

## NEW ISSUE

In the opinion of Bond Counsel, interest on the 1987A Bonds is exempt from Federal income taxes other than the alternative minimum tax and is exempt from taxation by the State except for net income tax of certain corporations, inheritance and estate taxes, and taxes on transfers by or in contemplation of death. See "Tax Exemption" herein.



**\$103,250,000**

## Alaska Industrial Development Authority

### DeLong Mountain Transportation Project Revenue Bonds, Series 1987A

**Dated: February 1, 1987**

**Due: April 1, as shown below**

The 1987A Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 1987A Bonds. Individual purchases of interests in the 1987A Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interest in the 1987A Bonds. Principal and interest are payable directly to DTC by Rainier National Bank, Seattle, Washington, as Trustee for the 1987A Bonds. Principal is payable on the dates set forth below. Interest is payable semiannually on April 1 and October 1, commencing on October 1, 1987 (eight months' interest). Upon receipt of payments of principal and interest, DTC will in turn remit such principal and interest to the DTC Participants (as such term is herein defined) for subsequent disbursement to the purchasers of interests in the 1987A Bonds, as described herein. The 1987A Bonds will be subject to redemption prior to maturity as set forth herein.

The Authority is issuing the 1987A Bonds as part of the financing for the DeLong Mountain Transportation Project, under the DeLong Mountain Transportation Project Revenue Bond Resolution (as supplemented, the "Resolution"). The 1987A Bonds are payable solely from certain revenues of the Authority pledged by the Resolution and from certain funds and accounts held by the Trustee under the Resolution.

**THE 1987A BONDS ARE NOT OBLIGATIONS OF THE STATE OF ALASKA AND ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY. NEITHER THE STATE NOR THE AUTHORITY HAS PLEDGED ITS FULL FAITH AND CREDIT TO THE 1987A BONDS.**

The payment of the principal of (whether at maturity or upon mandatory sinking fund redemption, but not upon acceleration or optional redemption, as described herein) and interest on the 1987A Bonds will be unconditionally guaranteed under a municipal bond guaranty insurance policy to be issued by the



### MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

Maturity	Amount	Interest Rate	Maturity	Amount	Interest Rate	Maturity	Amount	Interest Rate
1992	\$1,600,000	5.40%	1995	\$1,885,000	6 %	1999	\$2,395,000	6½ %
1993	1,685,000	5.60	1996	2,000,000	6.10	2000	2,550,000	6.60
1994	1,780,000	5.80	1997	2,120,000	6¼	2001	2,720,000	6.70
			1998	2,250,000	6.40			

(Price of all 1987A Bonds shown above: 100%)

\$52,485,000 7.20% 1987A Term Bonds due April 1, 2013 @100%

→ \$29,780,000 7.30% 1987A Term Bonds due April 1, 2017 @100%

(Accrued interest from February 1, 1987 to be added)

The 1987A Bonds are offered when, as and if received by the Underwriters and subject to the approving legal opinion of Ballard, Spahr, Andrews & Ingersoll, Bond Counsel, Washington, D.C., as to validity and the exemption of interest thereon from Federal income taxation. Certain legal matters will be passed upon for the Underwriters by Wohlforth, Flint & Gruening, Anchorage, Alaska. It is expected the 1987A Bonds in definitive form will be available for delivery to DTC on or about March 18, 1987.

**Goldman, Sachs & Co.**

**Prudential-Bache Capital Funding**

**Dated: February 25, 1987**

947,135.125

**ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY**

**1577 "C" Street, Suite 304  
Anchorage, Alaska 99501-5177  
(907) 274-1651**

**BOARD OF DIRECTORS**

**J. Anthony Smith—Chairman  
Thomas G. Behan—Vice Chairman  
Michael G. Harper—Member  
David G. Hoffman—Member  
Hugh Malone—Member**

**AUTHORITY STAFF**

**Bertram L. Wagnon—Executive Director  
Susan M. Weimer—Loan Servicing Officer  
Wayne A. Williams—Deputy Director-Credit  
Rodney W. Burgh—Deputy Director-Finance**

**CONSTRUCTION CONSULTANT**

**Alaska Department of Transportation and Public Facilities  
W. Riley Snell—Deputy Commissioner  
James Lane—Superintendent**

**FINANCIAL ADVISOR**

**PaineWebber Incorporated  
100 California Street  
San Francisco, CA 94111**

**CERTIFIED PUBLIC ACCOUNTANTS**

**Peat, Marwick, Mitchell & Co.  
601 West Fifth Avenue, Suite 700  
Anchorage, Alaska 99501**



No dealer, broker, salesman or other person has been authorized by the Alaska Industrial Development Authority or the Underwriters to give any information or make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Alaska Industrial Development Authority or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the 1987A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the securities offered hereby shall under any circumstances create an implication that there has been no change in the affairs of the Authority since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1987A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED, AND IF DISCONTINUED, THEN RECOMMENCED, AT ANY TIME.

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**OFFICIAL STATEMENT**  
**relating to**  
**\$103,250,000**  
**Alaska Industrial Development Authority**  
**DeLong Mountain Transportation Project**  
**Revenue Bonds, Series 1987A**

**INTRODUCTORY STATEMENT**

This Official Statement provides information with respect to \$103,250,000 aggregate face amount of DeLong Mountain Transportation Project Revenue Bonds, Series 1987A (the "1987A Bonds") of the Alaska Industrial Development Authority (the "Authority" or the "Issuer"). The Authority is issuing the 1987A Bonds as part of the financing for the DeLong Mountain Transportation Project (the "Project"). The State of Alaska (the "State") has specifically authorized the issuance of the 1987A Bonds for this purpose and has made appropriations to the Authority consisting of cash and certain loans which will be used to finance the portion of the cost of the Project not financed with the proceeds of the 1987A Bonds. The Authority's DeLong Mountain Transportation Project Revenue Bond Resolution (the "Bond Resolution") and a first supplemental resolution thereto (the "First Supplemental Resolution" and, together with the Bond Resolution, the "Resolution") provide for the terms of the 1987A Bonds. The Resolution appoints Rainier National Bank, Seattle, Washington, as Trustee, Bond Registrar and Paying Agent for the 1987A Bonds.

The Project consists of a road and port to serve regional needs and permit transportation of zinc concentrates and other minerals from the Red Dog deposit located in the DeLong Mountains in northwest Alaska. The initial principal user of the Project will be Cominco Alaska Incorporated ("Cominco"), a business corporation organized under the laws of the State. Cominco is a wholly-owned subsidiary of Cominco American Incorporated ("Cominco American"), a business corporation organized under the laws of the State of Washington, which is itself an indirect, wholly-owned subsidiary of Cominco Ltd. ("Cominco Ltd."), a Canadian corporation. Cominco American and the Authority have entered into an Agreement for the Financing, Construction, Use, Operation, and Maintenance of the DeLong Mountain Transportation System dated June 30, 1986 (as supplemented and as assigned by Cominco American to Cominco, the "Agreement") pursuant to which Cominco has undertaken to pay the Authority toll fees with certain minimum amounts that are to be determined pursuant to the Agreement based upon the total cost of the Project. See "Pledged Revenues—Project Revenues; The Minimum Annual Assessment" and "The Agreement and The Guaranty" herein. The Authority will assign the Agreement and the right to the toll fees to the Trustee for use as a source of payment for the 1987A Bonds. Cominco Ltd. and the Authority have entered into a Guaranty Agreement dated June 30, 1986 (the "Guaranty") pursuant to which Cominco Ltd. guarantees the timely payment of the obligations of Cominco under the Agreement. The Authority will assign the Guaranty to the Trustee along with the Agreement. Certain banks will, simultaneously with delivery of the 1987A Bonds, issue an irrevocable letter of credit (the "Primary Letter of Credit") to the Trustee with respect to the first 10 minimum annual toll fees payable by Cominco under the Agreement. Each bank's obligation under the Primary Letter of Credit is a several obligation, limited to a fixed percentage of the aggregate amount of the Primary Letter of Credit. Two of the banks, Union Bank of Switzerland and Barclays Bank PLC, will also issue a standby letter of credit (the "Standby Letter of Credit") upon which the Trustee may draw, subject to the limits contained therein, in the event that the other banks fail to make payments under the Primary Letter of Credit. For a description of the Primary and Standby Letters of Credit and information on the banks issuing the Primary and Standby Letters of Credit, see "The Letters of Credit and Reimbursement Agreement" herein and Appendix C attached hereto.

The Red Dog deposit contains one of the largest deposits of zinc in the world. It was discovered in 1968 and is owned by NANA Regional Corporation, Inc. ("NANA"), one of 13 Alaska Native-owned regional corporations formed pursuant to the Alaska Native Claims Settlement Act of 1971. NANA

has authorized Cominco to mine the deposit in exchange for royalty payments to NANA and employment opportunities for the residents of the region. Cominco will use the Project to transport zinc concentrates from the deposit to vessels for shipment to a smelter owned and operated by Cominco Ltd. at Trail, British Columbia, and other smelters located in various areas of the world. The deposit also contains lead and silver, which Cominco will recover and ship as concentrates.

The 1987A Bonds are payable from funds and revenues pledged under the Resolution, including payments made by Cominco under the Agreement, drawings under the Letter of Credit, and revenues from loans appropriated by the State Legislature for the Project (the "Appropriated Loans") as more fully described under "The Bonds—Sources of Payment" and "Pledged Revenues" herein.

Additional Bonds may be issued under the Resolution subject to the satisfaction of certain tests. See "Appendix E—Summary of Certain Provisions of the Resolution—Additional Bonds."

Capitalized terms used, but not otherwise defined, herein shall have the meanings set forth in the Resolution. Certain terms are defined in "Appendix E—Summary of Certain Provisions of the Resolution—Definitions" attached hereto.

### PLAN OF FINANCE

The Authority will apply the proceeds of the 1987A Bonds to finance the port as a dock facility qualifying for financing with bonds the interest on which is exempt from Federal income tax (other than the alternative minimum tax) pursuant to a letter ruling of the Internal Revenue Service dated January 30, 1986. The Authority will use the appropriated cash and principal and interest payments on the Appropriated Loans deposited to the Project Economic Development Fund established under the Resolution to finance the road. The proceeds of the Appropriated Loans also constitute a source of payment of the principal of, premium, if any, and interest on the 1987A Bonds, as more fully described under "The Bonds—Sources of Payment" and "Pledged Revenues—State Appropriations" herein. The Authority estimates that the aggregate amounts received and expended from these and other sources through July 1, 1990, by which date the Project is expected to be placed in service, are as follows:

#### Sources and Uses of Funds Through July 1, 1990

<b>Sources of Funds</b>	
1987A Bond Proceeds .....	\$103,250,000
Available Cash Balance in Project Economic Development Fund (1) ..	36,000,000
Estimated Appropriated Loan Revenues (2) .....	56,160,000
Construction Fund Interest Earnings (3) .....	12,735,463
Project Economic Development Fund Interest Earnings (4) .....	1,977,433
Capital Reserve Fund Interest Earnings (5) .....	2,278,909
<b>Total Sources .....</b>	<b>\$212,401,805</b>
<b>Uses of Funds</b>	
Project Costs (6) .....	\$138,272,000
Deposit to Capital Reserve Fund .....	8,857,575
Deposit to Operation and Maintenance Fund .....	1,000,000
Deposit to Sustaining Capital Fund .....	5,000,000
Interest During Construction .....	24,182,250
Costs of Issuance (7) .....	8,000,000
Administrative Costs .....	2,000,000
Ending Cash Balance .....	25,089,980
<b>Total Uses .....</b>	<b>\$212,401,805</b>

(1) Initial cash appropriation plus accumulated principal and interest payments and prepayments on Appropriated Loans since July 1, 1985.

