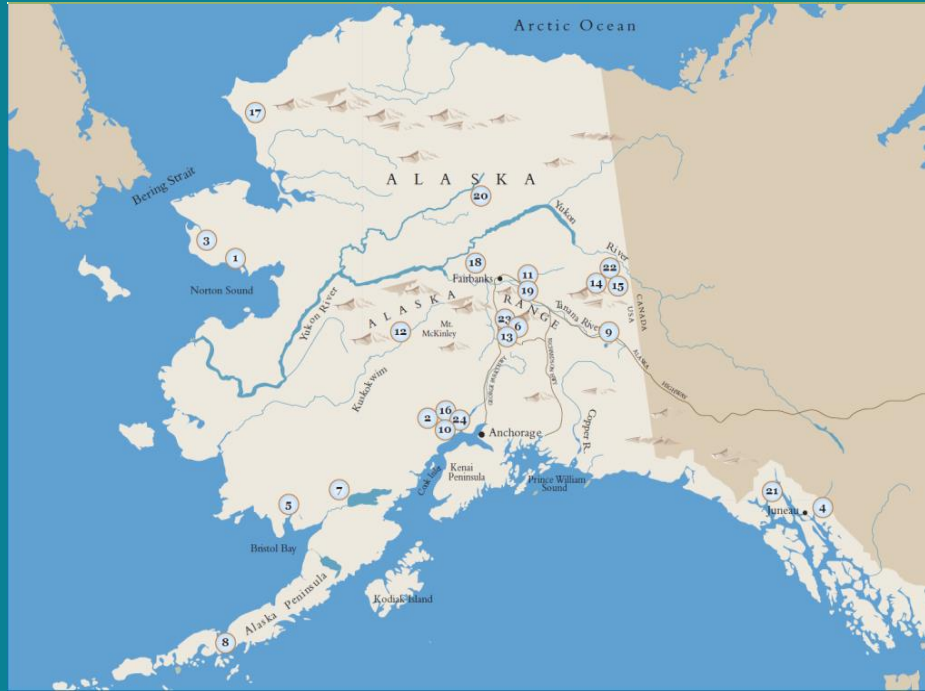


71% decline between 2012 and 2014

*SNL Metals 3/2015

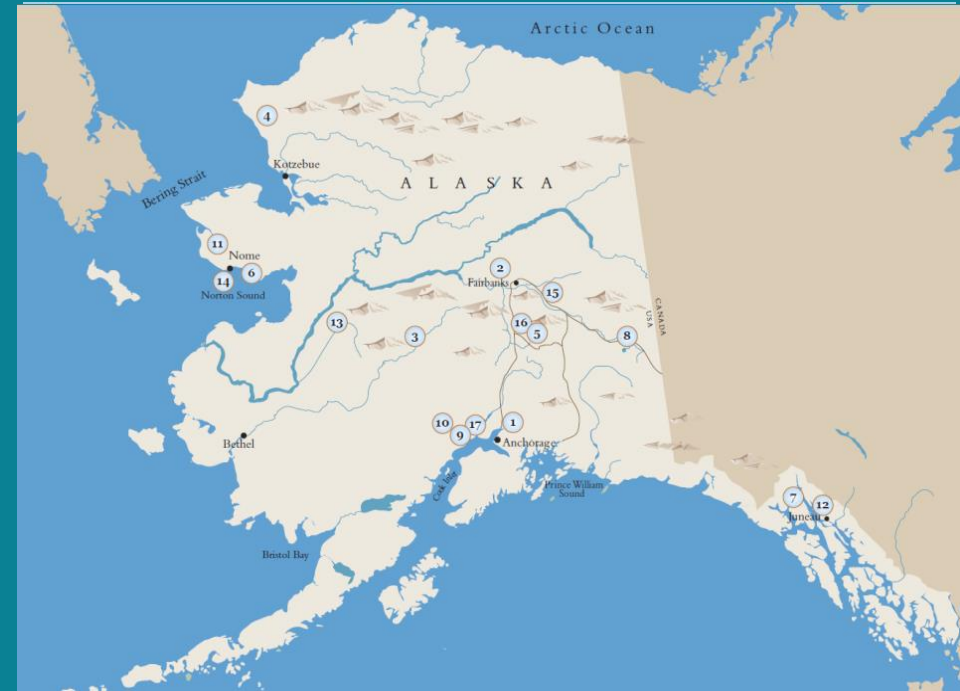
** ADNR/DCCED Mineral Industry reports





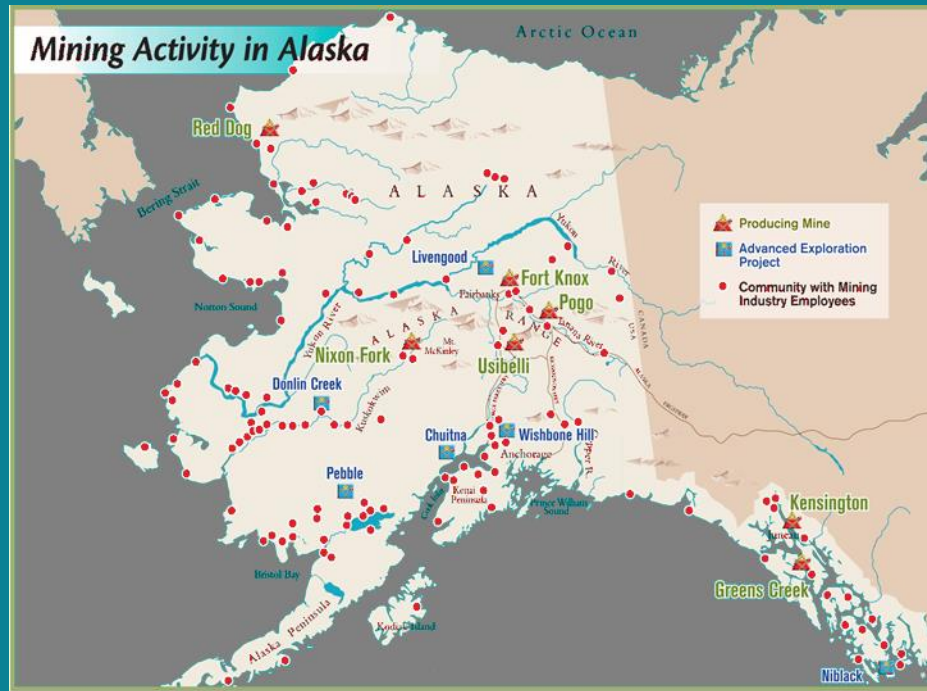
2012

24 exploration projects
Spending \$100,000-\$5 million



