

HB

556

23 S1938(H)
Cook
4/23/04

CS FOR HOUSE BILL NO. 556(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE TRANSPORTATION COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE STATE AFFAIRS COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a port development project on Lynn Canal, providing legislative
2 approval for the Alaska Industrial Development and Export Authority to issue bonds
3 for the project; and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
6 to read:

7 **LEGISLATIVE APPROVAL; PORT DEVELOPMENT PROJECT.** (a) The Alaska
8 Industrial Development and Export Authority may issue bonds to finance the acquisition,
9 development, improvement, and construction of port and related facilities located on Lynn
10 Canal in Southeast Alaska. The port and related facilities shall be owned by the authority and
11 financed under AS 44.88.172 - 44.88.177. The principal amount of the bonds provided by the
12 authority for the port development project may not exceed \$20,000,000.

13 (b) This section constitutes legislative approval required by AS 44.88.095(g).

14 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

HOUSE BILL NO. 556

IN THE LEGISLATURE OF THE STATE OF ALASKA
 TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Introduced: 4/21/04
 Referred: Transportation, Finance

A BILL

FOR AN ACT ENTITLED

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 2 approval for the Alaska Industrial Development and Export Authority to issue bonds ~~or~~
 3 ~~otherwise provide financing~~ for the project; and providing for an effective date."

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 6 to read:

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 8 Industrial Development and Export Authority may issue bonds to finance the acquisition,
 9 development, improvement, and construction of port and related facilities ~~for use in~~
 10 ~~conjunction with mining activities and~~ ^{on} located ~~at~~ Lynn Canal in Southeast Alaska. The port
 11 and related facilities shall be owned by the authority and financed under AS 44.88.172 -
 12 44.88.177. ~~The authority may provide financing for the port development project from other~~
 13 ~~sources in addition to or in lieu of bond proceeds authorized under this section.~~ The principal
 14 amount of the bonds ~~and other financing~~ provided by the authority for the port development

- 1 project may not exceed \$20,000,000.
- 2 (b) This section constitutes legislative approval required by AS 44.88.095(g).
- 3 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

Rent Dawson
463-2533

Tim Arnold



Timothy D. Arnold, P.E.
Vice President and General Manager

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Kensington Mine Project
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Aidea approached him RE Financing
Exceeds \$10 million cap.

Dock can be used by public.
AIDEA board mtg. in May.

Call Linda RE CS:

SB 394 Cowdery - Richard
Lam Cook

FINANCIAL STATUS OF COEUR D'ALENE MINES CORPORATION

Coeur d'Alene Mines Corporation nearly filed for Chapter 11 bankruptcy protection as recently as April 2002, See "*Coeur d'Alene Mines awash in red ink: Low silver prices may put company into bankruptcy,*" *Idaho Statesman* (April 5, 2002).

The following information relating to important risks and uncertainties that could adversely affect the Company's business, financial condition or operating results is found in Coeur's 2003 Annual Report (10-K), filed with the Securities and Exchange Commission (SEC) on March 9th, 2004:

- *We have incurred losses in the last five years due to several factors, including historically low gold and silver market prices, and may continue to incur losses in the future.*
 - *...the Company's net loss amounted to approximately \$67.0 million in the year ended December 31, 2003 compared to a net loss of \$81.2 million in the year ended December 31, 2002.*
- *We may be required to incur additional indebtedness to fund our capital expenditures.*
- *We have not had sufficient earnings to cover fixed charges in recent years and presently expect that situation to continue.*
 - *The amounts by which earnings were inadequate to cover fixed charges were approximately \$29.3 million in 1999, \$47.5 million in 2000, \$3.1 million in 2001, \$81.2 million in 2002 and \$67.0 million in 2003, respectively.*
- *The market prices of silver and gold are volatile and until recently have been near historically low levels. Low silver and gold prices may result in decreased revenues and increased losses, and may negatively affect our business.*
- *We have recorded significant write-downs of mining properties in recent years and may have to record additional write-downs, which could negatively impact our results of operations.*

Source: <http://www.sec.gov/Archives/edgar/data/215466/000089706904000562/cmw537.htm>

Coeur d'Alene Mines Corporation, the parent company of Coeur Alaska, is an Idaho corporation which operates silver and gold mines in United States, South America, and New Zealand. In 1997, several Coeur shareholders filed suit in Federal District Court for the District of Colorado against the corporation for violating the Securities Exchange Act of 1934. Per court documents, the plaintiffs alleged that Coeur "in a desperate attempt to raise operating capital to bolster its operating results... engaged in an unlawful and fraudulent scheme to inflate the Company's stock price, reduce its operating losses, and create the false impression

that the Company had returned to profitability.” *Queen Uno Ltd. Partnership v. Coeur d’Alene Mines Corporation*, 183 F.R.D. at 690 (D. Col. 1998).

Although the court did certify the case as a class action suit on behalf of all shareholders who purchased stock between January 9, 1995 and July 11, 1996, the suit never went to trial and was settled in early 1999. Although Coeur strongly denied the allegations and liability, they agreed to pay \$7 million to a settlement fund for the benefit of the plaintiffs. Additionally, the plaintiffs were entitled to 50% of net proceeds, up to \$6 million, from litigation that Coeur was party to over one of their mining projects in New Zealand. *See Company and Case Information, Stanford Law School Securities Class Action Clearinghouse*, available at: <http://securities.stanford.edu/1002/CDE97/>.

Potential Questions on HB 556 / SB 394:

1. What risks are AIDEA incurring as the "owner-operator" of the port and related facilities? Does AIDEA bear the risk of the bonds issued in support of a development finance project, such as this one?
2. AIDEA has close to \$267 million invested in the DeLong Transportation System that supports the Red Dog mine. Is AIDEA envisioning a similar approach to supporting the Kensington mine by owning the 2 port facilities and roads?
3. Coeur is asking for \$2.9 million for the Cascade Point dock facility and \$4.4 million for the Slate Creek Cove dock facility. What other aspects of the project might be covered under the \$20 million authorized in the bill?
4. HB 556 allows the Authority to provide financing from other sources in addition to bonds. What might these be?
5. In the past, AIDEA considered the extent to which a development finance project has local support. Does it still follow this policy? If not, when was the policy changed and why?
6. This project is months away from obtaining the necessary federal and state permits. The US Forest Service that owns the land on which most of the mine will be situated will not have a Final Environmental Impact Statement and Record of Decision released until September at the earliest. Would AIDEA begin the evaluation of this project before the project is actually legally permitted to proceed?
7. SB 394 does not specify that the projects are for use "in conjunction with mining activities" as does HB 556. What other uses of the port and related facilities besides support for the mine are envisioned by AIDEA?
8. The Juneau Access project (road link with Skagway) has considered developing a AK Marine Hwy. ferry terminal in Berners Bay. Could this terminal be covered by the AIDEA bonds?
9. Coeur Mining Corporation has had a very unstable financial history – it was nearly in bankruptcy a few years ago. How carefully will AIDEA consider the creditworthiness of Coeur?

Senate Bill 394 / House Bill 556 ~ AIDEA Bonds for Lynn Canal Port

- Both bills provide legislative approval for AIDEA's bonding authority (For projects greater than \$10 million, legislative approval of bonding authority is required.)
- Bills also direct that AIDEA will own the projects; thus, the projects would fall under AIDEA's Development Finance Program, also described as the Economic Development Account
- HB 556 specifies that bonds are to be used "in conjunction with mining activities"
- HB 556 permits consideration of other financing sources in addition to bonds
- **The Financial Stability of Coeur Alaska, Inc., the Kensington Gold Project's developer** - In his message that accompanied AIDEA's FY03 Annual Report, Governor Murkowski stated: "AIDEA's record shows that success generally follows when decisions are based on sound business principles rather than political considerations." Given that Coeur Alaska's parent company, Coeur d'Alene Mines Corporation, based in Idaho, has been plagued with financial troubles and that the Kensington Gold Project is highly controversial among residents of Juneau and upper Lynn Canal communities, AIDEA should proceed very cautiously in their support of this project
- **AIDEA's Involvement in the Red Dog Mine** - Through their ownership of the DeLong Mountain Transportation System, AIDEA has a successful partnership with Teck Cominco and NANA Regional Corp. AIDEA justifies its \$267 million investment in Red Dog support facilities by stating "AIDEA made the investment to assist in bringing jobs to an economically depressed region of the state and to provide a multi-use port in Northwest Alaska." (AIDEA Annual Report FY03 at p. 4.) The report states that Teck Cominco is the only taxpayer in the NW Arctic Borough.

These same justifications don't work well for the Kensington project in CBJ. For example, consider the economic contributions of the Greens Creek Mine, the largest silver mine in the U.S., located on Admiralty Island within CBJ:

- The Greens Creek Mine is responsible for less than 2% of the jobs in Juneau. (USFS *Final EIS Greens Creek Tailings Disposal* (November 2003) at 4-54; JEDC *Juneau Economic Indicators April 2004*, insert in Juneau Empire (April 25, 2004))
- The Greens Creek Mine paid only 2.4% of the total property tax collected by the borough in FY02. (Pers. comm. between Schrader with SEACC and CBJ Budget Analyst Chaney, April 26, 2004)

Although the Kensington project is predicted to create 225 good paying jobs (80% of which are likely to be hired from outside of the region, per the U.S. Forest Service review) this development will not play the economically critical role in CBJ as the Red Dog mine does in the NW Arctic Borough.

Due Schrader
586-6442 SEACC

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: April 21, 2004

FURTHER REFERRALS: Final

Date of Committee Action: _____

The TRANSPORTATION Committee considered:

HB 556

HOUSE BILL NO. 556

AIDEA BONDS FOR LYNN CANAL PORT

"An Act relating to a port development project at Lynn Canal, providing legislative approval for the Alaska Industrial Development and Export Authority to issue bonds or otherwise provide financing for the project; and providing for an effective date."

Recommends it be replaced with HCS or CS for HB 556 TRA
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LEG
 LAW
 LWF
 MVA
 DNR
 DPS
 REV
 DOT
 UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
DIED				✓

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AI
<i>Beverly Masek</i>	MASEK	✓		✓	
<i>Stepovich</i>	Stepovich	✓			
<i>Johning</i>	Johning				X
Chair: <i>[Signature]</i>	Holm	✓			
Chair: _____					

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 556
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title AIDEA Bonds For Lynn Canal Port RDU AIDEA (125)
 Component AIDEA
 Sponsor House State Affairs
 Requester House Transportation Component No. 1234

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill provides bonding authorization to finance the acquisition, development, improvement, and construction of port and related facilities for use in conjunction with mining activities and located at Lynn Canal in Southeast Alaska. Prior to issuing bonds, AIDEA will be required to conduct a feasibility, market and risk analysis of the project as outlined in AS 44.88.095(c). The bill allows other sources of financing in lieu of bond proceeds. The principal amount of the bonds and other financing provided by AIDEA may not exceed \$20 million.

Bonds sold to finance the project will have no impact on the General Fund.