(2) Reflects scheduled revenues from Appropriated Loans with no prepayments or loan losses.

(Footnotes continued on following page)

*(Footnotes continued from preceding page)*

- (3) Earnings based on investment rate of 6.35% per year.
- (4) Earnings based on investment rate of 5% per year.
- (5) Earnings based on investment rate of 7.4% per year.
- (6) Includes contingency and escalation.
- (7) Includes underwriters' discount and bond insurance premium.

## **THE BONDS**

### **General**

The 1987A Bonds will be dated February 1, 1987, and will bear interest payable semiannually on April 1 and October 1, commencing October 1, 1987 (eight months' interest), at the rates, and will mature on the dates and in the amounts, set forth on the cover page hereof.

The 1987A Bonds when issued will be registered in the name of Cede & Co., as Bondholder and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is the registered owner of all 1987A Bonds, all payments on the 1987A Bonds will be made directly to DTC, and disbursement of such payments to the hereafter described DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners, as defined below, of the 1987A Bonds will be the responsibility of the DTC Participants as more fully described hereafter.

The Resolution authorizes the issuance of Additional Bonds on a parity with the 1987A Bonds. Additional Bonds may be issued as tax-exempt bonds or bonds the interest on which is subject to Federal income taxation. Additional Bonds may be issued for the purpose of completion of the Project or to finance renewals, replacements, repairs, additions, betterments, modifications or improvements to the Project necessary to keep the Project in good operating condition or to prevent a loss of Revenues therefrom, or to finance capital improvements required to be made pursuant to the Agreement. Additional Bonds may be issued under the Resolution only if the projected Debt Service Coverage Ratio for each year is at least 1.30 and the projected attainment of Cash Coverage, which the Resolution defines generally as occurring when the Trustee holds cash equal to 120% of the face amount of the Outstanding Bonds and Subordinated Debt, will not be deferred beyond one year prior to the expiration of the Primary and Standby Letters of Credit. The Resolution also permits the issuance of Refunding Bonds and Subordinated Debt. The 1987A Bonds, together with any Additional Bonds or Refunding Bonds, are referred to herein collectively as the "Bonds." See "Appendix E—Summary of Certain Provisions of the Resolution—Additional Bonds, Refunding Bonds and Subordinated Debt."

Upon the attainment of Cash Coverage, the Resolution permits the Authority to withdraw funds from the pledge of the Resolution in excess of the Cash Coverage amount. The Resolution further provides that upon the attainment of Parity, which the Resolution defines generally as occurring when the Trustee holds Government Obligations that, together with certain prospective payments of the minimum annual assessment secured by the Primary and Standby Letters of Credit, are sufficient to pay all remaining principal and interest on the Bonds, the Authority may withdraw the Appropriated Loans from the pledge of the Resolution. See "Appendix E—Summary of Certain Provisions of the Resolution—Cash Coverage and Parity."

### **Book-Entry Only System**

DTC will act as securities depository for the 1987A Bonds. The ownership of one fully registered 1987A Bond for each maturity as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a



limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Ownership interests in the 1987A Bonds may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the 1987A Bonds as nominees will not receive certificates representing their interests in the 1987A Bonds, but each DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the 1987A Bonds, which will be confirmed in accordance with DTC's standard procedures. Each such person for whom a DTC Participant acquires an interest in the 1987A Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have all notices of redemption or other communications to DTC, which may affect such persons, forwarded in writing by such DTC Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY NOR THE TRUSTEE FOR THE 1987A BONDS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE 1987A BONDS. For the purposes of this Official Statement, the term "Beneficial Owner" shall hereinafter be defined to include the person for whom the DTC Participant acquires an interest in the 1987A Bonds.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 1987A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNER OR OWNERS OF THE 1987A BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 1987A BONDS.

DTC will receive payments from the Trustee to be remitted to the DTC Participants for subsequent disbursement to the Beneficial Owners. The ownership interest of each Beneficial Owner in the 1987A Bonds will be recorded through the records of the DTC Participants, the ownership interests of which, in turn, are recorded through a computerized book-entry system operated by DTC.

Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to action by such Beneficial Owners or those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are required or deemed appropriate to be given, they shall be sent by the Trustee to DTC only and not to the Beneficial Owners. DTC shall forward (or cause to be forwarded) the notices to the DTC

Participants so that such DTC Participants may forward (or cause to be forwarded) the notices to the Beneficial Owners.

Beneficial Owners will receive a written confirmation of their purchase detailing the terms of the 1987A Bonds acquired. Transfers of ownership interests in the 1987A Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the 1987A Bonds.

For every transfer and exchange of the 1987A Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services with respect to the 1987A Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, unless another securities depository is selected, 1987A Bond certificates are required to be delivered. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondholder.

The Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. In such event, 1987A Bond certificates will be delivered.

In the event that the book-entry only system is discontinued, the following provisions would apply: Principal and premium, if any, will be paid at the principal office of the Trustee and interest will be paid by check mailed to the registered owners by the Trustee. 1987A Bonds may be exchanged for an equal aggregate principal amount of 1987A Bonds in other authorized denominations and of the same maturity upon surrender thereof at the corporate trust office of Rainier National Bank, Seattle, Washington, as Trustee. The transfer of any 1987A Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender thereof to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer of registration of 1987A Bonds, the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The 1987A Bonds may not be transferred or exchanged for 15 days immediately preceding the date of mailing of a notice of redemption, and 1987A Bonds selected for redemption may not be transferred or exchanged after they have been called for redemption, except that such 1987A Bonds which have been surrendered for partial redemption may be exchanged for new 1987A Bonds in authorized denominations equal to the aggregate of the unredeemed portion.

### **Redemption Provisions**

*Optional Redemption.* The 1987A Bonds maturing after April 1, 1997 are subject to redemption prior to maturity at the option of the Authority on or after April 1, 1997 as a whole at any time or in part on any interest payment date. Such optional redemptions shall be made at the following applicable redemption price, plus accrued interest to the date fixed for redemption:

<u>Period During Which Redeemed (Both Dates Inclusive)</u>	<u>Redemption Price (Percentage of Principal Amount)</u>
April 1, 1997 through March 31, 1998 .....	102%
April 1, 1998 through March 31, 1999 .....	101
April 1, 1999 and thereafter .....	100

The 1987A Bonds maturing on April 1, 2017 are also subject to redemption prior to maturity at the option of the Authority on April 1, 1992 as a whole or in part at the redemption price of 102%, plus accrued interest to such date.

***Mandatory Sinking Fund Redemption.*** In addition, the 1987A Term Bonds maturing on April 1, 2013 and April 1, 2017 are subject to mandatory redemption, in part, on the dates and in the respective amounts set forth below. Mandatory redemptions shall be made at a redemption price equal to the principal amount of 1987A Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

**1987A Term Bonds Due April 1, 2013**

<u><b>April 1</b></u>	<u><b>Sinking Fund Installment</b></u>	<u><b>April 1</b></u>	<u><b>Sinking Fund Installment</b></u>
2002 .....	\$2,900,000	2008 .....	\$4,400,000
2003 .....	3,110,000	2009 .....	4,715,000
2004 .....	3,335,000	2010 .....	5,055,000
2005 .....	3,575,000	2011 .....	5,420,000
2006 .....	3,830,000	2012 .....	5,810,000
2007 .....	4,105,000	2013 (final maturity) ...	6,230,000

**1987A Term Bonds Due April 1, 2017**

<u><b>April 1</b></u>	<u><b>Sinking Fund Installment</b></u>	<u><b>April 1</b></u>	<u><b>Sinking Fund Installment</b></u>
2014 .....	\$6,680,000	2016 .....	\$7,690,000
2015 .....	7,165,000	2017 (final maturity) ...	8,245,000

***Selection of Bonds to be Redeemed.*** If less than all of the 1987A Bonds of like maturity shall be called for prior redemption, the particular 1987A Bonds or portions of 1987A Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided that for so long as the book-entry only system is being used, the particular 1987A Bonds or portions thereof to be redeemed within a maturity shall be selected by lot by DTC and, in turn, the DTC Participants in such manner as DTC and the DTC Participants may determine; provided further, however, that the portion of any 1987A Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or a multiple thereof, and that, in selecting portions of such 1987A Bonds for redemption, the Trustee, DTC and the DTC Participants shall treat each such 1987A Bond as representing that number of 1987A Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such 1987A Bond to be redeemed in part by \$5,000.

***Notice of Redemption.*** When the Trustee receives notice from the Authority of its election or direction to redeem 1987A Bonds and when redemption of 1987A Bonds is authorized or required, the Trustee is to give notice of such redemption (i) to DTC not less than 30 days nor more than 60 days prior to the date fixed for redemption; or (ii) in the event the book-entry only system is discontinued, by United States registered or certified mail or overnight delivery service, return receipt requested, postage prepaid, to the Bondholders not less than 30 nor more than 60 days prior to the redemption date and to each registered securities depository and nationally recognized information service that disseminates redemption information, sent at least two business days in advance of the mailed notice to Bondholders of any publication date. Notice of redemption shall also be published once not less than 30 or more than 45 days prior to the redemption date in the "The Bond Buyer" or any publication carrying municipal bond notices and devoted primarily to financial news or the subject of state and municipal bonds, printed in the English language and customarily circulating at least once a day for at least five days a



week (other than legal holidays) in New York, New York. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Unless the book-entry only system shall have been discontinued, the Authority and the Trustee will recognize DTC or its nominee as the Bondholder. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to Beneficial Owners will be governed by arrangements between them, subject to any statutory and regulatory requirements as may be in effect from time to time.

If at the time of mailing notice of redemption the Authority shall not have deposited with the Trustee moneys sufficient to redeem the 1987A Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of moneys sufficient to effect such redemption with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

### **Authority and Purpose**

The 1987A Bonds are being issued to finance part of the cost of construction, acquisition and equipping of the Project pursuant to the Alaska Industrial Development Authority Act, codified as Title 44, Chapter 88, Alaska Statutes (as amended and supplemented, the "Industrial Development Act") and the act of the State Legislature entitled "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date" (Chapter 68, Session Laws of Alaska 1985), as amended or supplemented from time to time (collectively referred to as the "Act").

### **Sources of Payment**

All Bonds issued under the Resolution are payable solely from (i) the proceeds of the sale of the Bonds, (ii) all right, title and interest of the Authority in, to and under the Agreement (except for indemnification payments made to the Authority pursuant to the Agreement), the Guaranty, the Primary Letter of Credit and the Standby Letter of Credit, (iii) the Revenues, (iv) the Appropriated Loans and (v) all Funds established by the Resolution (other than the Excess Investment Earnings Fund, which shall be held by the Trustee for payment to the United States of America), including the investments, if any, thereof. Such pledge is subject only to the provisions of the Resolution permitting the application of funds and revenues and release thereof for the purposes and on the terms and conditions set forth in the Resolution. Appropriated Loans, and the Revenues derived therefrom, are subject to release from the lien of the Resolution under certain conditions. See "Appendix E—Summary of Certain Provisions of the Resolution—Pledge" attached hereto.