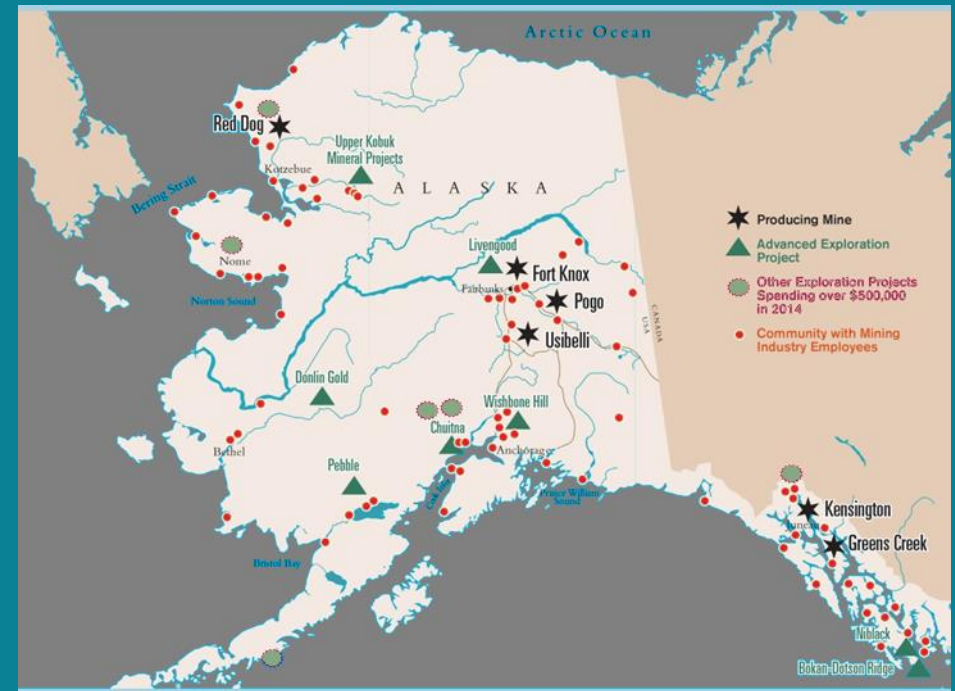
2013

17 exploration projects
Spending \$100,000-\$10 million



2012

120+ communities with mining industry employees



2014

50+ communities with mining industry employees



GOAL OF TAX POLICY?

Attract investment and encourage a robust, responsible mining