Prepared by: Sara Fisher-Goad, Financial Analyst Phone 907-269-4623
 Division Alaska Industrial Development & Export Authority Date/Time 4/26/04 4:15 PM
 Approved by: Edgard Blatchford, Commissioner Date 4/26/2004
 Agency Department of Community & Economic Development

Subject: HB 556

Date: Wed, 21 Apr 2004 13:09:24 -0800

From: Linda Sylvester <Linda_Sylvester@legis.state.ak.us>

To: Barbara_Cotting@legis.state.ak.us

Hey Barb, we had another great idea and HB 556 came into being! Its an AIDEA bond bill for a port in Lynn Canal, in the vicinity of Echo Cove. Hmmmm... okay, its the Kensington Mine! I'm working on the sponsor statement and will get that to you asap, but can you keep this in mind for next week's committee schedule? Thanks. Linda

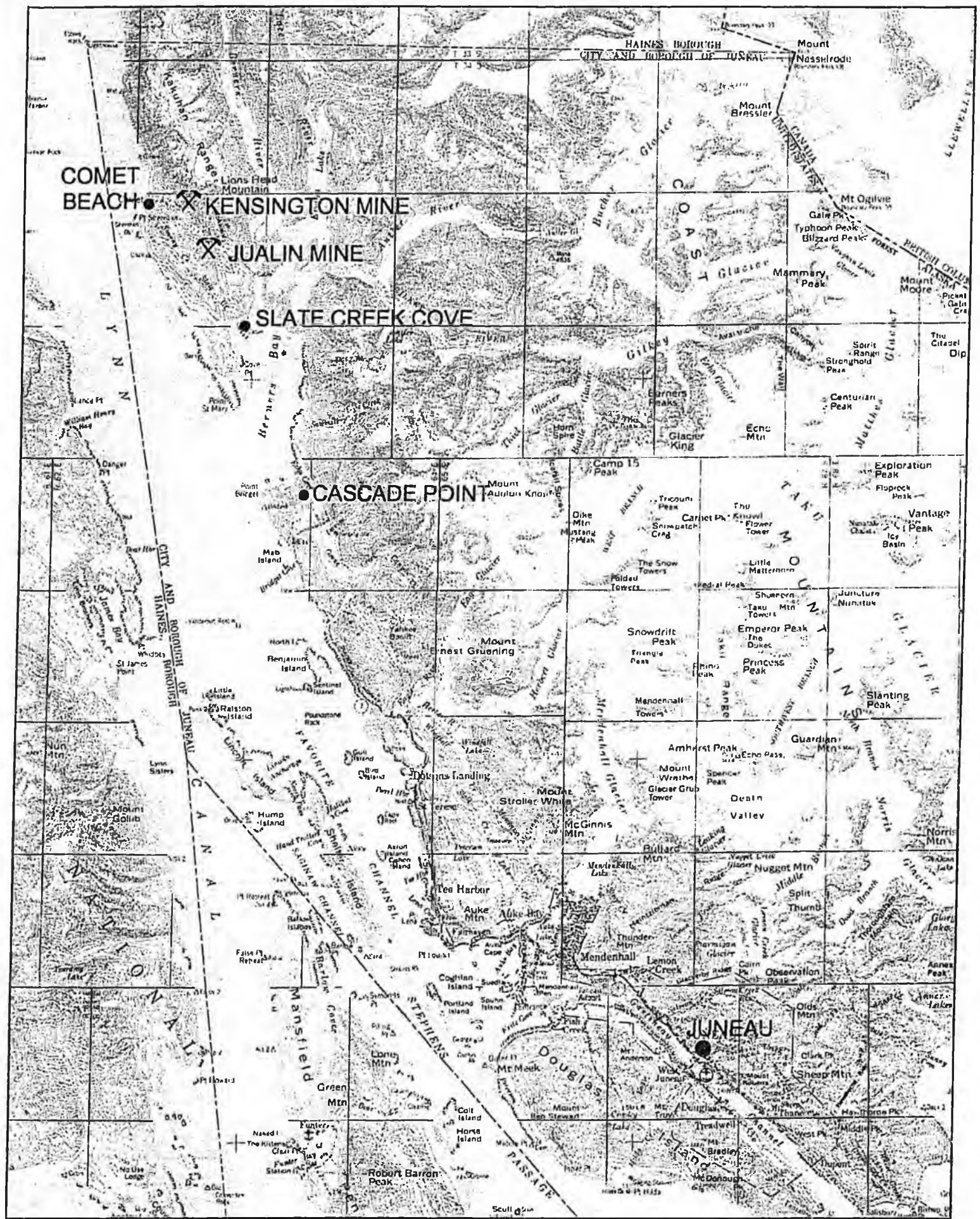


FIGURE 2
SITE ACCESS PLAN

Date:	APRIL 2000
Project:	100619
File:	ROUTING.awg

NEW PROJECT, CONTINUED FROM FRONT PAGE

schedule reducing the need for extensive storage facilities.

Coeur's new plan would significantly benefit Southeast Alaska's economy. It offers new, high-salary, year-round jobs and revenues that replace lost government, fishing, mining and timber positions. It would also help diversify a regional economy that increasingly relies upon cruiseships and tourism. Diversification would help Southeast better withstand tourism industry slumps and the possible loss of additional state and federal jobs. Alaska tourism has recently been slowing with the national economy and was particularly

hard hit by the September 11 terrorist attacks. The long-term effect of the attack is uncertain, which emphasizes the need for economic diversification.

The Kensington mine should be productive for at least 8 years, and significantly longer if more reserves are found. Production would also extend if Kensington expands into the adjacent Jualin property to access its economic reserve base.

The Kensington project would also generate at least \$9 million in tax revenue in 10 years and \$21 million in local purchases during the same period. Coeur Alaska is committed to local hire and would draw

workers from Juneau, Haines, Skagway, Hoonah, Kake and other Southeast communities.

The revised project's most important feature is economic feasibility. It is considerably less expensive to build and operate than the permitted plan, which means it is more likely to be economically sustainable through periods of fluctuating gold prices. In other words, Alaska, especially Juneau and the rest of Southeast Alaska, are more likely to enjoy Kensington's economic benefits if federal, state and local agencies approve the new plan.

LONG TRADITION, CONTINUED FROM INSIDE

several other surrounding mines. The area was extensively developed and productively mined until financial troubles overwhelmed the company in 1905. Between 1905 and 1917 the mine operated intermittently, changing hands a few times.

At its peak in 1913, Kensington miners drove a 5,000-foot tunnel to the Johnson ore body. After 1917 the Kensington sat dormant until 1935, when the Premier Gold Mining Company sent workers to renovate and reopen the mine. The effort was abandoned after a few short years, and again the mine lay idle.

In early 1987, Coeur Alaska, Inc. (a wholly owned subsidiary of Coeur d'Alene Mines Corporation in Idaho) entered into a joint venture to purchase the Kensington Mine property. During the next seven years the Kensington Venture explored the veins deep within the mountain.

In June 1995, Coeur Alaska, Inc. acquired sole ownership of the property. The company worked closely with community and interest groups to redesign the project to revise the tailings treatment plan, eliminate water discharge into Lynn Canal, reduce stream diversions and reclamation risk and eliminate onsite cyanide use. Later that



Bart Thane, Charlie Whipple and an unidentified man stand in the Kensington mine tunnel on November 9, 1909. WINTER AND POND PHOTO, COURTESY OF ALASKA STATE LIBRARY (PCA 87-496)

year, Coeur filed new permit applications incorporating the proposed changes and the U.S. Forest Service commenced a supplemental environmental impact study.

The Forest Service approved Coeur's Kensington Supplemental Environmental Impact Study in August 1997 and other key permits were issued in 1998. By then, however, the world gold market had gone into a very sharp decline with prices falling from more than \$400 an ounce to well below \$300 an ounce between January 1996 and January 1998. The approved Kensington plan was no longer economically feasible in this depressed gold market and analysts predicted that prices were unlikely to return

to the \$400 per ounce target price anytime soon. Gold prices today remain below \$300 per ounce.

Coeur Alaska continued working on the Kensington project and developed a new plan that reduces capital and operating costs, improves safety and better preserves the environment. Regulators including the Forest Service, Army Corps of Engineers and Environmental Protection Agency, the Alaska Departments of Natural Resources, Environmental Conservation and Fish and Game and the City and Borough of Juneau are being asked to approve this revised plan to improve the project's economic viability.



Kensington Mine Project

UPDATE

NOVEMBER 2001

Economically feasible, environmentally safe Kensington gold mine proposed

Coeur Alaska is advancing a revised Kensington gold mine plan that substantially reduces capital construction costs and would seek to streamline operations by partnering with Alaska businesses and Southeast Alaska Native corporations. It protects the environment and enhances reclamation by utilizing existing roads and already-developed areas and minimizing new environmental disturbances.

The revised project would store tailings in a remote, muskeg lakebed with minimal fish and wildlife impacts. It would produce a gold concentrate to be shipped off-site in sealed containers for gold recovery. Mining would take place underground and mine production facilities would not be visible from Lynn Canal or

nearby Berners Bay. The mine site and tailings storage area would be restored at the project's conclusion with zero wetland loss.

A Slate Creek Cove dock would provide safe, year-round, all-weather marine

transportation. Workers would be carried by boat between the work site and a dock at Goldbelt Corporation's Cascade Point property. Fuel and supplies would be shipped to the mine on a regular

(CONTINUED ON BACK PAGE, NEW PROJECT)

Kensington at a glance

- The project would last at least 15 years: two years for construction and startup, eight years for gold recovery and two years for active reclamation, followed by three years of monitoring. Additional reserves are frequently found during active mining, so the mine life could be substantially longer.
- Kensington would employ about 325 workers during its peak construction period and cost about \$155 million.
- The operating mine would employ about 225 workers. It would support up to 180 additional indirect jobs.
- The project would employ 30-to-50 workers during reclamation.
- Kensington jobs would be year-round with a predicted annual payroll cost of \$16 million. Wages would be substantially higher than the average for local retail and service industry workers. Coeur Alaska is committed to local and Native hire and would train workers.
- Mine operations would entail daily commutes and traditional, two-shift work schedules set on rotation plans to accommodate families. Coeur Alaska would transport employees to and from the mine site. Busing would limit highway traffic impacts.
- Kensington would spend at least \$7.5 million for direct local purchases during construction and \$13.5 million during operations. These figures do not include indirect spending by support businesses.
- Kensington has 1.8 million ounces of gold reserves and 1.4 million ounces of additional resources.
- Mine tailings would be stored in a remote, muskeg lakebed with minimal fish and wildlife impact.
- Gold concentrate would be processed off-site. No cyanide processing would occur in Southeast Alaska.
- Coeur has spent over \$20 million to date on environmental studies and environmental management programs to ensure that the company's high standard of "producing and protecting" is met.
- Coeur Alaska is a wholly owned subsidiary of Coeur d'Alene Mines Corporation. Coeur is North America's leading primary silver producer and a significant gold producer. It is recognized for its environmental stewardship and has received 19 national and international environmental awards during the past decade.



Aerial view looking east toward Comet Beach, Lion's Head Mountain and the Kensington project area. COEUR ALASKA PHOTO

Good economics spread the wealth

The revised Kensington plan is economically superior to the permitted plan because it would substantially reduce capital and operating costs and spread mine revenue across the state. It calls for Coeur Alaska to partner with Alaska companies and Southeast Alaska Native corporations to fill such needs as transportation, support services and solid waste management. Partnering would reduce Coeur's capital expenses and improve operational efficiency.

The new plan would shrink the mine's footprint and associated maintenance and reclamation costs. Its all-weather dock facility would provide safe and reliable transportation and reduce operating costs. It would minimize on-site inventory and storage expenses and productivity lost to bad weather.

Most important for Southeast Alaskans, the revised Kensington plan is closer to being economically feasible in today's depressed gold market. The original

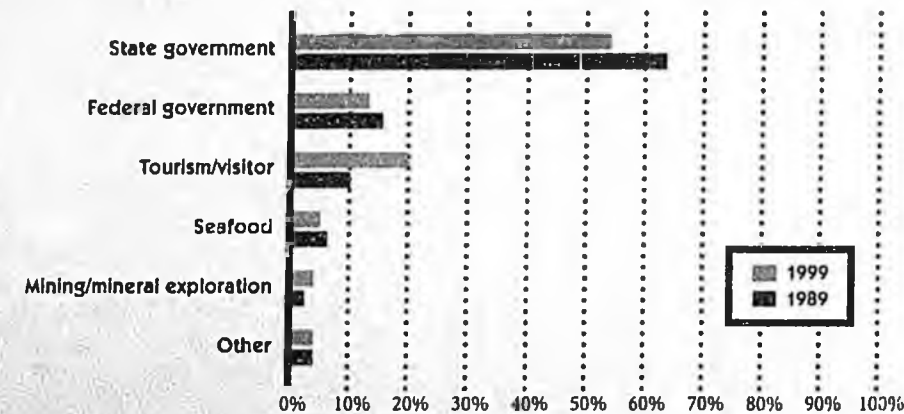
Kensington plan is not economically sustainable because it presumed gold prices would remain above \$400 per ounce. The revised plan could be implemented if its permits are approved and gold prices sustain an upward trend. Current gold prices are less than \$300 per ounce.