"Revenues" are defined in the Resolution to mean (i) all revenues, income, rents and receipts derived or to be derived by the Authority from or attributable or relating to the ownership and operation of the Project, including all revenues attributable or relating to the Project or to the payment of the cost thereof received or to be received by the Authority from or on behalf of users of the Project, including Cominco (other than any indemnification payments made to the Authority under any User Contract) and any drawings under the Primary or Standby Letters of Credit or any substitute letter of credit (the "Cominco Credit Enhancement") or the proceeds of any securities delivered in replacement of the Cominco Credit Enhancement, (ii) the proceeds of any insurance on any loss relating to the Project (unless deposited in the Construction Fund to be used to repair or rebuild any portion of the Project), (iii) any payments or repayments of principal of and interest on Appropriated Loans, the proceeds, if any, of insurance or sale of property securing such Appropriated Loans as a result of default by the debtor under any such Appropriated Loan, the proceeds of condemnation, if any, of property securing such Appropriated Loans or the proceeds of sale or other disposition of such Appropriated Loans, until

release of Appropriated Loans from the lien created under the Resolution as provided herein, and (iv) investment income received or to be received on any moneys or securities held in Funds established under the Resolution (other than the investment income with respect to moneys held in the Excess Investment Earnings Fund, which is held by the Trustee for payment to the United States of America).

Neither the members of the Authority nor any person executing the Bonds are liable personally on the Bonds or are subject to personal liability or accountability by reason of issuance of the Bonds.

**The Bonds do not constitute an indebtedness or other liability of the State or of a political subdivision thereof, except the Authority, but shall be payable solely from the income and receipts or other funds and property of the Authority pledged under the Resolution. The pledge created under the Resolution does not constitute the pledge of the faith or credit of the State or of any political subdivision thereof or of the Authority to the payment of any Bond, and the issuance of the Bonds by the Authority does not directly or indirectly or contingently obligate the State or any political subdivision thereof to apply money from, or levy or pledge, any form of taxation whatever to the payment of any Bond or obligate the Authority to apply money from sources other than the income, receipts or other funds pledged under the Resolution to the payment of any Bond.**

#### **The Capital Reserve Fund**

The Industrial Development Act and the Resolution provide for a Capital Reserve Fund to be held by the Trustee, which is required to have on deposit an amount equal to the maximum Aggregate Debt Service coming due on all Bonds Outstanding in the then current or any future Fiscal Year to which the calculation relates (the "Capital Reserve Fund Requirement"). Under the Industrial Development Act and the Resolution, the Capital Reserve Fund may be funded from moneys appropriated therefor by the State or from proceeds of the sale of Bonds or other moneys available to the Authority therefor. In the event that other funds available under the Resolution are insufficient to pay interest then due on the Bonds or the principal or redemption price thereof (whether redeemed from Sinking Fund Installments or otherwise), the Trustee is required to apply amounts in the Capital Reserve Fund to make such payments. In the event that a deficiency exists and Revenues are insufficient to restore the Capital Reserve Fund to the Capital Reserve Fund Requirement, the Industrial Development Act provides that the State Legislature may appropriate moneys to fund such deficiency, as follows:

The chairman of the authority shall annually, no later than January 2, certify in writing to the governor and the legislature, the amount, if any, required to restore any capital reserve fund requirement. The legislature may appropriate to the authority the amount certified by the chairman of the authority. The authority shall deposit the amounts appropriated under this subsection during a fiscal year in the proper capital reserve fund. Nothing in this section creates a debt or liability of the state. (Alaska Statutes 44.88.105(d))

The Authority has covenanted in the Resolution to certify, and request an appropriation of, the amount of any deficiency in the Capital Reserve Fund at the time and in the manner required by the Industrial Development Act and to pay amounts received from any appropriation in respect thereof into the Capital Reserve Fund. The State has no obligation to make any such appropriation. The Resolution authorizes the Authority to accept and transfer to the Trustee any additional appropriations made by the State to restore deficiencies in the Capital Reserve Fund established under the Resolution.

The Capital Reserve Fund Requirement with respect to the 1987A Bonds is \$8,857,575 and will initially be funded from proceeds of the 1987A Bonds.

## Bond Insurance

The following information has been furnished by Municipal Bond Investors Assurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix G for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 1987A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 1987A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 1987A Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the 1987A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the 1987A Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or other paying agent for the 1987A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer or its designee from the Trustee or any owner of a 1987A Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with Citibank, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of the 1987A Bonds or presentment of such other proof of ownership of the 1987A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 1987A Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the 1987A Bonds in any legal proceeding related to payment of insured amounts on the 1987A Bonds, such instruments being in a form satisfactory to Citibank, N.A., Citibank, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on the 1987A Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA, Inc. The shareholders of MBIA, Inc. are Aetna Life and Casualty Company and one of its subsidiaries, Fireman's Fund Insurance Company, subsidiaries of CIGNA Corporation and The Continental Insurance Company and one of its affiliates. Neither MBIA, Inc. nor its shareholders are obligated to pay the debts of or claims against the Insurer. The Insurer, which commenced municipal bond insurance operations on January 5, 1987, is a limited liability corporation rather than a several liability association. The Insurer is domiciled in the State of New York and licensed to do business in various other states. As of December 31, 1986, the Insurer had admitted assets (unaudited) of approximately \$842 million, total liabilities (unaudited) of approximately \$487 million, and total capital and surplus (unaudited) of approximately \$355 million, in



accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Copies of the Insurer's financial statements prepared in accordance with statutory accounting practices will be available from the Insurer on or about March 1, 1987. The address of the Insurer is 445 Hamilton Avenue, White Plains, New York 10601.

Some of the shareholders of MBIA, Inc. are among the members of the Municipal Bond Insurance Association (the "Association"); however, the Insurer is a separate and distinct entity from the Association. **THE ASSOCIATION HAS NO LIABILITY FOR THE OBLIGATIONS OF THE INSURER UNDER THE POLICY.**

Standard & Poor's Corporation rates all new issues insured by the Insurer "AAA" Prime Grade.

Moody's Investors Service rates all bond issues insured by the Insurer "Aaa" and short term loans "MIG 1", both designated to be of the highest quality.

Each such rating should be evaluated independently of any other rating. No application has been made to any other rating agency in order to obtain additional ratings on the 1987A Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 1987A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the 1987A Bonds.

#### **Insurer Deemed Owner of all 1987A Bonds**

The Resolution provides that unless the Insurer is in default under the Insurer's policy, the Insurer will be deemed to be the Owner of all Outstanding 1987A Bonds for purposes of taking any and all actions, including the giving of directions, consents, approvals, notices and waivers with respect to Events of Default and remedies under, or amendments to or supplements of, the Resolution.

### **THE AUTHORITY**

#### **General**

The Authority was created by the State Legislature in 1967 pursuant to the Industrial Development Act to finance industrial and business enterprises for the purpose of promoting the general prosperity and economic welfare of the people of the State, and to relieve problems of unemployment.

The day to day operations of the Authority are under the guidance of the Executive Director, who reports to the Board of Directors (the "Board"). The Board generally meets at least twice each month to set policy, to review and, if appropriate, pass resolutions and to monitor the actions of the Authority. The Executive Director is responsible for implementing the policies established by the Board, hiring and reviewing staff performance and managing the general operations of the Authority. Deputy Directors who report to the Executive Director administer credit and loan underwriting, and finance and accounting. The total staff of the Authority is 15 individuals, all located in Anchorage.

### **Authority Members**

The powers of the Authority are vested in its five directors: two members of the general public appointed by the Governor for two years and three ex officio members. The ex officio members are the Commissioner of Commerce and Economic Development of the State, the Commissioner of Revenue of the State and one other member of the Governor's Cabinet appointed at his discretion. The Commissioner of the Department of Community and Regional Affairs of the State is the Cabinet member currently selected by the Governor as his discretionary Cabinet appointee. The current directors of the Authority are:

J. ANTHONY SMITH, Chairman, Commissioner of the Department of Commerce and Economic Development. Mr. Smith was appointed Commissioner in January 1987. Prior to Mr. Smith's appointment, he was a partner in the Anchorage law firm of Smith, Gruening, Brecht, Evans and Spitzfaden. He is a board member of the Anchorage Organizing Committee for the Winter Olympics, Commonwealth North, the Alaska Resource Development Council and a former University of Alaska adjunct professor in the School of Justice. He holds a degree from Cornell University specializing in international law.

THOMAS G. BEHAN, Vice Chairman. Mr. Behan is Chairman of Westar Financial Services Corp. He previously held positions in the mortgage and banking industries, including President and Chief Executive Officer of Alaska Pacific Bank, and is active in several community service organizations. Mr. Behan holds a Bachelor of Arts degree in Business Administration from the University of Texas. He was appointed a director of the Authority in August 1985 for a term expiring July 1, 1987.

MICHAEL G. HARPER. Mr. Harper currently is Vice President of the United Bank of Alaska. Previously, he held the positions of Administrative Assistant to the Governor, Deputy Commissioner of the Department of Community and Regional Affairs and Executive Director of the Rural Alaska Community Action Program. Mr. Harper was appointed as an Authority director in August 1981, and subsequently reappointed for a term expiring on June 30, 1985. Mr. Harper recently received his third appointment to the Board for a term expiring on June 30, 1988.

DAVID G. HOFFMAN, Commissioner of the Department of Community and Regional Affairs. Mr. Hoffman has worked as a manager and economic analyst for rural organizations and businesses throughout Alaska and Arctic Canada since 1973. During that time he has been a resident of five different rural communities. He has also worked as a strategic planning consultant to Fortune 500 companies with the firm of Marshall Bartlett, Inc. in Boston. Mr. Hoffman was appointed Commissioner in January 1987.

HUGH MALONE, Commissioner of the Department of Revenue. Mr. Malone was appointed Commissioner in December 1986. He previously has been the Vice-Chairman of the Alaska Permanent Fund Corporation, Speaker of the House and Chairman of the Finance Committee in the State House of Representatives. He has been a resident of the State since 1958.

### **Administration**

The Authority's programs are managed by an administrative staff consisting of an Executive Director, two Deputy Directors, a loan officer and eleven other employees. The Authority's key officers are listed below.

BERTRAM L. WAGNON, Executive Director. Mr. Wagon was appointed Executive Director in May 1982. Prior to his appointment as Executive Director, Mr. Wagon served as Assistant Deputy Commissioner of the Department of Transportation and Public Facilities and as Deputy Commissioner of the Department of Commerce and Economic Development. Before entering State service, Mr. Wagon was employed by an investment banking firm. He holds a degree in Business Administration from the University of Alaska.

SUSAN M. WEIMER, Loan Servicing Officer. Ms. Weimer joined the Authority in December 1981 and was appointed to her present position in February 1983. She is responsible for all aspects of loan servicing. Prior to joining the Authority, Ms. Weimer had been employed in commercial banking in Alaska and Colorado for seven years. She earned a Bachelor of Science degree at Colorado State University, Fort Collins.