industry that contributes to Alaska's economic diversity by providing good jobs, procurement and contract opportunities for local businesses, state and local government revenue and revenue sharing to Alaska Native Corporations.



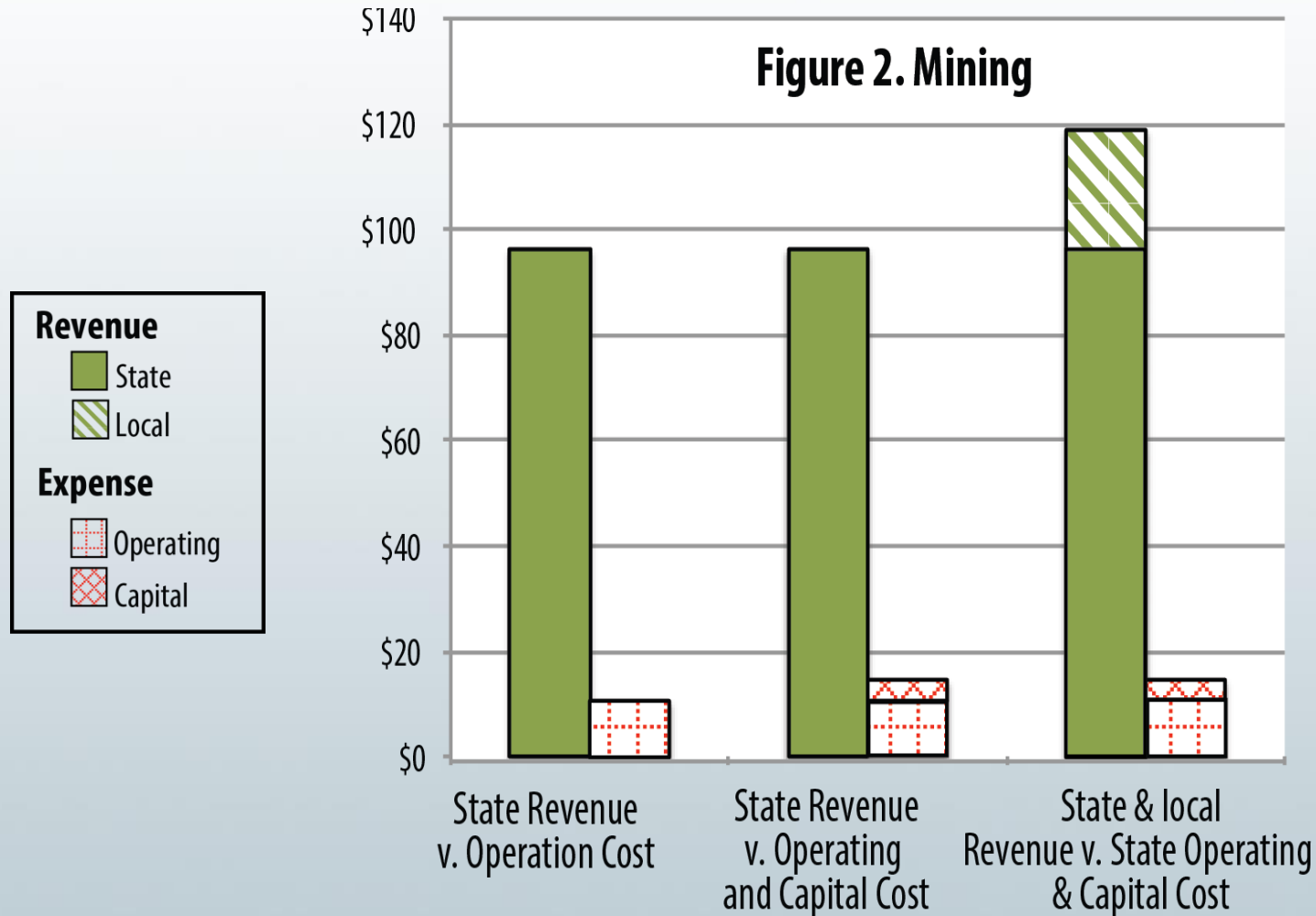
MINING PAYS ITS WAY:

State revenue from mining	2014
AMLT	38,700,000
State corporate income tax	17,300,000
State Fuel Taxes	*
AIDEA facilities user fees	12,000,000
State mineral rents and royalties	13,500,000
State coal rents and royalties	1,400,000
State material sales	600,000
State mining miscellaneous fees	200,000
TOTAL	\$83,700,000

Source: DNR/DCCED *Alaska's Mineral Industry 2014*



STATE REVENUE > STATE COSTS



“Fiscal Effects of Commercial Fishing, Mining, & Tourism. What does Alaska receive in revenue? What does it spend?”

Bob Loeffler and Steve Colt, Institute of Social and Economic Research, University of Alaska Anchorage, 2016



HOW DOES AK COMPARE?

METALS ROYALTY

- Alaska competes against the world for investment. Appropriate comparison is with other countries, not just US states.
- Appropriate comparison is total tax take, not just royalty. A royalty-to-royalty comparison is misleading unless you also show what other taxes are levied.
- Alaska is the only US state with general domain state land. Most other states' "state land" involves isolated trust parcels. State royalty is not a large factor.



HOW IS NET INCOME CALCULATED?

Gross revenue=net smelter revenue (not the same as world price for refined product)

Minus allowable costs (initial and ongoing exploration costs are not deductible)