Developing the Kensington mine would add desperately needed diversity to Southeast Alaska's economy. Studies show Southeast Alaska increasingly relies upon tourism for its economic base as government employment, fishing, logging and mining shrink. This narrow economic focus makes the region especially vulnerable to downturns in tourism and continued reductions in state government.

The Kensington mine could broaden the region's economic base. Projections show that the mine would generate more than 225 high-salary, year-round jobs for local workers, \$21 million in direct local purchases and \$9 million in direct tax revenue during the next decade.

JUNEAU'S EMPLOYMENT SHIFTS, ECONOMY DECLINES

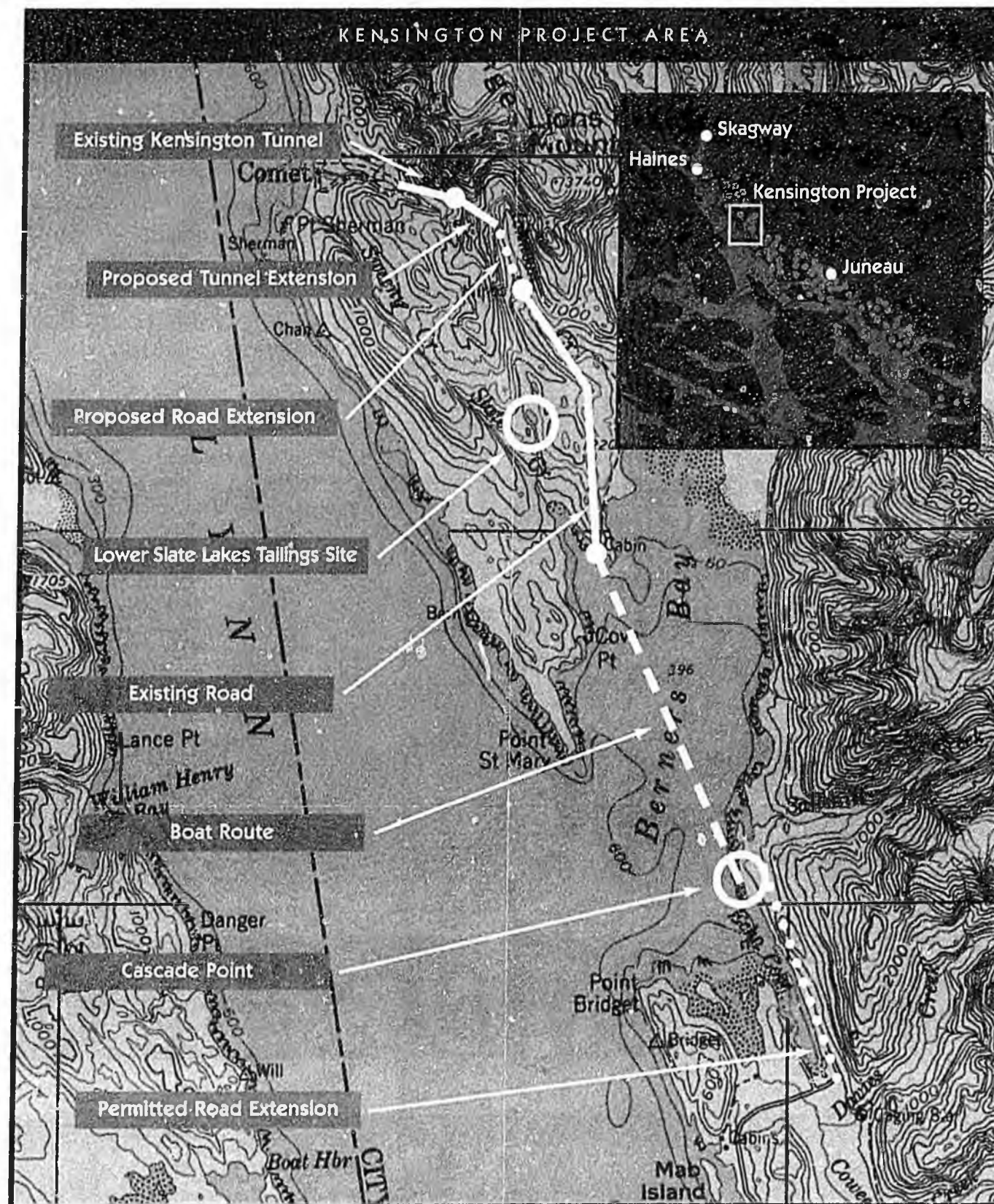
1999 vs. 1989 Juneau Employment



Most of Juneau's job growth during the 1990s was from relatively low-paying service-industry and tourism jobs that do not have significant benefit packages. Economic figures show the economy in Juneau and the rest of Southeast Alaska is in decline, with Juneau's average real wages dropping 10 percent while they increased 12 percent in the rest of the United States.

At the same time, Juneau's cost of living remains about 20-25 percent higher than the national average and it lags behind the rest of the country in manufacturing and other important, non-public sector industries. Juneau is losing its government jobs, dropping from 41.8 percent of employment in 1990 to 33.2 percent in 1999. The majority of Juneau-area mining employment today is at Greens Creek mine.

SOURCE: JUNEAU ECONOMIC DEVELOPMENT COUNCIL IN COLLABORATION WITH THE McDOWELL GROUP, OCTOBER 2001



Workers would commute from Juneau to the Kensington mine by bus and boat. Inset: The 100-mile-long Juneau Gold Belt is dotted with dozens of known gold deposits. Forty-six hard-rock mines extracted some 7 million ounces of gold from the gold-belt before the last mine closed in 1944.

Kensington mine has long tradition

The Kensington Gold Project is located 45 miles north of Juneau, at the northern tip of the famous Juneau Gold Belt. Joe Juneau and Richard Harris discovered large quantities of gold in the region in 1880. They recorded a 160-acre town site that became Juneau to support their discoveries. Some 46 hard-rock gold mines in the 100-mile-long Gold Belt pro-

duced 7 million ounces of gold before the last mine closed in 1944.

Prospectors first discovered gold in the area around Lions Head Mountain and the Kensington Mine in 1886. Five years later the Berners Bay Mining and Milling Company was formed and purchased Kensington and

(CONTINUED ON BACK PAGE, LONG TRADITION)

New Kensington plan preserves environment

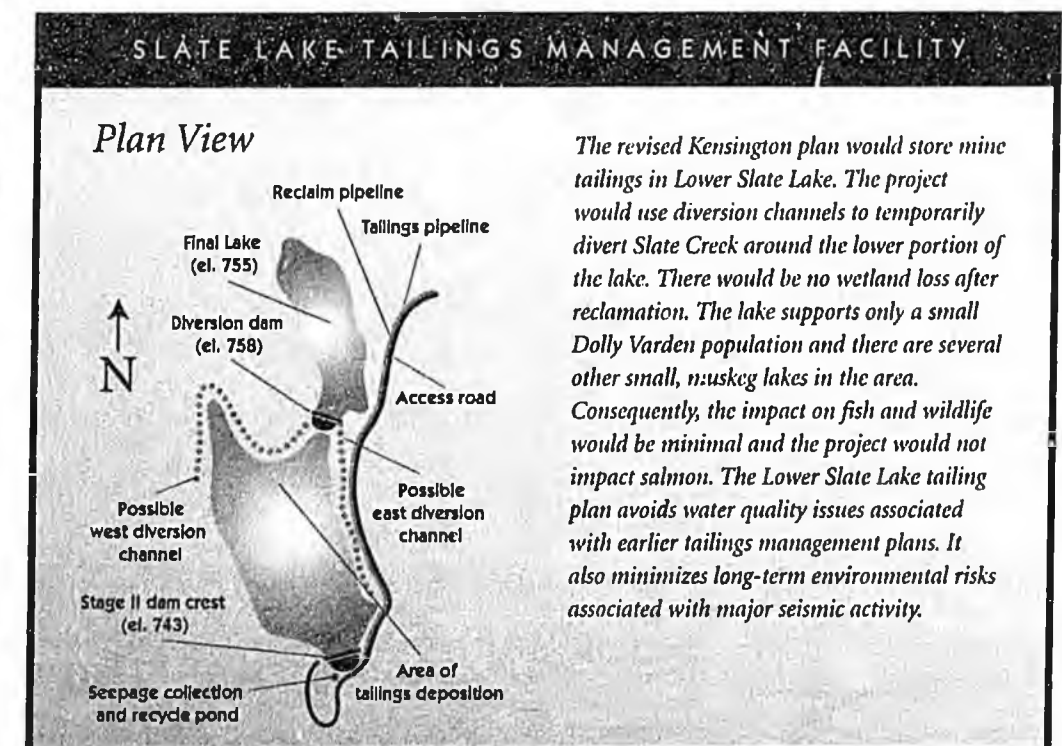
Environmental regulators last permitted the Kensington gold project in 1998. That project is not economically feasible in today's gold market. Consequently, Coeur Alaska redesigned the project to reduce costs, mitigate operating risk, enhance safety, and significantly decrease its environmental impact. The revised project would:

- Ship gold concentrate off-site in sealed containers for treatment and gold recovery. No cyanide processing would occur in Southeast Alaska.
- Store mine tailings in Lower Slate Lake. Water flow into this remote, muskeg lake would temporarily be diverted.
- Improve water quality and reclamation. The mine site would be restored during the project's reclamation phase. There would be no loss of wetlands and minimal impact on fish and wildlife. No salmon would be affected.
- Use a Slate Creek Cove dock to give boats and barges all-weather access to the mine site. This would improve worker transport, safety of fuel and

cargo handling and minimize on-site storage requirements.

- Significantly reduce helicopter traffic to and from mine site.
- Minimize potential conflicts with fisheries and other user groups.
- Minimize long-term environmental risks associated with major seismic activity.
- Impact 25 percent less land than the permitted project. The revised plan would minimize Kensington's footprint and surface disturbance by using existing roads and placing surface structures on privately owned land that has been associated with mining since the late 1800s. The project would be virtually invisible from water level.

Action Required: Regulators, including the U.S. Forest Service, U.S. Army Corps of Engineers and Environmental Protection Agency, must permit the revised plan before the new Kensington mine project may proceed. Other state and local approvals will also be required.



The revised Kensington plan would store mine tailings in Lower Slate Lake. The project would use diversion channels to temporarily divert Slate Creek around the lower portion of the lake. There would be no wetland loss after reclamation. The lake supports only a small Dolly Varden population and there are several other small, muskeg lakes in the area. Consequently, the impact on fish and wildlife would be minimal and the project would not impact salmon. The Lower Slate Lake tailing plan avoids water quality issues associated with earlier tailings management plans. It also minimizes long-term environmental risks associated with major seismic activity.