WAYNE A. WILLIAMS, Deputy Director-Credit. Mr. Williams joined the Authority in February 1981 as a Senior Loan Officer. He is responsible for all credit origination, loan underwriting and loan servicing. Prior to employment by the Authority, Mr. Williams was employed for 10 years by The First National Bank of Anchorage in various real estate lending positions. He holds a degree in Business Administration from Iowa State University.

RODNEY W. BURGH, Deputy Director-Finance. Mr. Burgh was appointed to this position in October 1981. His responsibilities include accounting, budgeting, investments, purchasing, personnel and data processing. Prior to joining the Authority, he was engaged in commercial banking in Alaska for more than 30 years, serving in various capacities including cashier, comptroller, executive vice president and board member. Mr. Burgh is a graduate of the Pacific Coast Banking School, the School for Bank Administration and Washington State University, where he obtained a Bachelor's degree in Business Administration and Accounting.

### **Authority Programs**

*Initial Programs.* To date, the Authority's economic development activities have included the financing of projects through the issuance of general obligation debt of the Authority, the proceeds of which are used for the acquisition of participations in loans made by financial institutions in Alaska. Such debt is secured by assets and revenues of the Authority's Enterprise Development Fund established by Section 155 of the Industrial Development Act (the "Enterprise Development Fund") and several capital reserve funds established in connection therewith. The Authority's general assets are held in the Enterprise Development Fund. The Authority's economic development activities utilizing the Enterprise Development Fund have resulted in capital expenditures in the State of approximately \$872.1 million and the creation or retention of approximately 13,617 permanent jobs. The 1987A Bonds are not general obligation debt of the Authority and are not secured by the assets of nor payable from moneys on deposit in the Enterprise Development Fund nor by the capital reserve funds established in connection with debt secured by the Enterprise Development Fund.

In addition to the Enterprise Development Fund program, under the Industrial Development Act and the regulations of the Authority, the Authority also administers a "self-sustaining" revenue bond program intended to provide financing to those borrowers not using credit assistance by the Authority. As of December 31, 1986, the Authority had funded 284 projects aggregating \$591.7 million under the revenue bond program for businesses located in various parts of the State. These financings were made possible by the original enabling legislation as well as subsequent legislative amendments expanding the Authority's purposes to include commercial projects, industrial parks, air and water transportation facilities, pollution control facilities, facilities for the disposal of sewage and solid wastes, facilities for the local furnishing of gas, facilities for the furnishing of water, mass commuting vehicles and facilities in connection therewith, facilities for local district heating or cooling, parking facilities and facilities for storage or training directly related to projects. Revenue bonds issued under the revenue bond program have been and are expected to continue to be secured solely by the revenues to be derived from the project so financed or the private business for which the project is financed.

No general obligation bonds or revenue bonds issued by the Authority under the Enterprise Development Fund program or revenue bond program enjoy or will enjoy any claim on any funds established by the Resolution, including the Capital Reserve Fund for the 1987A Bonds. However, separate capital reserve funds, other reserve funds, and insurance funds have been and or may be established to secure such bond issues, and, in the event of any deficiency in the capital reserve funds,



the Authority may be required to certify the amount of any deficiency in such fund to the Governor and the State Legislature.

Under the Industrial Development Act, the Authority is also empowered to establish a loan insurance program and participate with the Alaska State Building Authority or State municipalities in the financing of multi-family housing projects. To date, no such program has been established.

*The Economic Development Fund Program.* A 1984 amendment to the Industrial Development Act established the Economic Development Fund (the "Economic Development Fund") (Alaska Statutes 44.88.172) in order to enable the Authority to own and operate certain types of projects when those projects are deemed to be in the public interest. The Project is the first such project to be owned and operated by the Authority. The Authority intends to develop the Project through moneys appropriated by the State Legislature to the Economic Development Fund, together with payments and repayments of the Appropriated Loans, the proceeds of the 1987A Bonds and certain revenues of the Project as more fully described herein under "Pledged Revenues." The Authority's general obligation debt has no lien on or pledge of the assets or revenues of the Economic Development Fund. Upon the issuance of the 1987A Bonds, the moneys appropriated to the Economic Development Fund will be transferred to various funds created under the Resolution. Any financing of other projects through the Economic Development Fund will have no lien on revenues, assets or the Funds pledged under the Resolution, and, similarly, the 1987A Bonds will have no lien on or pledge of any other assets or revenues of the Economic Development Fund which are not specifically appropriated for the Project.

## THE PROJECT

### General

The Project, which is located in northwest Alaska, includes a road that runs approximately 52 miles from the site of the Red Dog mineral deposit to the coast of the Chukchi Sea and a port at the end of the road on the coast 17 miles southwest of the community of Kivalina.

The road will be gravel-surfaced and approximately 30 feet wide with passing areas which are 50 feet wide. The road will pass over undisturbed ground predominately underlain by permafrost. There will be nine bridges along the road, varying in length from 42 feet to 202 feet.

The port will consist of a dock, facilities for storage of concentrates during the winter, facilities for handling concentrates and other cargoes, and related facilities to accommodate approximately 30 employees during the summer shipping season. The port will also include facilities for storage of fuel and supplies for the residents of the region.

Construction of the port began in the summer of 1986 with a shallow water dock extending approximately 180 feet into the water. The permanent dock, to be constructed with sheet piles and fill from the area, will extend approximately 850 feet to a depth suitable for barges that will carry ore concentrates to deep draft vessels.

The State Department of Transportation and Public Facilities has served as consultant to the Authority for purposes of review of the Project design, plans and bid documents. For the duration of the Project, certain staff members of that Department have been assigned to the Authority. The Authority has appointed Cominco as construction manager for the Project. The Ralph M. Parsons Company ("Parsons") has been retained by Cominco to design the port and review the road design and to assist Cominco in its role as construction manager for the Project. See the letter from Parsons to the Authority attached hereto as Appendix A for a more complete description of Parsons' responsibilities in connection with the Project.

The Authority expects to complete the Project during the Spring of 1990. The separate facilities to be constructed by Cominco at the site of the Red Dog deposit for mining ore and reducing it to

concentrates are also expected to be completed early in 1990. The first shipment of concentrates is expected to take place in the Summer of 1990.

Under certain circumstances, the Agreement permits Cominco and the Authority to stop work on the Project for up to one year. In addition, the Agreement grants Cominco the right to terminate construction of the Project. See "Pledged Revenues—Project Revenues; The Minimum Annual Assessment" herein.

### **Site Land**

The land on which the Authority will construct the Project belongs in part to the Federal government, in part to NANA, and in part to the State. The Federal government has granted an easement for the Project to NANA, and NANA has entered into a ground lease with the Authority giving the Authority the right to construct, own, and operate the entire Project, including the portion using the Federal easement.

The Federal easement pertains to a portion of the road which crosses the Cape Krusenstern National Monument, a national park administered by the United States Department of the Interior. The terms of the easement are stated in an agreement between NANA and the Department of the Interior (the "Easement Agreement") which has been approved by special legislation enacted by Congress. The Easement Agreement provides standards for construction and operation of the road and reclamation of the land in the event the road is no longer needed. The easement is conditioned on construction of the Project beginning before September 25, 2005. The Easement Agreement does not require any payment of rent or other consideration for the grant of the easement. The term of the easement is 100 years.

The ground lease from NANA to the Authority is contained in a lease agreement dated as of August 7, 1986 (the "Ground Lease"). The Authority paid NANA \$1.1 million as consideration for the Ground Lease upon the execution thereof, and has reimbursed certain initial costs of NANA in the amount of approximately \$430,000 incurred in connection with the acquisition of the Federal easement. The Ground Lease does not require any payment of periodic rent beyond the initial \$1.1 million.

The Authority has leased the State-owned land from the State for nominal consideration.

All land to be occupied by the Project lies within the Northwest Arctic Borough (the "Borough"). The Borough was organized in 1986 and includes the site of the Red Dog mineral deposit. The total population of the Borough is approximately 5,000 persons, most of whom live in separately incorporated communities. The three that are closest to the Project are Kotzebue (population 2,500), Kivalina (population 200) and Noatak (population 200).

### **Permits**

The review of the Project by Parsons included an examination of the status of the permits. See Appendix A attached hereto. In its report, Parsons concluded that the permits listed in Attachment IV to Appendix A, which have been secured by Cominco, are adequate to satisfy all the required Federal, State and local requirements and that the stipulations imposed by the permits do not pose any significant obstacles to the successful completion of the Project.



## PLEDGED REVENUES

### Project Revenues

*General.* Cominco is to pay the Authority toll fees (the "Toll Fees") consisting of a minimum annual assessment (the "MAA") payable in quarterly installments, a contingent escalator fee in the event of escalation in zinc prices, and a contingent tonnage fee in the event that shipments by Cominco exceed amounts specified in the Agreement. The payments of the MAA, the escalator fee, the tonnage fee and certain operation and maintenance fees, together with a repayment of certain of the Authority's development costs to be made by Cominco under the Agreement, are guaranteed by Cominco Ltd. pursuant to the Guaranty. See "The Agreement and the Guaranty—The Guaranty" herein. Information relating to Cominco Ltd. is set forth in Appendix D attached hereto. In addition, the first 10 MAAs will be the subject of the Primary and Standby Letters of Credit to the Trustee issued by certain banks. For information on the banks issuing the Primary and Standby Letters of Credit, see Appendix C. For a description of the Primary and Standby Letters of Credit, see "The Letters of Credit and Reimbursement Agreement" herein.

*The Minimum Annual Assessment.* The Agreement defines the MAA as the amount necessary to amortize the cost of the Project over a period of 50 years at an interest rate of 6.5%. The amount of the MAA thus depends on the ultimate cost of the Project. Projections of the MAA under "Projected Cash Flow" below are based on estimates of the Project costs according to the cost estimates prepared by Parsons dated February 6, 1987. The Agreement provides for recalculation of the MAA during the five years after the Project is placed in service in order to reflect the total cost of the Project including costs paid during those years. After the first 10 years of payment of the MAA, the MAA is subject to certain reductions or suspension as discussed below. Under certain circumstances, the Authority is required to refund the MAA payments to Cominco as discussed below.

The definition of Project cost used in determining the MAA includes development costs incurred by the Authority on or prior to the date construction of the Project has been substantially completed as provided in the Agreement, which development costs include costs of financing and construction of the Project and the reimbursement of pre-July 1, 1985 costs totalling approximately \$8.0 million incurred by Cominco as discussed below, but excludes costs paid from an initial State appropriation of \$3.4 million in 1984, costs of the municipal bond guaranty insurance policy issued by the Insurer and amounts deposited to the Sustaining Capital Fund. The costs of financing and construction of the Project include interest on the Bonds during construction of the Project, net of income from investment of the proceeds of the Bonds.

The 6.5% interest rate used in calculating the MAA does not depend on the interest rate on the Bonds. The State legislation authorizing the issuance of the Bonds requires the parties to compute the MAA using a rate of at least 5%. The 6.5% figure used in the Agreement is the result of the negotiations between the parties leading to the Agreement.

The Agreement requires Cominco to begin payments of the MAA in quarterly installments on the first day of the "Payback Period." The Payback Period begins on the earlier of (1) July 1, 1991, or (2) the date the Project is placed in service, but not earlier than January 1, 1991. In the event of a delay in completion to a date after July 1, 1991 (or a failure to complete the Project), the MAA payment begins July 1, 1991 on the basis of the Project costs incurred through that date.