- Transportation

- Wages and benefits

- Consumables

- Allowable development

- Depreciation/Amortization

- Interest expense and taxes

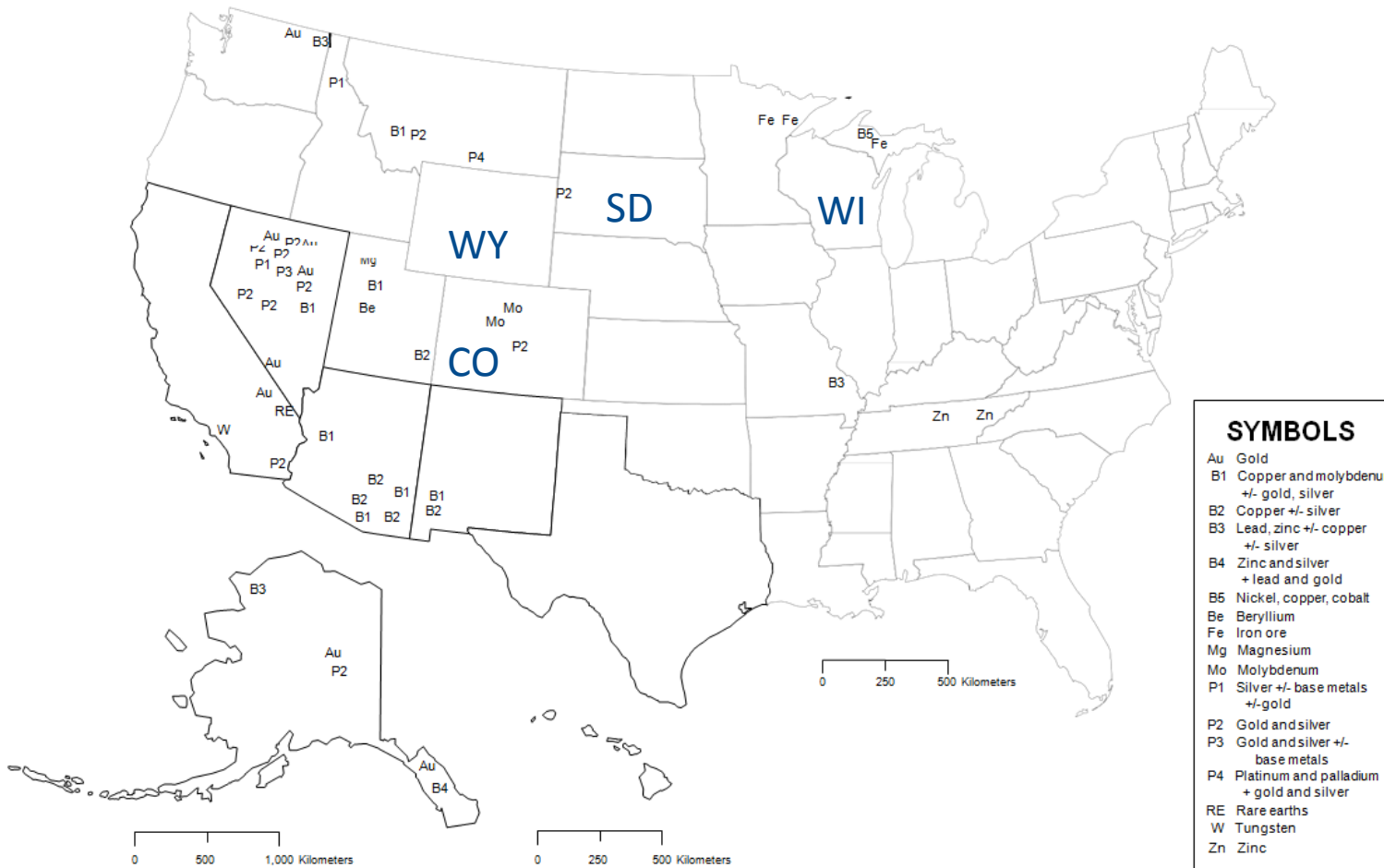
= Net income

Minus depletion allowance

= Net taxable income



MAJOR METAL-MINING AREAS



- US top metal mining states are NV and AZ
- Mineral tax comparisons should be with these states