ALASKA STATE LEGISLATURE

Representative Bruce Weyhrauch

HOUSE DISTRICT 4

ALASKA
STATE CAPITOL
JUNEAU, ALASKA
99801-1182

(907) 465-3744
FAX (907) 465-2273

State Affairs Committee

Rep. Bruce Weyhrauch, Chair

HB 556

AIDEA Bonds for a port development project on Lynn Canal

The Alaska Development and Export Authority, or AIDEA, is a unique funding mechanism that focuses on the development, ownership, and operation of facilities within Alaska. To be considered for funding, projects like roads, ports and utilities must meet specific statutory criteria: they are essential to the economic well-being of an area; are financially feasible; and are supported by the communities in which they are located. AIDEA has been a key player in many of Alaska's economic successes through the years. AIDEA programs have financed small projects, such as the Unalaska Marine Center dock, and larger ones such as the multi-million dollar Red Dog mine and Federal Express aircraft maintenance facility.

HB 556 continues AIDEA's role in boosting economic development and creating jobs in the state by providing legislative authorization for construction of port facilities located on Lynn Canal in Southeast Alaska.

The developed port facility would become an integral component in the permitted Kensington Mine project north of Juneau at the confluence of Lynn Canal and Berners Bay. Once construction begins, the project is expected to employ 325 workers and during its 15 or more operational years, the Kensington will employ about 225 workers. The operational mine is expected to support up to 180 additional indirect jobs as well.

The entire central and northern Southeast regions eagerly await the infusion of construction and mining jobs and the state is fortunate to have a financially healthy agency like the AIDEA to forge public-private partnerships that can strengthen Alaska's economic base.

Contact: Linda Sylvester
465-3744

Released: April 22, 2004



KENSINGTON GOLD PROJECT

Project Summary and Overview of Partnership Opportunities

April 2004





KENSINGTON

GOLD PROJECT

Project Overview

Summary

- Technically feasible, environmentally friendly, and economically viable
- Located 45 miles North of Juneau
- One million ounces of gold reserves; total potential of five million ounces
- Annual production of 100,000 ounces at cash costs under \$200 per ounce
- Capital costs expected to be \$90 million
- Owned by Coeur since 1987; over \$150 million invested in project to date
- Over 900 studies conducted; Over 50 permit applications
- Permitting expected to be completed in June; Construction to begin in July
- Current gold price, Coeur's renewed financial strength, and re-engineered project have created opportunity to rapidly develop project

Significant Employment Impact in SE Alaska

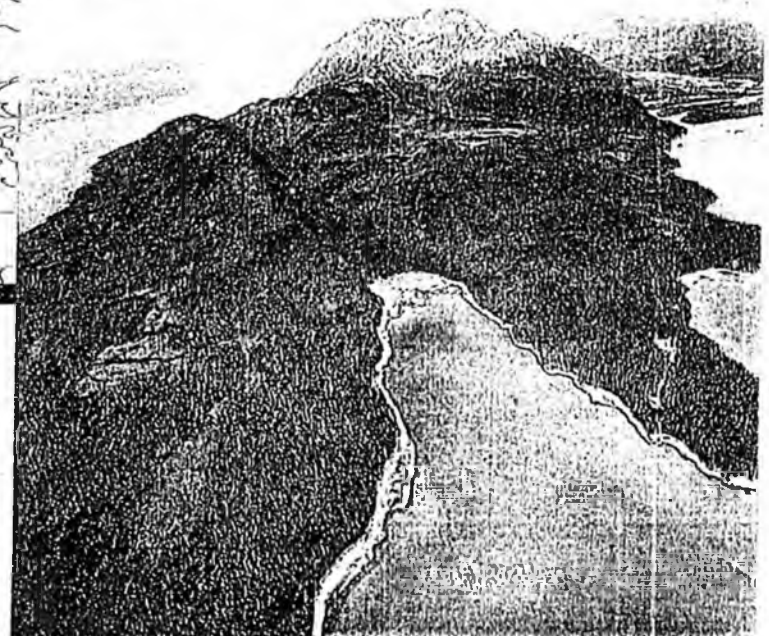
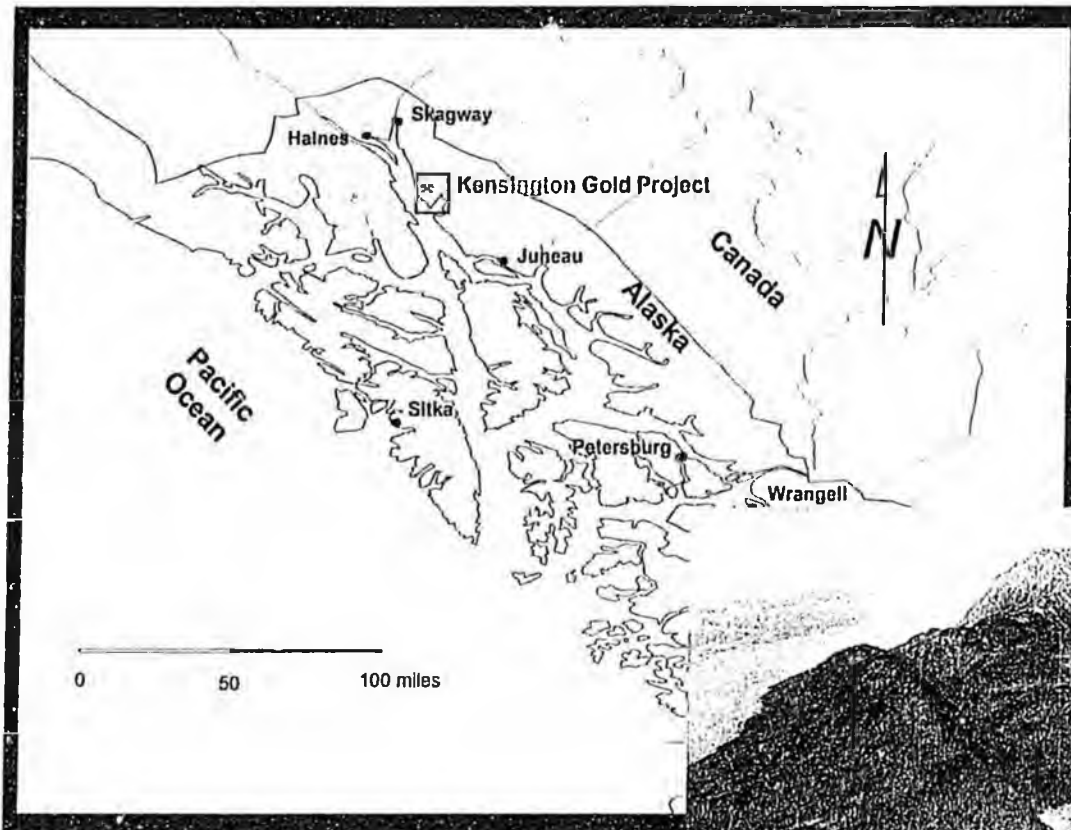
- 250-300 well-paying construction jobs over 18 month construction window
- 110-225 well-paying operating jobs over 10-20 year expected mine life
- Nearly 500 jobs expected to be created beyond direct mine employment (transportation, supplies, services)





KENSINGTON GOLD PROJECT

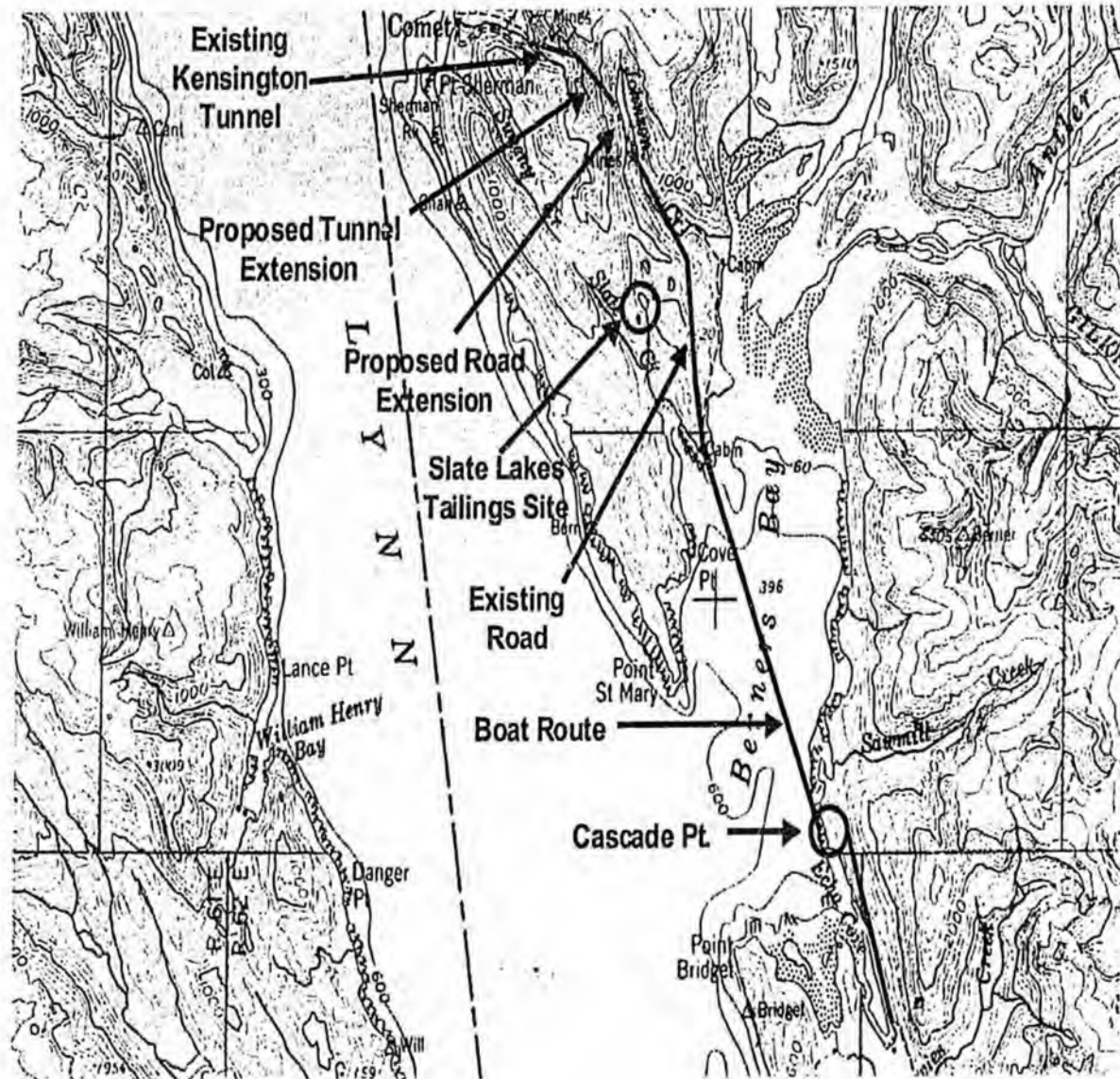
Location





KENSINGTON GOLD PROJECT

Layout of Mine and Facilities





KENSINGTON

GOLD PROJECT

Summary of Potential Partnership Opportunities

- **Training of Workforce**
- **Bus Transportation for Workers**
- ✓ • **Cascade Point Dock Facilities**
- **Passenger Ferry Service Across Berners Bay**
- ✓ • **Slate Creek Cove Dock Facilities**
- ✓ • **5.5 mile Slate Creek Road**
- ✓ • **On-Site Power Plant**
- ✓ • **8,000ft Tunnel Connecting Kensington and Jualin**
- ✓ • **Tailings Management Facility**





KENSINGTON

GOLD PROJECT

Summary of Potential Partnership Opportunities

Training of Workforce





KENSINGTON

GOLD PROJECT

Training of Workforce

Description

- Construction phase will employ a minimum of 300 people both in Coeur employees and contract employees
- Development on the Jualin tunnel and pre-mining development on the Kensington ore faces will coincide with construction. Required manpower will be approximately 25 people.
- Operational manpower will range from 125 to 230 people depending on production levels.