The Agreement grants Cominco a right to terminate construction of the Project at any time prior to completion of construction. In this event the payments of the MAA start in the first calendar quarter after Cominco's notice to the Authority to stop work on the Project, based on the total budgeted cost of the Project, and continue until full repayment of the development costs actually paid plus 6.5% interest is made to the Authority. Interest on the Bonds through the stop date is treated as a development cost. If Cominco has stopped work on the Project and the work on the Project is subsequently resumed by the Authority or any other party, Cominco will no longer be required to make any MAA payments under the Agreement.

The Agreement also grants Cominco the right to suspend work on the Project for up to one year. In addition, the Authority may extend the completion schedule for the Project for up to an additional year if reasonably required under the circumstances. In this event, interest on the Bonds during the suspension is included in the cost of the Project, and there is no deferral (or acceleration) of the July 1, 1991 MAA payment commencement date.

The Agreement requires that the Authority reimburse Cominco for approximately \$8.0 million of Project costs paid by Cominco before July 1, 1985. This reimbursement is to occur in annual installments over the five years following the date the Project is placed in service. Payment of the reimbursement by the Authority is treated as payment of a Project cost that adds to the MAA.

The Authority is precluded under the Agreement from engaging in discriminatory pricing of toll fees for any product. In the event the Authority engages in discriminatory pricing of toll fees for comparable products shipped by parties other than Cominco (other than toll fees up to a specified limit for fuel shipped through the Project for municipal power generation or residential use), the Agreement provides for the Authority to make a compensating refund of the MAA to Cominco to the extent of the fees received from all other users.

After the first 10 years of payments, the MAA is subject to reduction for casualty to the Project or any loss caused by regulations of the Authority that materially impair Cominco's rights under the Agreement. Also, Cominco has the right after the first 10 years of payments to assign the Agreement, including the obligation to make all payments under the Agreement, to any entity with reasonable experience in comparable mining operations whose debt is rated at least "BBB" or the equivalent by Standard & Poor's Corporation or would be so rated by applying reasonable standards. Upon any such assignment by Cominco, the Agreement provides that Cominco Ltd. will also be released from all obligations under the Guaranty.

The Payback Period ends on the earliest of (1) 35 years after the 1987A Bonds are issued, (2) actual retirement of the Bonds, or (3) the date when the Bonds would have been retired if all Toll Fees paid by Cominco were fully applied when received by the Authority to the payment of principal and interest on the Bonds. After the Payback Period, payment of the MAA is subject to a force majeure clause permitting Cominco to stop the payments under various conditions, including weather conditions that render operations economically impractical.

If the Authority receives sufficient Toll Fees and payments from any other parties using the Project so that it has recovered the cost of the Project at the 6.5% rate provided in the Agreement and the Payback Period has passed, the Agreement permits Cominco to reduce the MAA proportionately in the event it ships less than 850,000 tons a year.

### **State Appropriations**

The Industrial Development Act establishes the Economic Development Fund and provides that such Fund may only be used to finance, acquire, manage and operate projects that the Authority intends to own and operate.

In 1984, the State appropriated \$3.4 million to the Economic Development Fund for design and preliminary costs of the Project. In 1985, the State appropriated for the Project \$12 million cash and approximately \$132.7 million outstanding principal amount of Appropriated Loans acquired by the State in connection with certain State loan programs. In 1986, the Authority purchased an additional \$11.6 million outstanding principal amount of loans from the State using cash available in the Economic Development Fund.

The cash in the Economic Development Fund, including payment of the principal of and interest on loans in the Economic Development Fund portfolio, is invested in the types of investments permitted by State law, and may be expended to pay costs of the Project. On December 31, 1986, the balance of the cash and investments in the Economic Development Fund was \$36,047,444.



The Appropriated Loans include Veterans Loans, Small Business Loans, Commercial Fishing Loans, Fisheries Enhancement Loans, Tourism Loans, Historical District Loans and Child Care Loans. Descriptions of each program are provided below. The following table sets forth the distribution of loans by type of loan:

Type of Loan	Outstanding Loan Amount by Type of Loan (At December 31, 1986)		
	No. of Loans	Loan Amount	Percentage of Total
Veterans Loans .....	1,592	\$ 69,204,800	57.4%
Small Business Loans .....	317	32,733,900	27.2
Commercial Fishing Loans .....	324	11,378,100	9.4
Fisheries Enhancement Loans .....	11	6,134,200	5.1
Tourism Loans .....	7	914,700	0.8
Historical District Loans .....	3	97,700	0.1
Child Care Loans .....	1	6,900	—
Total .....	<u>2,255</u>	<u>\$120,470,300</u>	<u>100.0%</u>

*Veterans Loans:* The Veterans Loan Program was available to qualified Alaska veterans of the U.S. Armed Forces. The loans include two types: (1) residential property loans of up to \$125,000 with a maximum term of 30 years and maximum loan-to-value ratio of 90%, and (2) business loans of up to \$125,000 with a maximum term of 15 years and maximum loan to value ratio of 75%.

On December 31, 1986, the average principal balance was \$43,470, the average interest rate was 7.5%, and 96% of the loans were secured by a first lien on real property.

*Small Business Loans:* Small Business Loans were made to Alaska residents to acquire, finance, refinance or equip a small business. The loans were up to \$500,000 in principal amount with a maximum term of 15 years and a maximum loan-to-value ratio of 75%. Loans were originated by the State and by financial institutions within the State. Loans originated by financial institutions were sold to the State with the originating institution retaining a 10% interest in the loan and servicing the loan.

On December 31, 1986, the average principal balance was \$103,260, the average interest rate was 8.80%, and 79% of the loans were secured by a first lien on real property. The remainder were secured by a first preferred ship mortgage, equipment, inventory, receivables and other miscellaneous types of security.

*Commercial Fishing Loans:* Commercial Fishing Loans were made to qualified Alaska residents and corporations to develop, rehabilitate and maintain the State's fisheries. The loans were up to \$300,000 in principal amount with a maximum term of 15 years (eight years in the case of equipment) and a maximum loan-to-value ratio of 75%.

On December 31, 1986, the average principal balance was \$35,120, the average interest rate was 8.12%, and all loans were secured by a first preferred ship mortgage.

*Fisheries Enhancement Loans:* Fisheries Enhancement Loans were made to qualified non-profit corporations for the planning, construction and operation of fish hatcheries. The loans were up to \$10,000,000 in principal amount with a maximum term of 30 years. Repayment of principal was deferred for a period of 6 to 10 years.

On December 31, 1986, the average principal balance was \$557,650, and the average interest rate was 8.37%. Fisheries Enhancement Loans were secured by first deeds of trust on real property, leasehold improvements, sale of surplus fish, and assessments from fishermen.

*Tourism Loans:* Tourism loans were made to qualified Alaska residents and businesses for the purpose of promoting the State's tourism industry. The loans were up to \$150,000 in principal amount with a maximum term of 20 years and a maximum loan-to-value ratio of 75%. A loan not secured by real property carried a maximum term of eight years and a maximum loan to value ratio of 60%.

On December 31, 1986, the average principal balance was \$130,670, and the average interest rate was 8.04%. All of the loans were secured by real property or equipment.

*Historical District Loans:* Historical District Loans were made to qualified Alaska residents for the restoration, rehabilitation, and maintenance of historical buildings. The loans were up to \$250,000 in principal amount with a maximum term of 30 years (eight years in the case of equipment) and a maximum loan-to-value ratio of 85%.

On December 31, 1986, the average principal balance was \$32,570, and the average interest rate was 7.0%.

*Child Care Loans:* Child Care Loans were made to qualified Alaska residents for the construction, renovation and equipping of child care facilities.

On December 31, 1986, the principal balance of the one loan outstanding was \$6,877, and the interest rate on the loan was 7.0%.

*Geographical Diversity:* The geographical diversity of the largest loan programs, Veterans and Small Business Loans, approximately parallels the population density of Alaska. As of June 30, 1986, the percentage distribution of loans by number of loans and by principal balances outstanding was as follows:

Region	Veterans Loans		Small Business Loans	
	# of Loans	Principal Amount of Loans	# of Loans	Principal Amount of Loans
South Central .....	48.0%	54.0%	49.0%	53.0%
Southeast .....	35.0	30.0	21.0	12.0
Southwest .....	3.0	3.0	1.9	1.4
Interior .....	9.0	8.0	25.0	31.0
Northwest .....	0.7	0.5	1.4	2.0
North Slope .....	0.2	0.2	—	—
Other* .....	4.1	4.3	1.7	0.6

\*Mailing address outside the State or no zip code available.

*Loan Delinquency and Loan Loss Experience:* The following table sets forth the loan delinquency experience of the Veterans, Small Business and Commercial Fishing Loans as of June 30, 1985, June 30, 1986 and December 31, 1986:

Date	Loan Delinquency Experience Appropriated Loans—90 Days or More (Dollar Amounts in Thousands)							
	Veterans Loans Delinquencies—90 Days or more				Small Business Loans (State Originated) Delinquencies—90 Days or more			
	# of Loans	% of Total	Loan Amount	% of Total	# of Loans	% of Total	Loan Amount	% of Total
December 31, 1986 .....	63	3.95%	\$3,170	4.58%	38	21.46%	\$3,120	22.19%
June 30, 1986 .....	54	3.30	2,500	3.50	29	15.20	2,200	15.50
June 30, 1985 .....	91	5.20	4,300	4.30	32	31.00	3,090	39.60
Date	Small Business Loans (Participating Bank Originated) Delinquencies—90 Days or more				Commercial Fishing Loans Delinquencies—90 Days or more			
	# of Loans	% of Total	Loan Amount	% of Total	# of Loans	% of Total	Loan Amount	% of Total
December 31, 1986 .....	13	9.29%	\$1,430	7.67%	23	6.76%	\$1,210	12.83%
June 30, 1986 .....	9	5.96	1,700	8.20	46	12.50	2,400	17.00
June 30, 1985 .....	17	11.72	2,730	14.23	37	8.50	2,070	11.90

Through December 31, 1986, the loan losses, taking into account recoveries on foreclosure and disposal of collateral, on the Veterans, Small Business and Commercial Fishing Loan Programs have been 0.0%, 0.6% and 3.0% of total principal balance outstanding, respectively, since the loans were appropriated to the Authority in 1985.