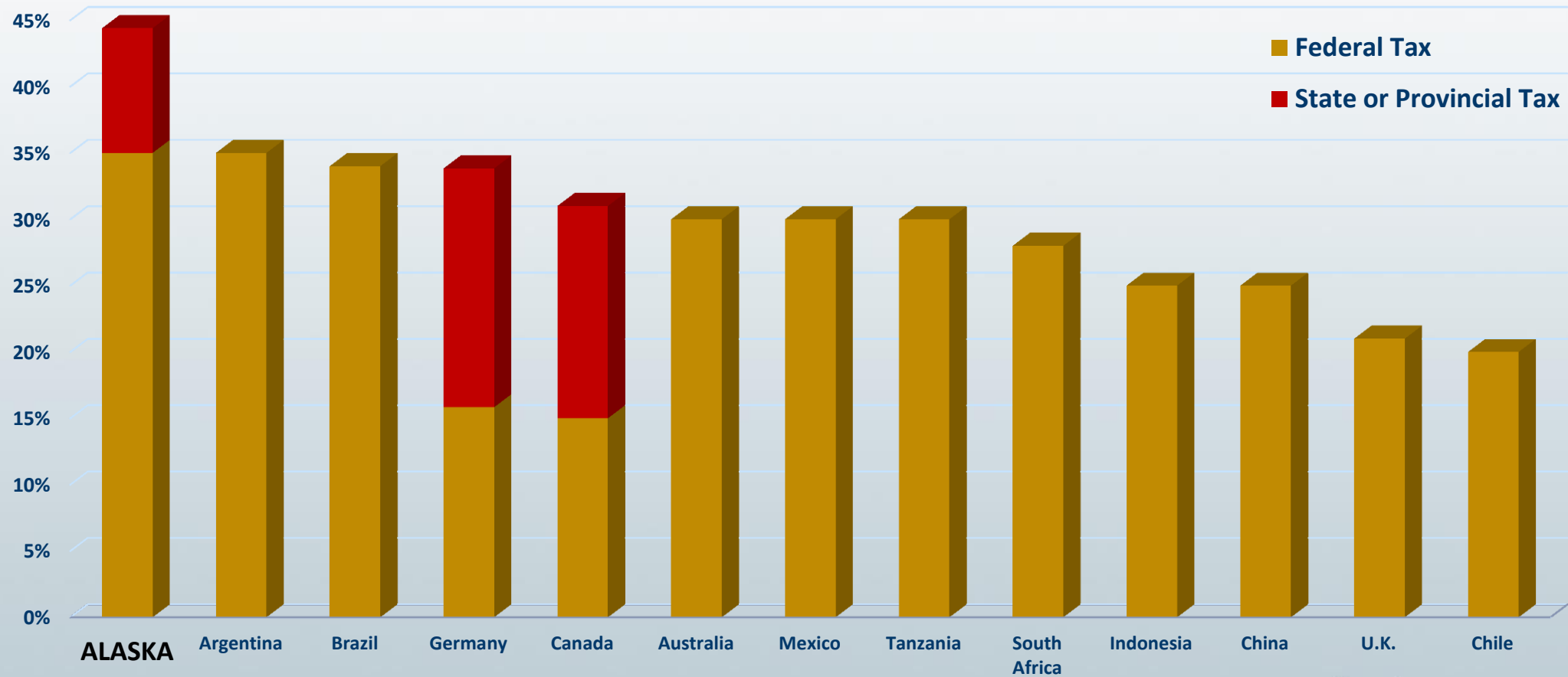
Nevada:

- 5% net proceeds tax
- No corporate income tax
- 2% gross payroll > \$50,000/quarter
- Property and sales taxes