Request

- Funding assistance with the following training requirements:
 - New Miner Training required by MSHA is expected to cost \$500,000
 - Alaska Cultural training for employees is expected to cost \$200,000
 - Skill-based training is estimated to cost \$750,000

Contact

Gary W. Banbury
Sr. Vice President of Human Resources, Safety, and Administration
Coeur d'Alene Mines Corporation
(800) 624-2824
gbanbury@coeur.com





KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

Bus Transportation for Employees





KENSINGTON

GOLD PROJECT

Bus Transportation for Workers

Description

- 2-3 busses will be required to transport workers from the Slate Creek marine terminal to the mine site on a 5.5 mile road
- Loading and trip from dock is assumed to take 30 minutes one way

Request

- Third party to supply and operate busses
- User fee charged to Coeur for this service





KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

Cascade Point Dock Facilities





KENSINGTON

GOLD PROJECT

Cascade Point Dock Facilities

Description

- The project requires a marine terminal at Cascade Point
- Kensington currently has no facilities to transfer freight, supplies, and personnel to and from the mine
- This marine terminal would be constructed on state tidelands.
- Goldbelt Inc. owns the surrounding uplands
- See following page for detailed design drawings. A detailed study was completed by Peratrovich, Nottingham and Drage, Inc. outlining the required construction and , which is available upon request.

Cost of Facilities

- \$2,900,000

Request

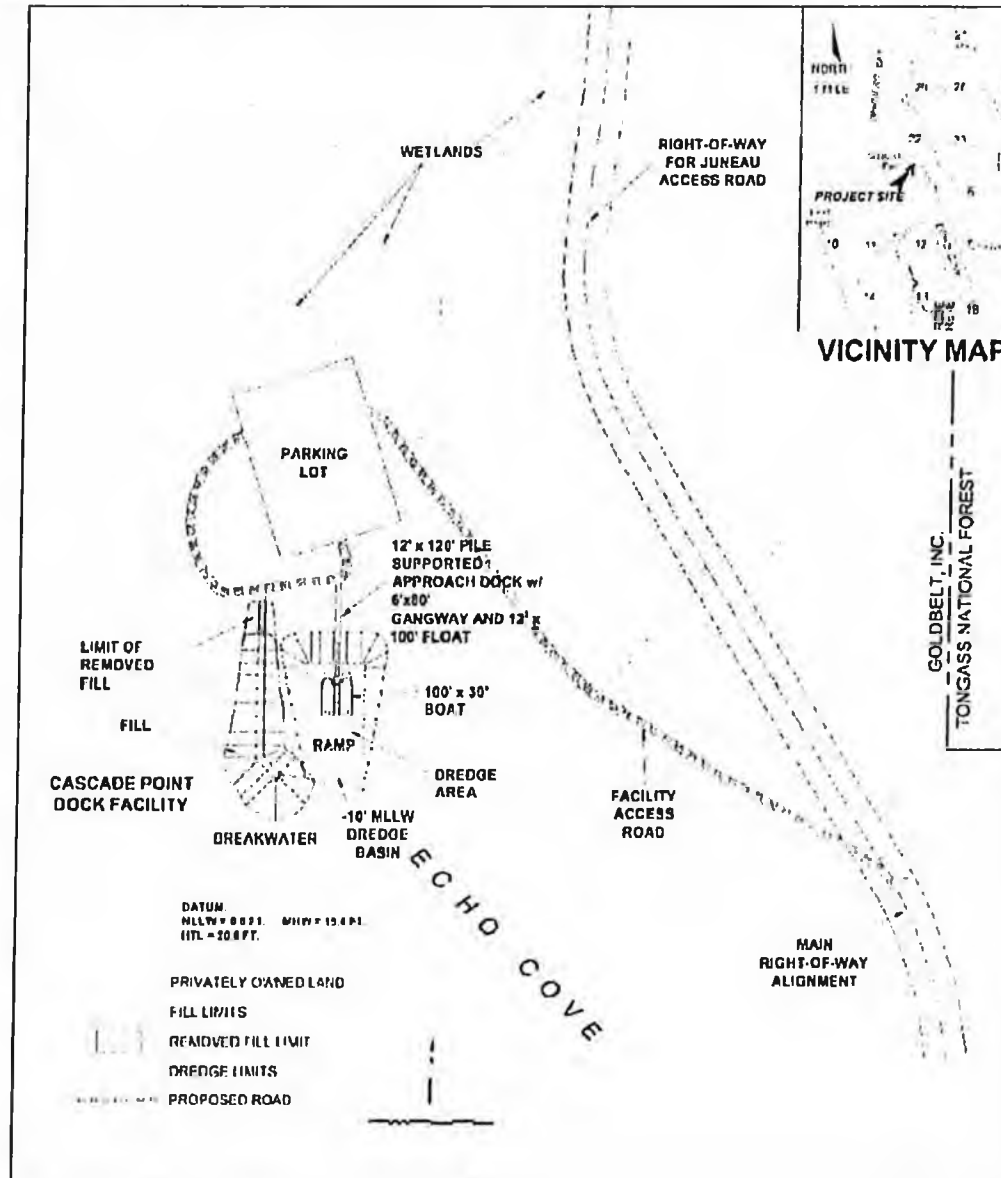
- Grants or financing to fund the construction and operation of this facility
- Outsource ownership and operation of facility to a third party





KENSINGTON GOLD PROJECT

Cascade Point Dock Facilities





KENSINGTON

GOLD PROJECT

Summary of Potential Partnership Opportunities

Passenger Ferry Service Across Berners Bay





KENSINGTON

GOLD PROJECT

Passenger Ferry Service

Description

- Kensington requires a ferry capable of transporting one full shift of workers (+/- 60 people plus freight) three times per day from a marine facility at Cascade Point to Slate Creek Cove
- Trip across Berners Bay is estimated to take fifteen minutes
- 365 days per year; 7 days per week

Cost

- Adequate vessel estimated to cost approximately \$1.0 - \$1.5 million

Request

- Third party to supply and operate ferry
- User fee charged to Coeur for this service
- During time not in use for transporting workers, vessel may be used for other activities

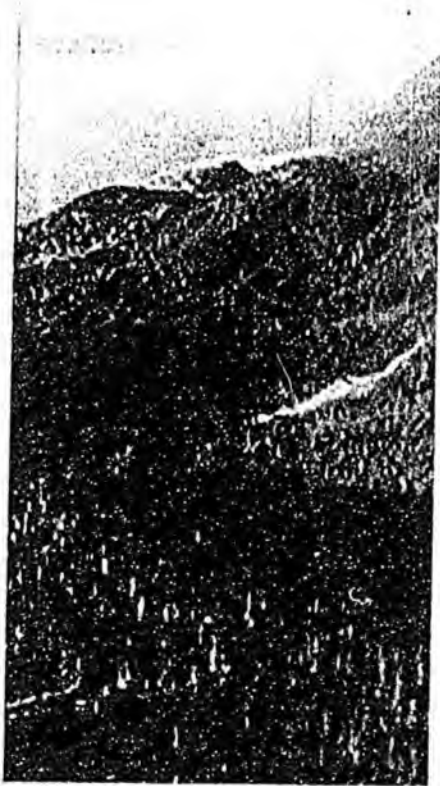




KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

Slate Creek Cove Dock Facilities





KENSINGTON

GOLD PROJECT

Slate Creek Cove Dock Facilities

Description

- It is necessary to construct a port facility at Slate Creek Cove in order to transfer freight, supplies, and personnel to and from Cascade Point
- The concentrate handling, storage, and load-out facility will also be located at this dock

Cost

- \$4,400,000 million
 - \$3.3 million for dock facilities
 - \$1.1 million for concentrate handling facilities

Request

- Grants or financing to fund the construction and operation of this facility
- Outsource ownership and operation of facility to a third party

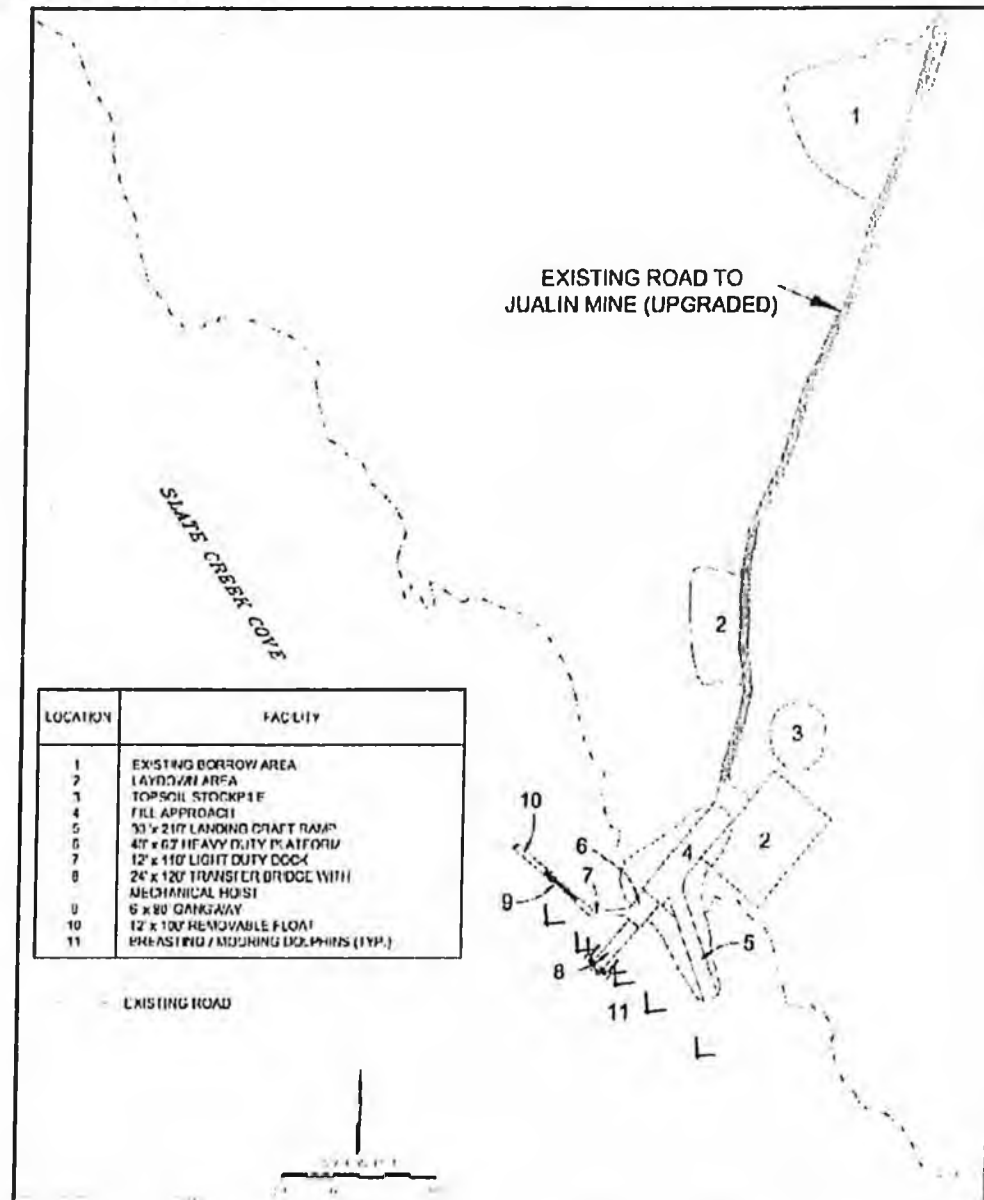




KENSINGTON

GOLD PROJECT

Slate Creek Cove Dock Facilities





KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

Slate Creek Road





KENSINGTON

GOLD PROJECT

Slate Creek Road

Description

- In order to access the mill site and nearby ore body, Coeur needs to construct/improve the 5.5 mile road from Slate Creek Cove.