*Loan Revenues.* The following table shows scheduled repayments of principal and interest, net of service fees, on the Appropriated Loans from January 1, 1987:

Fiscal Year Ending June 30	Scheduled Appropriated Loan Revenues(1) (Dollar Amounts in Thousands)				
	Veterans Loans	Small Business Loans	Commercial Fishing Loans	Other(2)	Total
1987(3) .....	\$ 4,000	\$ 2,300	\$ 430	\$ 320	\$ 7,050
1988 .....	8,260	5,140	2,690	850	16,940
1989 .....	8,150	5,060	2,520	850	16,580
1990 .....	7,760	4,720	2,270	840	15,590
1991 .....	7,630	4,110	2,020	840	14,600
1992 .....	7,480	4,190	1,580	790	14,040
1993 .....	7,200	3,570	910	790	12,470
1994 .....	6,650	3,380	520	780	11,330
1995 .....	6,230	2,980	340	770	10,320
1996 .....	6,120	3,650(4)	180	770	10,720
1997 .....	5,980	860	80	770	7,690
1998 .....	5,730	750	40	760	7,280
1999 .....	5,480	50	10	680	6,220
2000 .....	5,260	10	—	680	5,950
2001 .....	4,820	10	—	640	5,470
2002 .....	4,370	10	—	610	4,990
2003 .....	3,760	10	—	420	4,190
2004 .....	3,490	10	—	410	3,910
2005 .....	3,260	10	—	400	3,670
2006 .....	3,090	—	—	—	3,090
2007 .....	2,850	—	—	—	2,850
2008 .....	2,310	—	—	—	2,310
2009 .....	1,060	—	—	—	1,060
Total .....	\$120,940	\$40,820	\$13,590	\$12,970	\$188,320

- (1) Based on the assumption that all principal and interest payments are made when due. Prepayment of loans is not taken into consideration nor are any payments made on account of loans which were involved in foreclosure proceedings on December 31, 1986.
- (2) Includes Fisheries Enhancement Loans, Tourism Loans, Historical District Loans and Child Care Loans.
- (3) Represents six months from January 1, 1987 to June 30, 1987.
- (4) Increased revenues in 1996 are due to balloon payments which become due at loan maturity.

All of the Appropriated Loans are subject to prepayment prior to final maturity. If prepayments occur, they may have a significant effect on projected loan revenues. The Authority can give no assurance that the actual receipt of moneys will correspond to the loan revenues shown above. In the Fiscal Year ending June 30, 1986, and for the six months ending December 31, 1986, the Authority received prepayments of \$5,233,313 and \$3,124,153, respectively.

*Disposition of the Economic Development Fund.* Upon the issuance of the 1987A Bonds, the Authority will transfer the cash and securities in the Economic Development Fund representing the balance of the appropriations, including payments received on the loans, to the Trustee for deposit in the Project Economic Development Fund established by the Resolution. The Resolution authorizes the Trustee to make transfers from the Project Economic Development Fund for various purposes, including transfers to the Construction Fund to pay costs of construction of the Project. See "Appendix E—Summary of Certain Provisions of the Resolution—Application of Revenues—Appropriated Loan Revenues."

At present, the Department of Commerce and Economic Development and, in some cases, lending institutions in the State, collect the payments on the loans in the Economic Development Fund loan portfolio and remit them to the Authority. The Authority intends to continue this practice after issuance of the 1987A Bonds and to pay the collected amounts to the Trustee for deposit in the Project Economic Development Fund.

## Investment Income

Moneys or securities held in the Construction Fund, Revenue Fund, Operation and Maintenance Fund, Debt Service Fund, Sustaining Capital Fund, Capital Reserve Fund and the Project Economic Development Fund established under the Resolution will be invested in Investment Securities as provided in the Resolution, and the earnings thereon will be available to pay Project costs and Debt Service on the Bonds.

## Cash Requirements

*Project Costs.* On February 18, 1987, the Authority and Cominco jointly established a Project budget which calls for completion of construction of the Project by the Spring of 1990, and for the Project to be in service by June 30, 1990. A total construction cost of \$144,890,000 is budgeted, with construction draws scheduled as shown below:

**Budgeted Construction Draws**  
(\$000s)

<u>Fiscal Year Ending June 30</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Total</u>
Port .....	\$569	\$5,183	\$11,332	\$20,527	\$15,528	\$ 53,139
Road .....	288	1,184	27,656	32,929	10,547	72,604
Contingency & Escalation ...	40	450	4,838	8,609	5,210	19,147
Total .....	<u>\$897</u>	<u>\$6,817</u>	<u>\$43,826</u>	<u>\$62,065</u>	<u>\$31,285</u>	<u>\$144,890</u>

Current plans call for bid award for the road portion of the Project by April 1987. The port portion of the Project will commence in March 1987. Components of work involved in developing the port include fuel storage facilities, the concentrate storage building, offshore cells for the deep water dock, support structures and mechanical/electrical work relating to each of these components. Parsons has reviewed the Project budget and projected construction draws and believes them to be reasonable as discussed further in Appendix A attached hereto.

*Repayment to Cominco.* The Agreement also requires the Authority to reimburse Cominco for approximately \$8.0 million of Project costs paid by Cominco before July 1, 1985. This reimbursement is to occur in annual installments over the five-year period following the date the Project is placed in service.

*Funds under the Resolution.* The Authority intends to create various funds under the Resolution. These funds include the Capital Reserve Fund equal to the Capital Reserve Fund Requirement (see "The Bonds—The Capital Reserve Fund" herein), the Sustaining Capital Fund equal to \$5.0 million to be funded by two equal annual deposits beginning December 31, 1987, and the Operation and Maintenance Fund equal to \$2.0 million to be funded by two equal annual deposits beginning December 31, 1989.

## Estimated Cash Flow

The Revenues of the Authority available to pay Debt Service on the Bonds include the payments on the Appropriated Loans, the payments to be made by or on behalf of Cominco under the Agreement, payments by any other user of the Project and income from investment of Funds (other than the Excess Investment Earnings Fund) and Accounts held under the Resolution. See "Appendix E—Summary of Certain Provisions of the Resolution" attached hereto.

The following tables show, respectively, the estimated Revenues and disbursements for the Project through 2001 and the estimated year-end balances in the various Funds relating to the Project during the same period:



**DELONG MOUNTAIN TRANSPORTATION PROJECT  
ESTIMATED CASH FLOW**

Fiscal Year Ending June 30	Starting Cash Balance	Appropriated Loan Revenues(3)	Interest Earnings(4)	Cominco MAA(6)	Total Before Draws	Project Costs(7)	Reserves	Repayment to Cominco(11)	Debt Service	Administrative Costs	Ending Balance
1987(1) . . . . .	\$131,250,000(2)	\$ 7,050,000	\$3,136,595(5)	\$ 0	\$141,436,595	\$(17,701,000)	\$(8,857,575)(8)	\$ 0	\$ 0	\$(500,000)	\$114,378,020
1988 . . . . .	114,378,020	16,940,000	7,195,796(5)	0	138,513,816	(73,137,000)	(2,500,000)(9)	0	(9,672,900)	(500,000)	52,703,916
1989 . . . . .	52,703,916	16,580,000	4,472,883(5)	0	73,756,799	(47,010,000)	(2,500,000)(9)	0	(7,254,675)	(500,000)	16,492,124
1990 . . . . .	16,492,124	15,590,000	2,186,531(5)	0	34,268,655	(424,000)	(1,000,000)(10)	0	(7,254,675)	(500,000)	25,089,980
1991 . . . . .	25,089,980	14,600,000	1,410,531	8,511,181	49,611,692	0	(1,000,000)(10)	(1,419,261)	(7,254,675)	(500,000)	39,437,756
1992 . . . . .	39,437,756	14,040,000	2,372,638	11,348,241	67,198,635	0	0	(1,892,348)	(8,854,675)	(500,000)	55,951,612
1993 . . . . .	55,951,612	12,470,000	3,087,170	11,348,241	82,857,023	0	0	(1,892,348)	(8,853,275)	(500,000)	71,611,400
1994 . . . . .	71,611,400	11,330,000	3,873,886	11,348,241	98,163,527	0	0	(1,892,348)	(8,853,915)	(500,000)	86,917,264
1995 . . . . .	86,917,264	10,320,000	4,641,205	11,348,241	113,226,710	0	0	(1,892,348)	(8,855,675)	(500,000)	101,978,687
1996 . . . . .	101,978,687	10,720,000	5,410,355	11,348,241	129,457,283	0	0	(473,087)	(8,857,575)	(500,000)	119,626,621
1997 . . . . .	119,626,621	7,690,000	6,267,355	11,348,241	144,932,217	0	0	0	(8,855,575)	(500,000)	135,576,642
1998 . . . . .	135,576,642	7,280,000	7,082,655	11,348,241	161,287,538	0	0	0	(8,853,075)	(500,000)	151,934,463
1999 . . . . .	151,934,463	6,220,000	7,898,335	11,348,241	177,401,039	0	0	0	(8,854,075)	(500,000)	168,046,964
2000 . . . . .	168,046,964	5,950,000	8,710,815	11,348,241	194,056,020	0	0	0	(8,853,400)	(500,000)	184,702,620
2001 . . . . .	184,702,620	5,470,000	9,544,453	11,348,241	211,065,314	0	0	0	(8,855,100)	(500,000)	201,710,214

- (1) Reflects partial year beginning January 1, 1987.
- (2) Includes \$36,000,000 cash in the Project Economic Development Fund and \$95,250,000 net proceeds of the 1987A Bonds.
- (3) Reflects scheduled revenues from Appropriated Loans with no prepayments or loan losses (See "Pledged Revenues—State Appropriations" herein).
- (4) Includes interest at 7.4% per year on the Capital Reserve Fund through April 1, 1992 and 5% per year thereafter, 6.3% per year on the Construction Fund through January 1, 1990 and 5% per year thereafter and 5% per year on average Project Economic Development Fund balances.
- (5) Includes interest at 5% per year on Sustaining Capital Fund and Operation and Maintenance Fund balances through July 1, 1990.
- (6) MAA estimate based on Project costs, costs of issuance and interest earned during construction assumed herein (See discussion of MAA under "Pledged Revenues—Project Revenues; The Minimum Annual Assessment" herein).
- (7) Project costs reflect cost estimates prepared by Parsons as of February 6, 1987 (See Appendix A) and are shown as draws at beginning of the fiscal year.
- (8) Capital Reserve Fund deposit.
- (9) Initial deposit in Sustaining Capital Fund which will be fully funded with additional \$2,500,000 deposit shown in 1989.
- (10) Initial deposit in Operation and Maintenance Fund which will be fully funded with additional \$1,000,000 deposit shown in 1991.
- (11) Reflects repayment of approximately \$8,000,000 of Project costs expended by Cominco prior to July 1, 1985 together with interest at 6.5% (See "Pledged Revenues—Cash Requirements; Funds under the Resolution" herein).