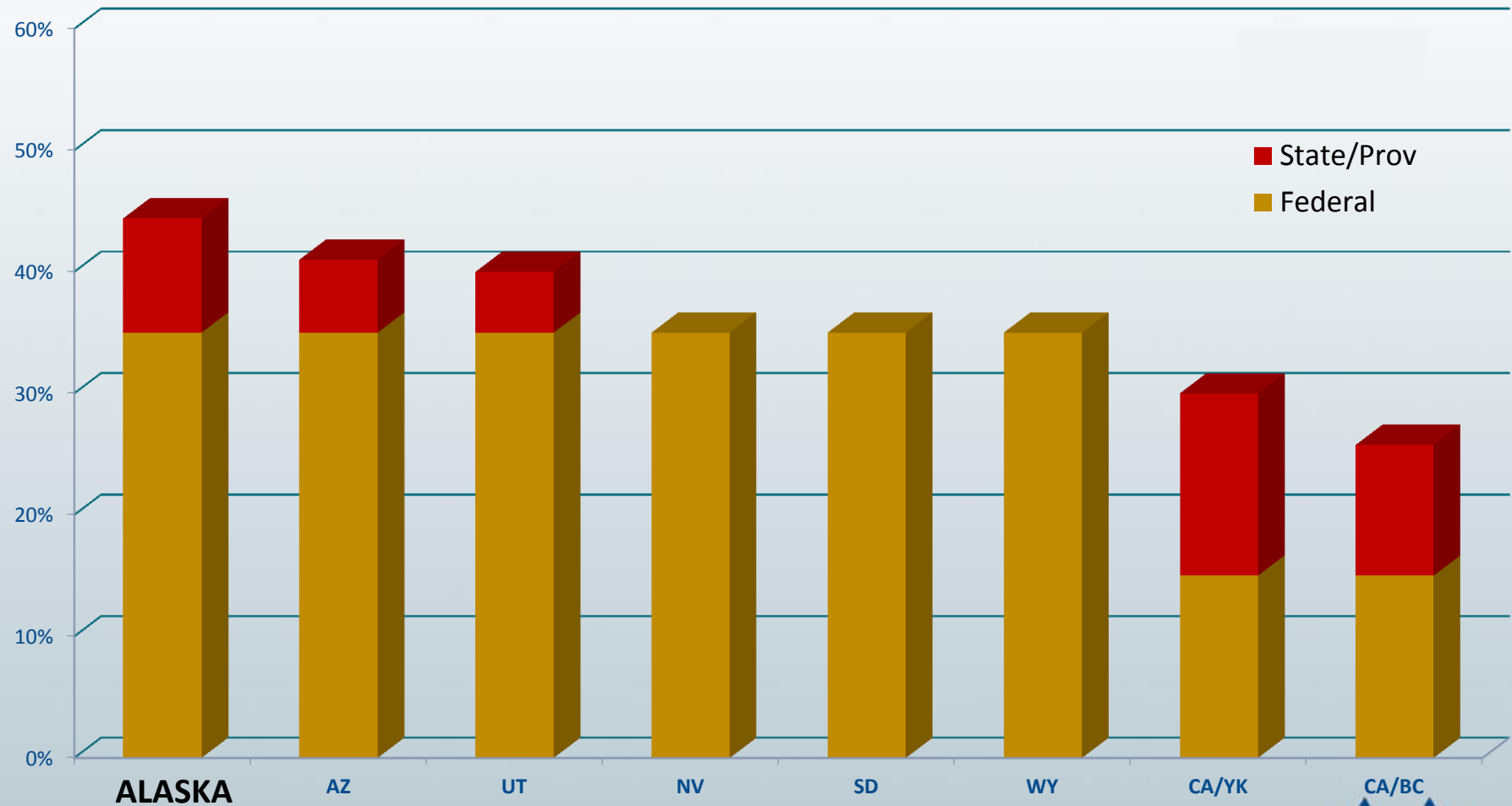
Arizona

- 2.5% of 50% of difference between gross value and production costs
- 6% corporate income tax
- Property and sales tax