Cost

- Road: \$2,028,000

Request

- Funding from ADOT under its "Roads to Resources" initiative to upgrade this road

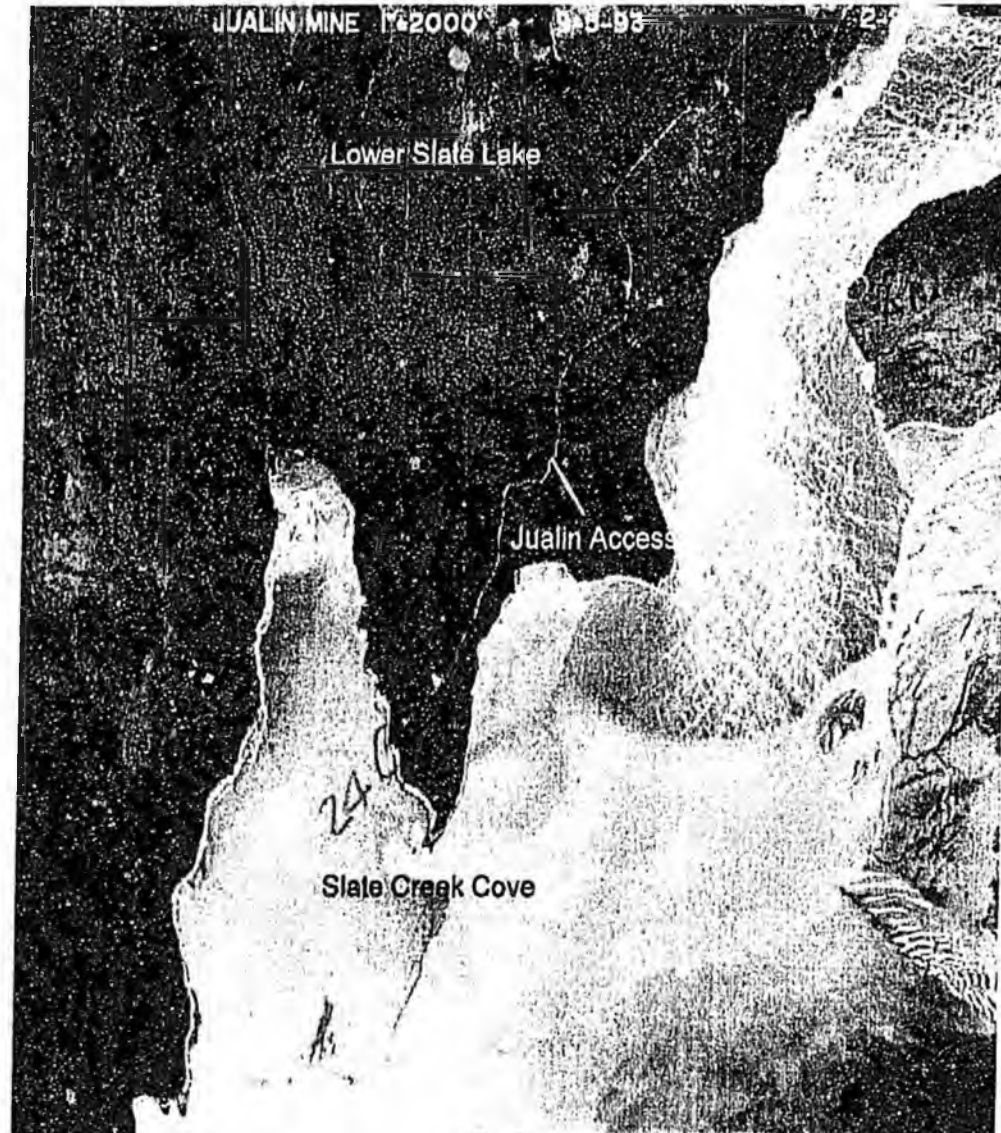




KENSINGTON

GOLD PROJECT

Slate Creek Road





KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

On-Site Power Plant





KENSINGTON

GOLD PROJECT

On-Site Power Plant

Description

- Power will be generated on site that will require a generating plant and stand-by generating capability
- The normal power demands for the mine, process plant and ancillary facilities are estimated to be 3.8 MW
- A 20% allowance for intermittent peak load is designed into the generation facility
- Four medium speed 1.5 MW diesel generator sets (three operating, one stand-by) are designed to satisfy Kensington's total requirements

Cost

- \$6,100,000

Request

- Grant money or alternative financing to purchase generators
- Outsourcing this component of the project to a third party to own and operate in exchange for a user fee

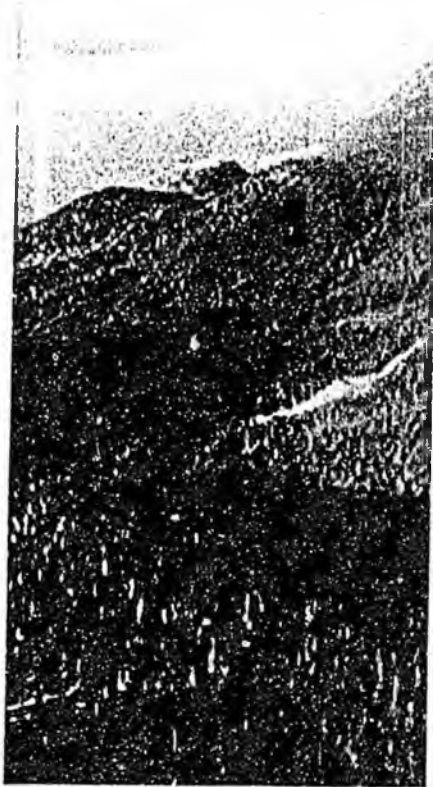




KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

Tunnel Connecting Jualin and Kensington





KENSINGTON

GOLD PROJECT

Tunnel

Description

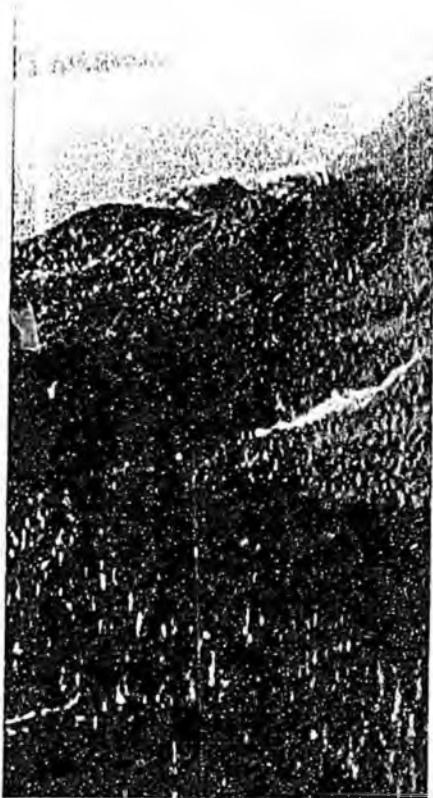
- In order to access the ore body, Coeur needs to construct an 8,000 foot tunnel connecting the Jualin and Kensington areas of the mine
- Integral component to minimizing surface disturbance and allowing Coeur to re-locate processing facilities to Jualin side from the Kensington side
- Also makes commuting from other regions feasible for workers
- Necessary to access ore body

Cost

- \$5,363,000

Request

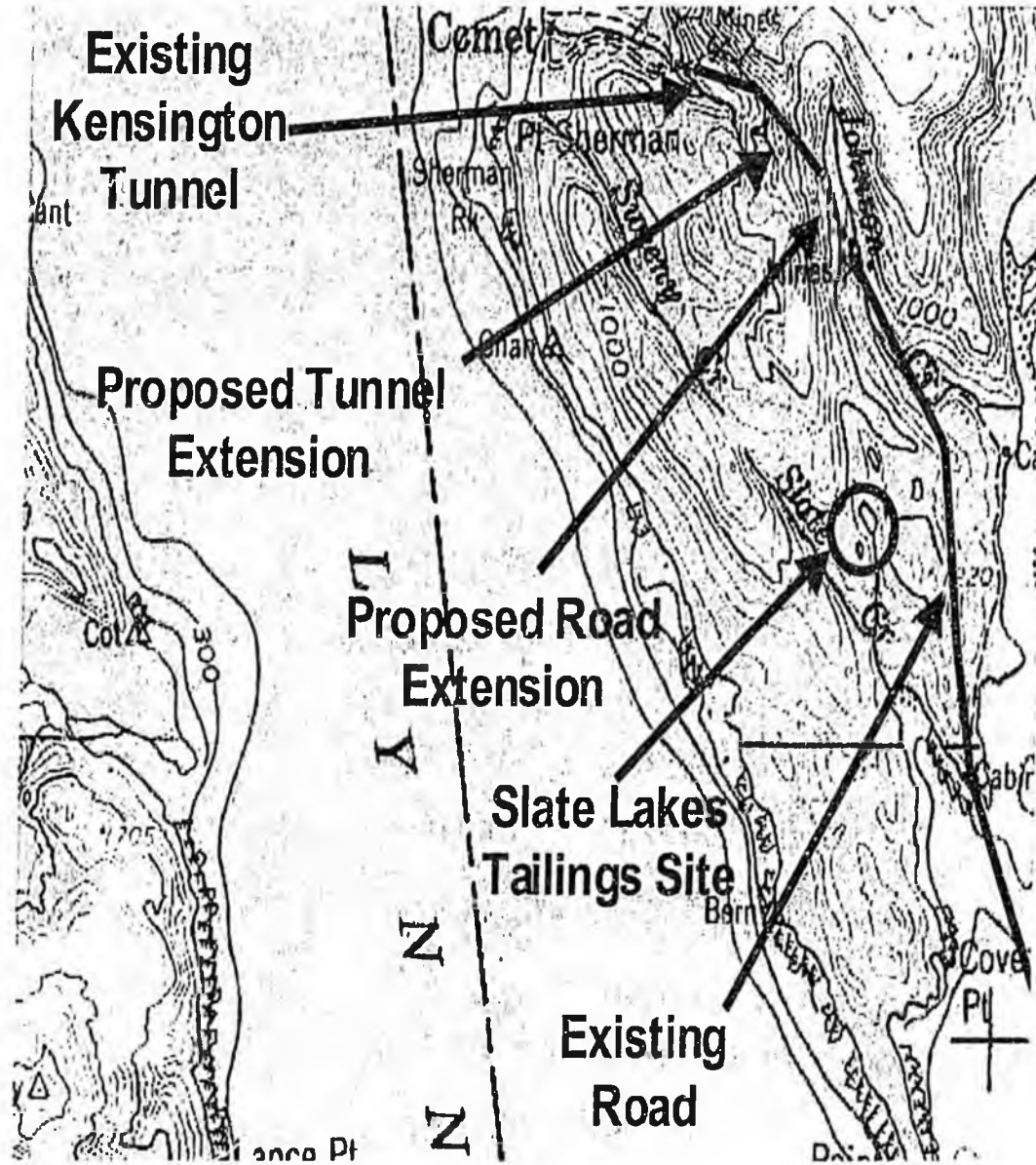
- Grant money or alternative financing to fund the development of this underground road to the ore body





KENSINGTON GOLD PROJECT

Tunnel





KENSINGTON GOLD PROJECT

Summary of Potential Partnership Opportunities

Tailings Management Facility





KENSINGTON

GOLD PROJECT

Tailings Management Facility

Description

- Construction of an environmentally sound tailings impoundment area that will be reclaimed to a natural state upon cessation of mining
- This facility will utilize new, environmentally friendly technology that will establish and confirm new restoration techniques that can be utilized at other tailings facilities.