**DELONG MOUNTAIN TRANSPORTATION PROJECT  
ESTIMATED RATIO OF CASH TO LIABILITIES**

<u>As of June 30</u>	<u>Available Cash Balance(1)</u>	<u>Capital Reserve Fund(2)</u>	<u>Total Cash</u>	<u>1987A Bonds Outstanding</u>	<u>Total Cash/ Liabilities</u>	<u>Operation and Maintenance Fund(3)</u>	<u>Sustaining Capital Fund(3)</u>	<u>Total Cash &amp; Funds/ Liabilities</u>
1987 .....	\$114,378,020	\$8,857,575	\$123,235,595	\$103,250,000	119.4%	\$ 0	\$ 0	119.4%
1988 .....	52,703,916	8,857,575	61,561,491	103,250,000	59.6%	0	2,500,000	62.0%
1989 .....	16,492,124	8,857,575	25,349,699	103,250,000	24.6%	0	5,000,000	29.4%
1990 .....	25,089,980	8,857,575	33,947,555	103,250,000	32.9%	1,000,000	5,000,000	38.7%
1991 .....	39,437,756	8,857,575	48,295,331	103,250,000	46.8%	2,000,000	5,000,000	53.6%
1992 .....	55,951,612	8,857,575	64,809,187	101,650,000	63.8%	2,000,000	5,000,000	70.6%
1993 .....	71,611,400	8,857,575	80,468,975	99,965,000	80.5%	2,000,000	5,000,000	87.5%
1994 .....	86,917,264	8,857,575	95,774,839	98,185,000	97.5%	2,000,000	5,000,000	104.7%
1995 .....	101,978,687	8,857,575	110,836,262	96,300,000	115.1%	2,000,000	5,000,000	122.4%
1996 .....	119,626,621	8,857,575	128,484,196	94,300,000	136.3%	2,000,000	5,000,000	143.7%
1997 .....	135,576,642	8,857,575	144,434,217	92,180,000	156.7%	2,000,000	5,000,000	164.3%
1998 .....	151,934,463	8,857,575	160,792,038	89,930,000	178.8%	2,000,000	5,000,000	186.6%
1999 .....	168,046,964	8,857,575	176,904,539	87,535,000	202.1%	2,000,000	5,000,000	210.1%
2000 .....	184,702,620	8,857,575	193,560,195	84,985,000	227.8%	2,000,000	5,000,000	236.0%
2001 .....	201,710,214	8,857,575	210,567,789	82,265,000	256.0%	2,000,000	5,000,000	264.5%

(1) Reflects end-of-period balances in the Construction Fund and the Project Economic Development Fund.

(2) Capital Reserve Fund funded at maximum annual debt service for the 1987A Bonds.

(3) Operation and Maintenance Fund and Sustaining Capital Fund balances may be lower than shown if drawn upon.

## THE AGREEMENT AND THE GUARANTY

### The Agreement

*General.* The Agreement provides for the Authority to construct, own, and operate the Project to facilitate regional transportation in northwest Alaska. The Agreement provides for Cominco to serve as construction manager and to have a nonexclusive priority right to use the Project to ship up to 1.0 million tons a year of concentrates. The Project is anticipated to have the capacity to handle up to 2.0 million tons a year of concentrates or other cargoes. Under the Agreement, the Authority is to finance the Project with the State appropriations and the proceeds of the Bonds, and Cominco is to pay the Authority the Toll Fees, including the MAA. A description of the MAA and payments of the MAA under the Agreement is set forth under the caption "Pledged Revenues—The Minimum Annual Assessment" herein. The Authority expects the MAA, together with the payments on the Appropriated Loans, to be the principal source of funds to pay Debt Service on the Bonds. The payments of the MAA, the escalator fee, the tonnage fee and certain operation and maintenance fees, together with a repayment of certain of the Authority's development costs, to be made by Cominco under the Agreement, are guaranteed by Cominco Ltd. pursuant to the Guaranty. See "The Guaranty" below and "The Letters of Credit and Reimbursement Agreement" herein. Information relating to Cominco Ltd. is set forth in Appendix D attached hereto.

*Operation and Maintenance Expenses; Sustaining Capital Improvements.* The Agreement provides for all parties using the Project to share the expenses of operation and maintenance of the Project. The payments for operation and maintenance expenses are in addition to the MAA and the other Toll Fees payable under the Agreement. The Agreement permits the Authority to allow certain small users a preferential charge for operation and maintenance expenses. The Resolution provides that payments for operation and maintenance are to be deposited in the Operation and Maintenance Fund which is held by the Authority in trust for the Trustee and is to be used to pay operation and maintenance expenses of the Project. See "Appendix E—Summary of Certain Provisions of the Resolution—Application of Revenues" attached hereto.

The Agreement requires the Authority to create a sustaining capital fund in the amount of \$5.0 million to provide for capital expenditures with respect to the Project after its completion. Expenditures from this fund are to be replaced as an item of operation and maintenance expense. The Authority has provided for the Sustaining Capital Fund under the Resolution for this purpose. See "Appendix E—Summary of Certain Provisions of the Resolution—Application of Revenues" attached hereto.

*Insurance.* Prior to the date the Project is deemed to be in service under the Agreement, Cominco is to maintain casualty insurance for the Project in the amount of \$20.0 million per occurrence and \$20.0 million annual aggregate amount, including commercial general liability coverage, automobile liability and workers' compensation and employer's liability insurance.

*Defaults and Remedies.* A default by Cominco would occur under the Agreement upon (1) the failure by Cominco to pay any fee due thereunder within 10 days after written notice to Cominco of such failure, and (2) the failure by Cominco to perform other obligations under the Agreement for 30 days after written notice of such failure, unless Cominco commences action to cure such default within such 30-day period. Upon the occurrence of a default by Cominco, the Authority is entitled to re-enter and take possession of the port facilities and recover damages.

A default by the Authority would occur upon failure by the Authority to perform any obligation under the Agreement for 30 days after written notice specifying the nature of such failure, unless the Authority commences action to cure such default within such period. Cominco is not entitled to payment of any claim resulting from a default by the Authority until commencement of the eleventh year of the Payback Period, and the Agreement permits the payment of such claims to be further



deferred if necessary to protect the Owners of the Bonds. After the attainment of Cash Coverage, the Agreement requires the Authority to maintain a fund of \$10.0 million to satisfy any damage claims of Cominco.

### The Guaranty

Under the Guaranty, Cominco Ltd. guarantees to the Authority the payments of the Toll Fees, the operation and maintenance expenses due from Cominco under the Agreement and the repayment of development costs incurred by the Authority if Cominco exercises its right to stop construction of the Project.

The Authority has the right under the Guaranty to proceed against Cominco Ltd. without exercising any remedies under the Agreement.

## THE LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT

### The Primary Letter of Credit

Simultaneously with the issuance of the 1987A Bonds, the New York or Los Angeles branches or agencies of the banks named below (the "Banks") will deliver the Primary Letter of Credit to the Trustee pursuant to a Reimbursement Agreement dated as of February 15, 1987 (the "Reimbursement Agreement") among Cominco, Cominco Ltd. and the Banks in their various capacities. The Primary Letter of Credit will provide for the payment of the MAA due from Cominco to the Authority during the 10-year period beginning July 1, 1991 or the date the Project is placed in service, if earlier, provided that the MAA payments will not in any case begin sooner than January 1, 1991. The obligations of the Banks under the Primary Letter of Credit are several and not joint.

The Primary Letter of Credit authorizes the Trustee to make 40 consecutive quarterly drawings of up to \$3.0 million each during the first 10 years of the Payback Period under the Agreement, up to an aggregate amount not exceeding \$120.0 million (the "Total Credit"), limited as to each Bank in an amount equal to the following:

<u>Bank</u>	<u>Aggregate Bank Commitment</u>	<u>Percentage of Total Credit</u>
Barclays Bank PLC, New York Branch . . . . .	\$ 16,666,666.67	13.89%
Union Bank of Switzerland, New York Branch . . . . .	16,666,666.67	13.89
The Bank of Tokyo, Ltd., New York Agency . . . . .	16,666,666.67	13.89
The Toronto Dominion Bank, New York Branch . . . . .	16,666,666.67	13.89
The Bank of Nova Scotia, New York Agency . . . . .	16,666,666.66	13.89
Deutsche Bank AG, New York Branch . . . . .	16,666,666.66	13.89
Commerzbank Aktiengesellschaft, Los Angeles Branch . .	10,000,000.00	8.33
The Mitsubishi Bank, Limited, New York Branch . . . . .	10,000,000.00	8.33
	<u>\$120,000,000.00</u>	<u>100.00%</u>

A description of each Bank has been furnished by such Bank and is set forth in Appendix C hereto.

The Primary Letter of Credit does not provide for the payment of interest on any quarterly drawing that is not paid when the related MAA payment was to have been made. The Primary Letter of Credit will expire after 40 quarterly payments or, if earlier, on April 15, 2001, and the obligation of Cominco to pay Toll Fees thereafter will be unsecured (other than by the Guaranty of Cominco Ltd.).



The Primary Letter of Credit permits the Trustee to make a drawing thereunder in each quarter after the Payback Period under the Agreement has commenced unless Cominco has elected to stop work on the Project in which case the Primary Letter of Credit permits the Trustee to make such drawings commencing January 1, 1991. The drawing is to be in an amount equal to the quarterly MAA payment due under the Agreement, up to \$3.0 million. The Primary Letter of Credit provides that the quarterly amount available to be drawn under the Primary Letter of Credit will be decreased in accordance with the Primary Letter of Credit to the amount of the remaining quarterly MAA payments, if less than \$3.0 million, when the amount of such payments is finally determined in accordance with the Primary Letter of Credit on or after the fifth anniversary of the date the Project is placed in service. If the amount of the quarterly MAA payments exceeds \$3.0 million, the Agreement obligates Cominco to cover the excess with an additional letter of credit to the extent required in the Agreement. The Banks are not obligated to issue the additional letter of credit or to increase their obligation under the Primary Letter of Credit.

The Resolution obligates the Trustee to make draws under the Primary Letter of Credit. In the event that the Trustee fails to do so, the Banks may pay amounts which could be drawn, and, upon such payment, the Total Credit available is reduced by the amount which has been paid.

#### **Alternate Security and Termination of the Primary Letter of Credit**

The obligations of any Bank to make a payment on any date on account of a drawing under the Primary Letter of Credit will terminate upon delivery and transfer of title to the Trustee of Acceptable Government Obligations or an Acceptable Letter of Credit for such date. "Acceptable Government Obligations" is defined in the Primary Letter of Credit to mean obligations of the United States of America and, with the prior approval of the Insurer, certificates of accrual of such obligations, which obligations are to be payable on or prior to such date and in an amount at least equal to the maximum drawing permitted under the Primary Letter of Credit on such date. "Acceptable Letter of Credit" is defined in the Primary Letter of Credit to mean a letter of credit issued by one or more commercial banks organized under the laws of the United States or one of the states thereof and/or by a branch or branches or an agency or agencies located in the United States of a commercial bank or banks organized under any other law, each of which commercial banks shall have been approved by the Trustee and the Insurer and which letter of credit shall permit a separate drawing to be made thereunder at any time at which a drawing may be made under the Primary Letter of Credit and in an amount at least equal to the maximum amount of such drawing permitted under the Primary Letter of Credit and shall otherwise contain provisions substantially identical to the provisions of the Primary Letter of Credit and shall have been approved as to form by the Insurer.

#### **The Standby Letter of Credit**

The New York branches of Union Bank of Switzerland and Barclays Bank PLC (the "Standby Banks") will issue the Standby Letter of Credit simultaneously with the issuance of the 1987A Bonds. The Trustee may draw on the Standby Letter of Credit in the event of an unexcused failure of payment of a drawing on or after April 1, 1994, under the Primary Letter of Credit. The Standby Letter of Credit authorizes the Trustee to draw an aggregate amount not exceeding \$86,666,666.66 (being the portion of the Total Credit under the Primary Letter of Credit that may be drawn from the other Banks), limited as to each of the two Standby Banks in an amount equal to the following and subject to reduction as described hereinafter:

<u>Standby Bank</u>	<u>Aggregate Commitment</u>
Union Bank of Switzerland, New York Branch . . . . .	\$43,333,333.33
Barclays Bank PLC, New York Branch . . . . .	43,333,333.33
	<u>\$86,666,666.66</u>

The obligation of each Standby Bank shall be reduced automatically from time to time so that it shall not at any time exceed the difference between (i) the maximum amount which may then or thereafter be drawn under and in accordance with the Primary Letter of Credit on all the Banks party to the Primary Letter of Credit minus (ii) the maximum amount which may then or thereafter be drawn under and in accordance with the Primary Letter of Credit on such Standby Bank, it being assumed that all conditions to each such drawing shall be satisfied at the time thereof.