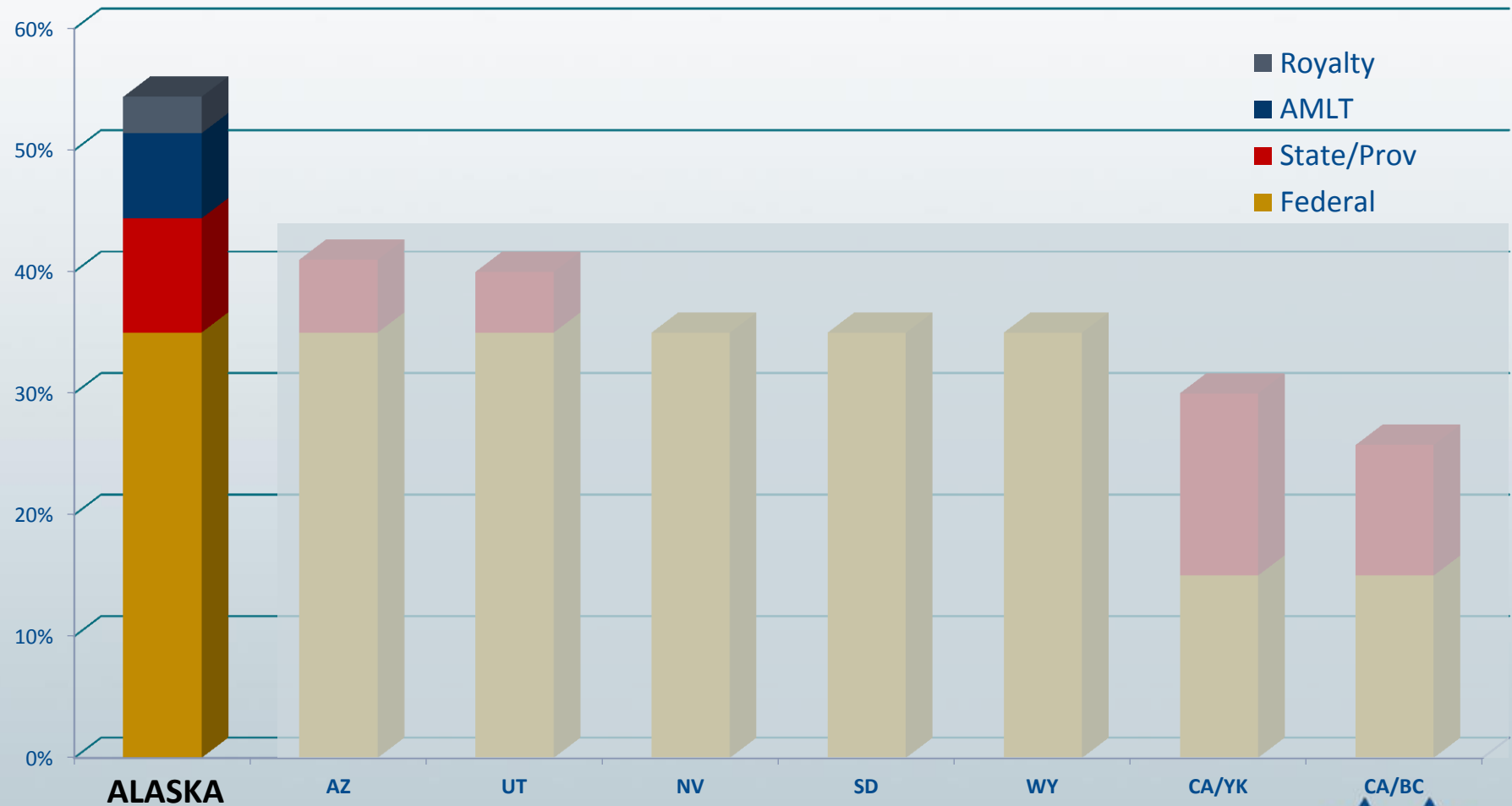
SELECTED INTERNATIONAL MINING INCOME TAXES - TOP RATE



CORPORATE TAX RATES



CORPORATE TAX RATES



FRASER INSTITUTE SURVEY 2014

“Pure” Mineral Potential

(assumes best practices policy regime)

1. Yukon
2. Nevada
3. **Alaska** (in top 5 since 2010)
4. Chile
5. British Columbia

122 jurisdictions

Policy Perception

23rd Alaska



FRASER INSTITUTE SURVEY 2014

Investment Attractiveness

- | | |
|-----------------|-------------------|
| 1. Finland | 6. Quebec |
| 2. Saskatchewan | 7. Wyoming |
| 3. Nevada | 8. Newfoundland |
| 4. Manitoba | 9. Yukon |
| 5. W. Australia | 10. Alaska |

60:40 ratio
Pure mineral potential:
policy perception

Current Mineral Potential

(does current policy environment encourage or discourage mining)

28th Alaska (11th in 2013, 6th in 2012)

122 jurisdictions





POTENTIAL

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ALASKA'S MINERAL INDUSTRY REPORT

	2013	2014	% change
Mineral value	\$3.419B	\$3.282B	-4%
Estimated revenue to State of Alaska and municipalities	\$142.5M	\$102.2M	-28%
Exploration spending	\$175.5M	\$96.2M	-45%
Jobs	4,051	2,967	-27%

ARE WE ATTRACTING INVESTMENT?

- There will always be a need for metals in the global economy
- But, we see greater competition for fewer global dollars and share prices reflect lack of investor confidence
- AK challenges: infrastructure, permitting, only element we control: perception of positive investment climate, AK open for business
- Ultimate goal is new mines making greater contribution through jobs, state and local revenue, opportunities for AK businesses, etc.
- ***The limited capital will go to jurisdictions that encourage mineral development***