Cost

- Total capital costs: \$8,737,250
- Ongoing monitoring costs: \$1,365,000 (\$130,000 annually over 10.5 yrs)

Request

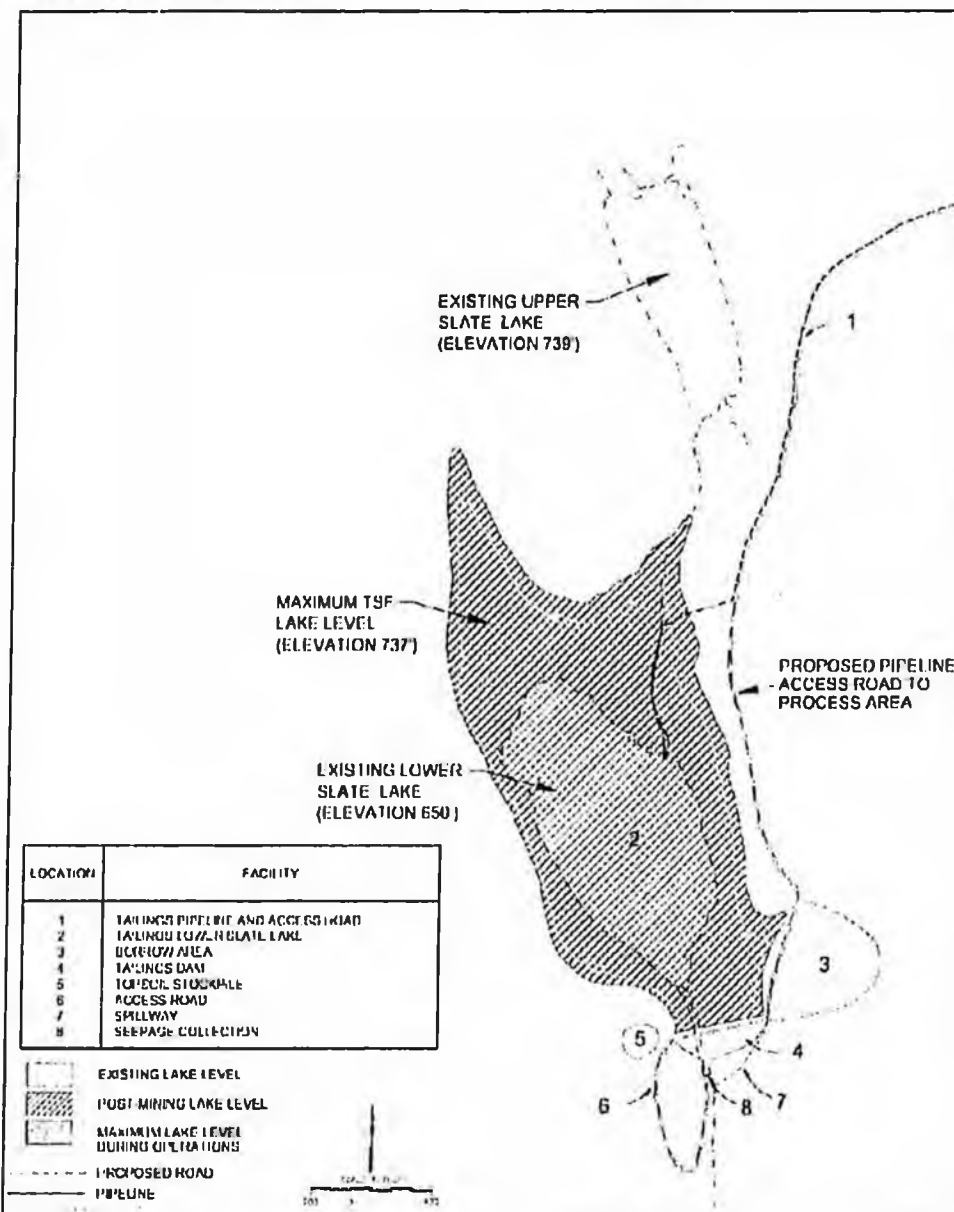
- Grant money or alternative financing to fund the development and operation of this facility
- Outsourcing this component of the project to a third party to own and operate in exchange for a user fee





KENSINGTON GOLD PROJECT

Tailings Management Facility

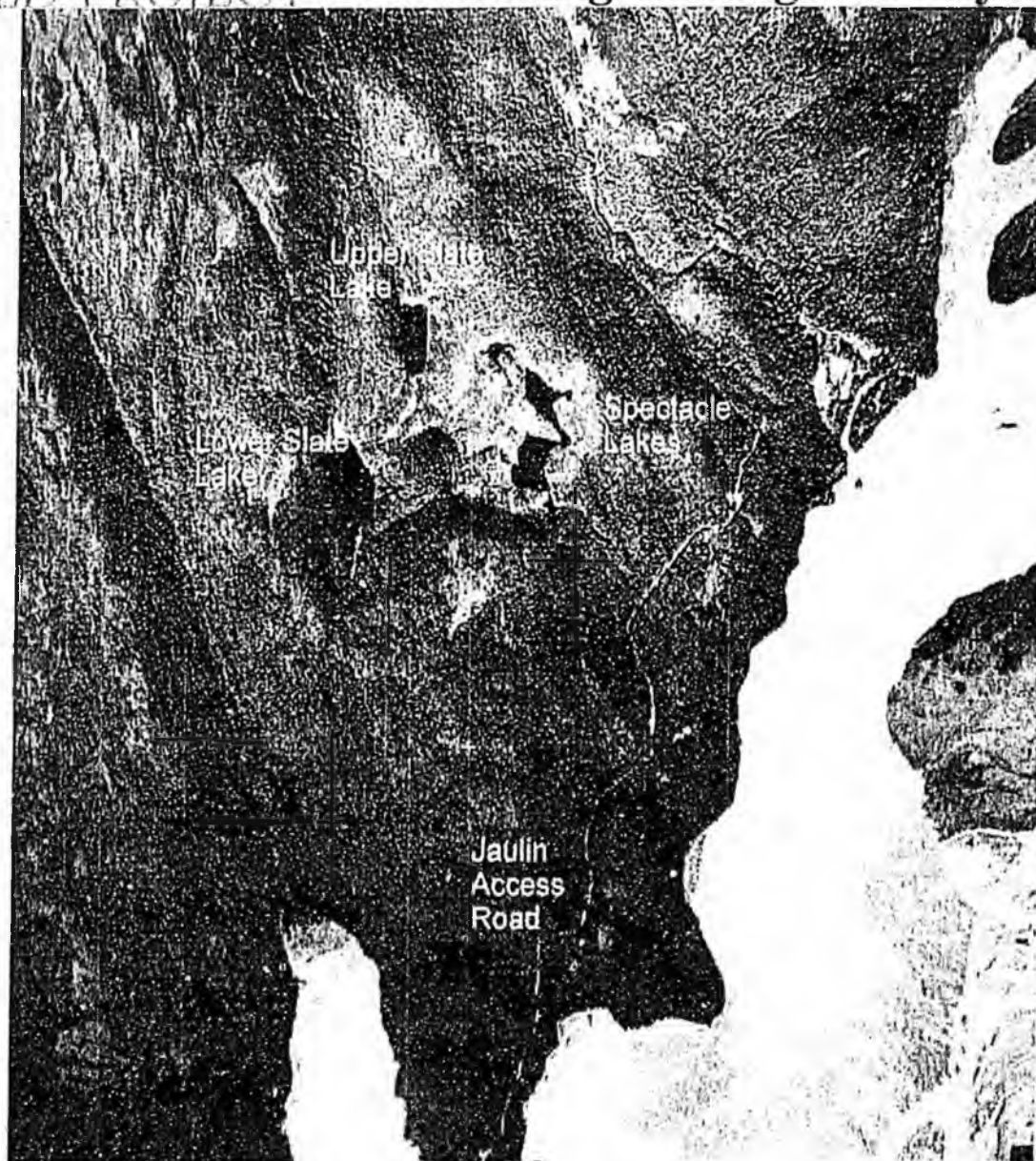




KENSINGTON

GOLD PROJECT

Tailings Management System





KENSINGTON

GOLD PROJECT

Summary of Potential Partnership Opportunities

For Additional Information, Please Contact:

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Kensington Mine Project

NOVEMBER 2001

Economically feasible, environmentally safe Kensington gold mine proposed

 Coeur Alaska is advancing a revised Kensington gold mine plan that substantially reduces capital construction costs and would seek to streamline operations by partnering with Alaska businesses and Southeast Alaska Native corporations. It protects the environment and enhances reclamation by utilizing existing roads and already-developed areas and minimizing new environmental disturbances.

The revised project would store tailings in a remote, muskeg lakebed with minimal fish and wildlife impacts. It would produce a gold concentrate to be shipped off-site in sealed containers for gold recovery. Mining would take place underground and mine production facilities would not be visible from Lynn Canal or

nearby Bemers Bay. The mine site and tailings storage area would be restored at the project's conclusion with zero wetland loss.

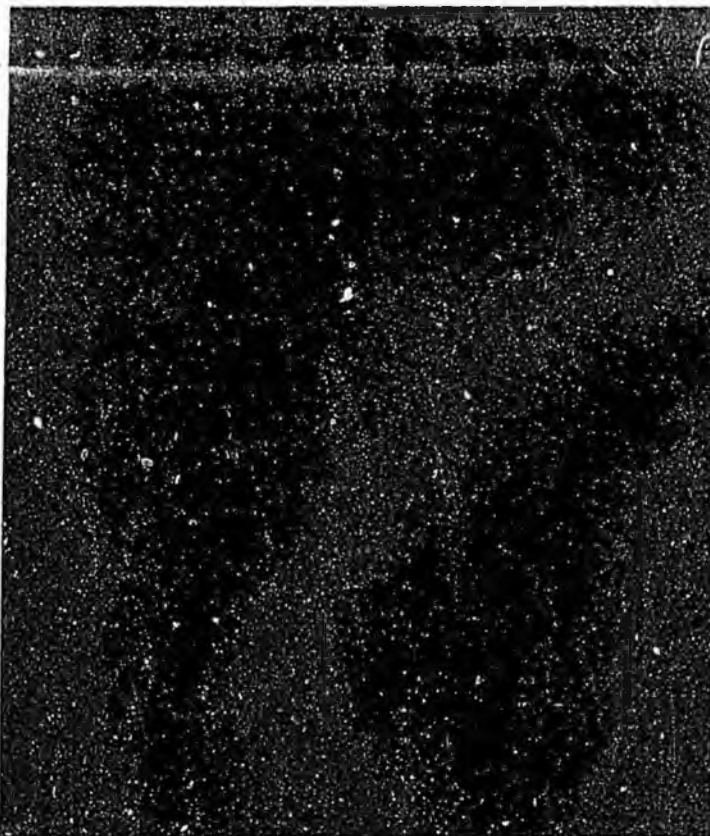
A Slate Creek Cove dock would provide safe, year-round, all-weather marine

transportation. Workers would be carried by boat between the work site and a dock at Goldbelt Corporation's Cascade Point property. Fuel and supplies would be shipped to the mine on a regular

(CONTINUED ON BACK PAGE, NEW PROJECT)



Aerial view looking east toward Comet Beach, Lion's Head Mountain and the Kensington project area.
COEUR ALASKA PHOTO



Good economics spread the wealth

The revised Kensington plan is economically superior to the permitted plan because it would substantially reduce capital and operating costs and spread mine revenue across the state. It calls for Coeur Alaska to partner with Alaska companies and Southeast Alaska Native corporations to fill such needs as transportation, support services and solid waste management. Partnering would reduce Coeur's capital expenses and improve operational efficiency.

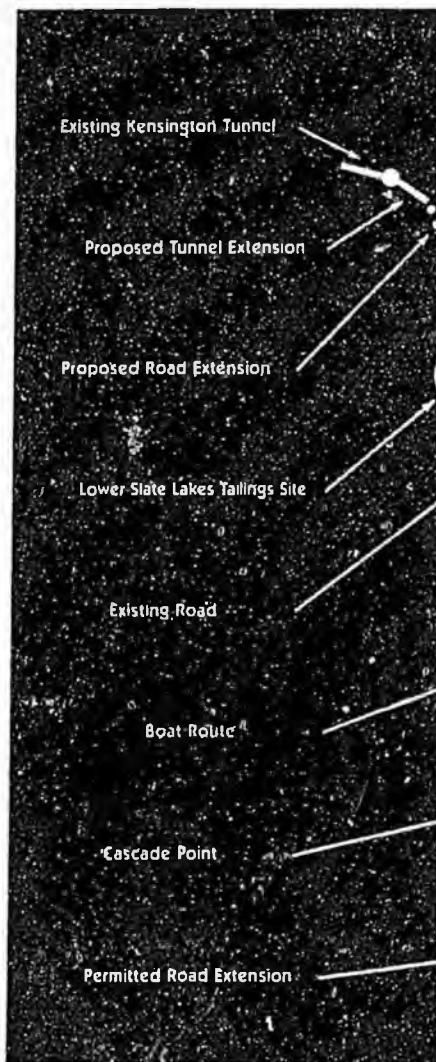
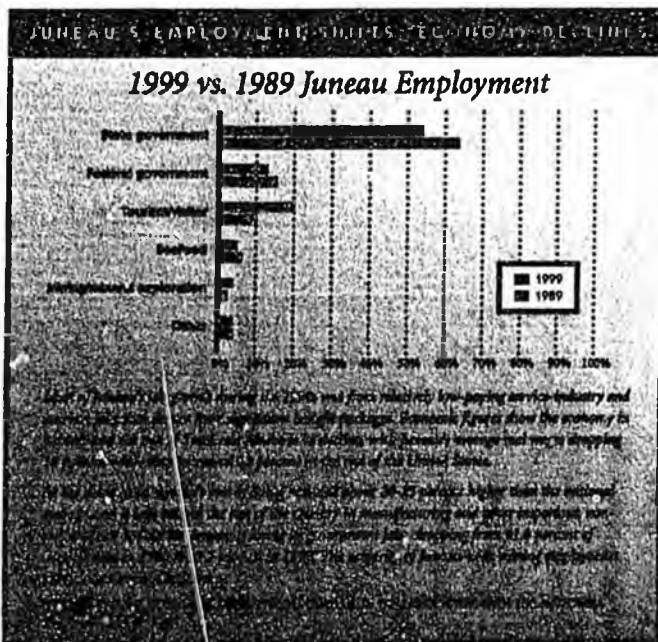
The new plan would shrink the mine's footprint and associated maintenance and reclamation costs. Its all-weather dock facility would provide safe and reliable transportation and reduce operating costs. It would minimize on-site inventory and storage expenses and productivity lost to bad weather.

Most important for Southeast Alaskans, the revised Kensington plan is closer to being economically feasible in today's depressed gold market. The original

Kensington plan is not economically sustainable because it presumed gold prices would remain above \$400 per ounce. The revised plan could be implemented if its permits are approved and gold prices sustain an upward trend. Current gold prices are less than \$300 per ounce.

Developing the Kensington mine would add desperately needed diversity to Southeast Alaska's economy. Studies show Southeast Alaska increasingly relies upon tourism for its economic base as government employment, fishing, logging and mining shrink. This narrow economic focus makes the region especially vulnerable to downturns in tourism and continued reductions in state government.

The Kensington mine could broaden the region's economic base. Projections show that the mine would generate more than 225 high-salary, year-round jobs for local workers, \$21 million in direct local purchases and \$9 million in direct tax revenue during the next decade.



Workers would commute from Juneau to the Kensington mine by bus on of known gold deposits. Forty-six hard-rock mines extracted some 7 mill

Kensington mine

The Kensington Gold Project is located 45 miles north of Juneau, at the northern tip of the famous Juneau Gold Belt. Joe Juneau and Richard Harris discovered large quantities of gold in the region in 1880. They recorded a 160-acre town site that became Juneau to support their discoveries. Some 46 hard-rock gold mines in the 100-mile-long Gold Belt pro-



as. Insert: The 100-mile-long Juneau Gold Belt is dotted with dozens ounces of gold from the gold-belt before the last mine closed in 1944.

as long tradition

duced 7 million ounces of gold before the last mine closed in 1944.

rospectors first discovered gold in the area around ions Head Mountain and the Kensington Mine in 1886. five years later the Berners Bay Mining and Milling Company was formed and purchased Kensington and

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New Kensington plan preserves environment

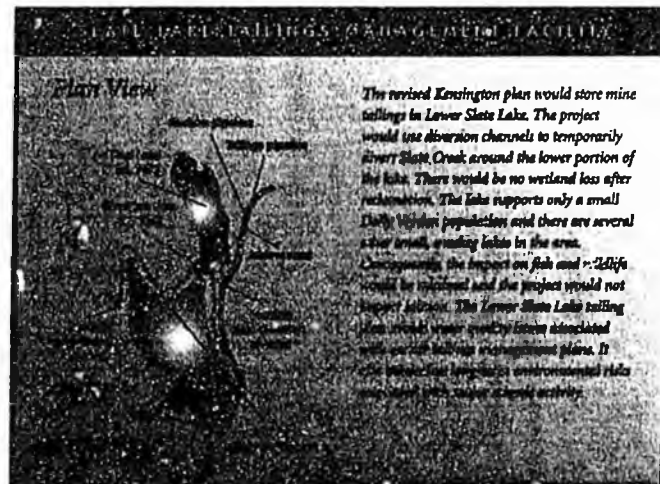
Environmental regulators last permitted the Kensington gold project in 1998. That project is not economically feasible in today's gold market. Consequently, Coeur Alaska redesigned the project to reduce costs, mitigate operating risk, enhance safety, and significantly decrease its environmental impact. The revised project would:

- Ship gold concentrate off-site in sealed containers for treatment and gold recovery. No cyanide processing would occur in Southeast Alaska.
- Store mine tailings in Lower Slate Lake. Water flow into this remote, muskeg lake would temporarily be diverted.
- Improve water quality and reclamation. The mine site would be restored during the project's reclamation phase. There would be no loss of wetlands and minimal impact on fish and wildlife. No salmon would be affected.
- Use a Slate Creek Cove dock to give boats and barges all-weather access to the mine site. This would improve worker transport, safety of fuel and

cargo handling and minimize on-site storage requirements.

- Significantly reduce helicopter traffic to and from mine site.
- Minimize potential conflicts with fisheries and other user groups.
- Minimize long-term environmental risks associated with major seismic activity.
- Impact 95 percent less land than the permitted project. The revised plan would minimize Kensington's footprint and surface disturbance by using existing roads and placing surface structures on privately owned land that has been associated with mining since the late 1800s. The project would be virtually invisible from water level.

Action Required: Regulators, including the U.S. Forest Service, U.S. Army Corps of Engineers and Environmental Protection Agency, must permit the revised plan before the new Kensington mine project may proceed. Other state and local approvals will also be required.



The revised Kensington plan would store mine tailings in Lower Slate Lake. The project would use diversion channels to temporarily divert Slate Creek around the lower portion of the lake. There would be no wetland loss after reclamation. The lake supports only a small Dolly Varden population and there are several other small, breeding lakes in the area. Consequently, the impact on fish and wildlife would be minimal and the project would not impact salmon. The Lower Slate Lake tailings plan would meet regulatory standards and would be consistent with the tailings management plan. It also includes the following environmental risk reduction measures: reduced seismic activity.

NEW PROJECT, CONTINUED FROM FRONT PAGE

schedule reducing the need for extensive storage facilities.

Coeur's new plan would significantly benefit Southeast Alaska's economy. It offers new, high-salary, year-round jobs and revenues that replace lost government, fishing, mining and timber positions. It would also help diversify a regional economy that increasingly relies upon cruiseships and tourism. Diversification would help Southeast better withstand tourism industry slumps and the possible loss of additional state and federal jobs. Alaska tourism has recently been slowing with the national economy and was particularly

hard hit by the September 11 terrorist attacks. The long-term effect of the attack is uncertain, which emphasizes the need for economic diversification.

The Kensington mine should be productive for at least 8 years, and significantly longer if more reserves are found. Production would also extend if Kensington expands into the adjacent Jualin property to access its economic reserve base.

The Kensington project would also generate at least \$9 million in tax revenue in 10 years and \$21 million in local purchases during the same period. Coeur Alaska is committed to local hire and would draw

workers from Juneau, Haines, Skagway, Hoonah, Kake and other Southeast communities.

The revised project's most important feature is economic feasibility. It is considerably less expensive to build and operate than the permitted plan, which means it is more likely to be economically sustainable through periods of fluctuating gold prices. In other words, Alaska, especially Juneau and the rest of Southeast Alaska, are more likely to enjoy Kensington's economic benefits if federal, state and local agencies approve the new plan.

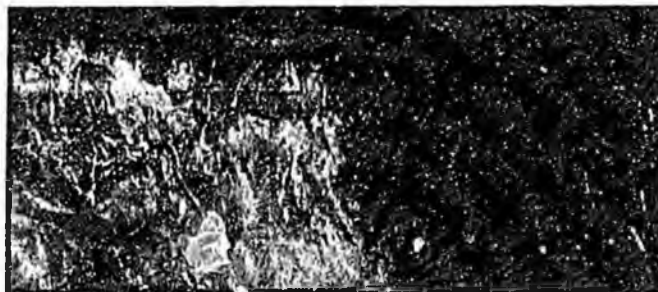
LONG TRADITION, CONTINUED FROM INSIDE

several other surrounding mines. The area was extensively developed and productively mined until financial troubles overwhelmed the company in 1905. Between 1905 and 1917 the mine operated intermittently, changing hands a few times.

At its peak in 1913, Kensington miners drove a 5,000-foot tunnel to the Johnson ore body. After 1917 the Kensington set dormant until 1935, when the Premier Gold Mining Company sent workers to renovate and reopen the mine. The effort was abandoned after a few short years, and again the mine lay idle.

In early 1987, Coeur Alaska, Inc. (a wholly owned subsidiary of Coeur d'Alene Mines Corporation in Idaho) entered into a joint venture to purchase the Kensington Mine property. During the next seven years the Kensington Venture explored the veins deep within the mountain.

In June 1995, Coeur Alaska, Inc. acquired sole ownership of the property. The company worked closely with community and interest groups to redesign the project to revise the tailings treatment plan, eliminate water discharge into Lynn Canal, reduce stream diversions and reclamation risk and eliminate onsite cyanide use. Later that



Bart Thane, Charlie Whipple and an unidentified man stand in the Kensington mine tunnel on November 9, 1909. WINTER AND POND PHOTO, COURTESY OF ALASKA STATE LIBRARY (PCA 07-496)

year, Coeur filed new permit applications incorporating the proposed changes and the U.S. Forest Service commenced a supplemental environmental impact study.

The Forest Service approved Coeur's Kensington Supplemental Environmental Impact Study in August 1997 and other key permits were issued in 1998. By then, however, the world gold market had gone into a very sharp decline with prices falling from more than \$400 an ounce to well below \$300 an ounce between January 1996 and January 1998. The approved Kensington plan was no longer economically feasible in this depressed gold market and analysts predicted that prices were unlikely to return

to the \$400 per ounce target price anytime soon. Gold prices today remain below \$300 per ounce.

Coeur Alaska continued working on the Kensington project and developed a new plan that reduces capital and operating costs, improves safety and better preserves the environment. Regulators including the Forest Service, Army Corps of Engineers and Environmental Protection Agency, the Alaska Departments of Natural Resources, Environmental Conservation and Fish and Game and the City and Borough of Juneau are being asked to approve this revised plan to improve the project's economic viability.