The obligations of the Standby Banks under the Standby Letter of Credit are several and not joint.

#### **The Reimbursement Agreement**

Under the Reimbursement Agreement, Cominco agrees to pay the Banks any amount drawn under the Primary or Standby Letter of Credit upon demand, interest on such amount until repayment, and fees and commissions of the Banks. Cominco Ltd. has guaranteed the obligations of Cominco under the Reimbursement Agreement. The Reimbursement Agreement contains certain affirmative and negative covenants of Cominco and Cominco Ltd. relating to their corporate existence and certain aspects of their business.

The Reimbursement Agreement contains events of default, which include failure by Cominco or Cominco Ltd. to make payments due under the Reimbursement Agreement, which failure continues for five business days; certain events of bankruptcy of Cominco Ltd.; failure of Cominco Ltd. to pay a debt in excess of \$10.0 million; the making of incorrect or incomplete representations or warranties, and the failure to perform certain covenants by Cominco or Cominco Ltd. under the Reimbursement Agreement.

The Reimbursement Agreement permits Banks having specified percentages of the Total Credit to cause a release of the Primary Letter of Credit upon the occurrence of a Letter of Credit Termination Event and delivery and transfer of title to the Trustee of Acceptable Government Obligations for each date on which a drawing may be made thereunder. Letter of Credit Termination Events include (1) the occurrence of an event of default under the Reimbursement Agreement; (2) a decision by the Board of Directors of Cominco Ltd. to terminate or materially modify the plans for development of the Project and the Red Dog mineral deposit; (3) the failure of the Board of Directors of Cominco Ltd. to approve by December 31, 1987 a plan to finance the development of the Red Dog mineral deposit; (4) the failure of an independent engineer to notify the Banks by December 31, 1987 that the development of the Project and the Red Dog mineral deposit is technically feasible; or (5) the failure to substantially complete construction of the Project and the Red Dog mineral deposit and process 50,000 tons of concentrate by June 30, 1992, subject to exceptions as provided in the Reimbursement Agreement.

#### **TAX EXEMPTION**

In the opinion of Ballard, Spahr, Andrews & Ingersoll, Washington, D.C., Bond Counsel, assuming the accuracy of the certifications of the Authority and continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the 1987A Bonds will be exempt from Federal income tax under existing laws as enacted and construed on the date of initial delivery of the 1987A Bonds (except as provided in the Code with respect to any 1987A Bond held by a "substantial user" of the Project or by a "related person", as such terms are defined in the Code).

Bond Counsel is further of the opinion that interest on the 1987A Bonds may be subject to the alternative minimum tax imposed on individuals and corporations (other than S corporations, regulated investment companies, real estate investment trusts or real estate mortgage investment conduits) and an environmental tax imposed on corporations, because of its status as an item of tax preference. Also,

interest on 1987A Bonds held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

Ownership of the 1987A Bonds may result in collateral Federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the 1987A Bonds. Bond Counsel expresses no opinion as to such collateral tax consequences, and prospective purchasers of the 1987A Bonds should consult their own tax advisors as to such consequences.

In the opinion of Bond Counsel, under the laws of the State as enacted and construed on the date of initial delivery of the 1987A Bonds, interest on the 1987A Bonds is exempt from taxation by the State except for inheritance and estate taxes and taxes on transfers by or in contemplation of death; interest on the 1987A Bonds held by corporations which are subject to the Federal alternative minimum tax may also be subject to the State net income tax.

## **LEGAL MATTERS**

All legal matters incident to the authorization, issuance, sale and delivery of the 1987A Bonds are subject to the approval of Ballard, Spahr, Andrews & Ingersoll, Washington, D.C., Bond Counsel, whose approving legal opinion is expected to be delivered in substantially the form included in this Official Statement as Appendix F. Certain legal matters will be passed upon for the Underwriters by their counsel, Wohlforth, Flint & Gruening, Anchorage, Alaska. Certain legal matters pertaining to the Banks and the Letter of Credit, including the validity and enforceability of the Letter of Credit, will be passed upon by Sullivan & Cromwell, New York, New York, special counsel to the Banks, and by Henrici, Reber & Wicki, Swiss counsel to Union Bank of Switzerland; Kenta Hiraga, Japanese counsel to The Bank of Tokyo; Dr. Kohler Holzwarth, Deputy General Counsel of Deutsche Bank AG; Braun Moriya Hoashi & Xubota, Japanese counsel to The Mitsubishi Bank, Limited; Durrant Piesse, English counsel to Barclays Bank PLC; Peter J. Lewarne, Senior Legal Counsel to The Bank of Nova Scotia; Canadian counsel to The Toronto Dominion Bank; and German counsel to Commerzbank Aktiengesellschaft. Certain legal matters will be passed upon for Cominco and Cominco Ltd. by Shearman & Sterling, New York, New York, Ladner Downs, Vancouver, British Columbia, and Hartig Rhodes Norman Mahoney & Edwards, Anchorage, Alaska.

## **ABSENCE OF LITIGATION**

There is no controversy or litigation now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 1987A Bonds, or in any way contesting or affecting the validity of the 1987A Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 1987A Bonds or the existence or powers of the Authority.

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the 1987A Bonds from the Authority at a price of \$101,227,333, plus accrued interest. The Underwriters will be obligated to purchase all of the 1987A Bonds if any are purchased. The 1987A Bonds may be offered and sold to certain dealers (including investment trusts, certain of which may be sponsored or managed by the Underwriters) at prices lower than the public offering price stated on the cover page of this Official Statement, and such public offering price may also be changed without prior notice, from time to time, by the Underwriters.

## EXPERTS

The financial statements of the Economic Development Fund of the Authority included as Appendix B to this Official Statement have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants. The audited consolidated financial statements of Cominco Ltd. for the year ending December 31, 1986 included in Appendix D to this Official Statement have been examined by Thorne Ernst & Whinney, Independent Chartered Accountants. Such financial statements have been included in reliance on their reports given on their authority as experts in auditing and accounting.

## MISCELLANEOUS

All quotations from and summaries and explanations of the Act, the Resolution, the Agreement, the Guaranty and the Primary and Standby Letters of Credit contained herein do not purport to be complete and reference is made to the Act, the Resolution, the Agreement, the Guaranty and the Primary and Standby Letters of Credit for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

All statements, estimates, assumptions and summaries of documents in this Official Statement have been made on the basis of the best information available and are believed to be correct and reliable, but no representations whatsoever are made that such statements, estimates and assumptions are correct or will be realized.

Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the Owners of any of the 1987A Bonds.

ALASKA INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: /s/ BERTRAM L. WAGNON  
*Executive Director*



**THE RALPH M. PARSONS COMPANY** *Worldwide Engineers/Constructors*

100 WEST WALNUT STREET  
PASADENA, CALIFORNIA 91124  
(213) 440-2000  
Telex WH: 675-336

**RMP**

February 11, 1987

Alaska Industrial Development Authority  
1577 "C" Street, Suite 304  
Anchorage, Alaska 99501

Attention: Mr. Bertram L. Wagnon  
Executive Director

Gentlemen:

In accordance with your request, the following is The Ralph M. Parsons Company's report for the Official Statement for the Alaska Industrial Development Authority's (The "Authority") DeLong Mountain Regional Transportation Project Series 1987A Bonds.

**INTRODUCTION****RETENTION**

In January 1985, The Ralph M. Parsons Company ("Parsons") was retained by Cominco Alaska Incorporated ("Cominco") to assist with the development of the DeLong Mountain Regional Transportation System (the "Project").

The Project is made up of two major components which include a seaport (the "Seaport") which is to be located some 17 miles southwest of Kivalina, Alaska, on the shore of the Chukchi Sea and a 52 mile all weather gravel road (the "Road") which will connect the Seaport with the Red Dog mine site.

**SCOPE OF WORK**

The responsibilities of Parsons with respect to its agreement with Cominco for the design and construction of the Project are:

- o To provide design engineering services for the Seaport facilities;
- o To perform a schedule and a constructability review of the cost of the Road engineered by Peratrovich, Nottingham and Drage (PN&D);
- o To prepare a Definitive Estimate for the cost of the Seaport and Road. The Road estimate is predicated upon the use of material quantities developed by PN&D;
- o To assist Cominco with the functions performed or to be performed as Project Construction Manager;

Alaska Industrial Dev. Authority

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February 11, 1987

- o To develop and keep current summary and detailed schedules for the Project construction; and,
- o To prepare procurement and contract bid documentation in accordance with the Authority's procedures. The Authority reserves the right of placement.

## EXPERIENCE

Since 1974, Parsons has acted in the capacity of designer, engineer, and construction manager responsible for some 60 percent of all completed work on the North Slope of Alaska which included assignments for Atlantic Richfield, SOHIO, Alyeska, Pipeline Service Company, Northwest Alaskan Pipeline Company, and Occidental Exploration and Production Company. Parsons has managed over five billion dollars of petroleum related work.

Parsons is recognized as the world's leader in the field of large module design and construction. Over 70 percent of the modules fabricated for the North Slope have been constructed under Parsons' direction. For ARCO alone, 565 large modules weighing over 235,000 tons have been engineered, constructed and delivered to Alaska on 146 barges.

Major construction support activities to accommodate these programs have expanded our scope of expert knowledge. Parsons has successfully provided expertise in arctic engineering, oceanographic engineering, major civil engineering design of causeways, ice and gravel roadways, bridges, permafrost foundations, and technology unique to offshore work and docking facilities.

## PROJECT DESCRIPTION

### SEAPORT

The Seaport facility construction is subdivided into seven (7) subjobs for management control purposes. The subjobs are:

<u>Subjob Number</u>	<u>Description</u>
4001	Onshore Development
4002	Shore Facilities
4003	Concentrate Storage Facilities
4004	Concentrate Handling
4005	Offshore Development
4007	Supplies Handling
4008	Fuel Storage and Distribution

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**4001 Onshore Development**

Onshore development includes all of the site preparation work which is to be done at the Seaport. This work will be done along with the Road construction as part of the construction bid package which is to be awarded in March of 1987.

The Seaport site design is based upon the soils investigation performed to date by Dames & Moore of Anchorage, Alaska. Parsons has completed approximately 60% of the site and rough grading engineering.

Physical site work commenced in the Summer of 1986 when the installation of the shallow water dock and some laydown areas were completed. This work, with Parsons as construction manager, was accomplished on schedule within budget, and below the engineers' cost estimate.

The remaining Seaport site work will entail the construction of some two miles of road, complete with culverts, and the placement of 95,000 square yards (SY) of geotextile, 54,000 SY of insulation board, 359,000 cubic yards (CY) of embankment fill, 101,000 tons of surface coarse materials, and 183,000 CY of excavation.

The Authority plans to award a series of contracts in 1987 for the actual construction of the Seaport facilities. One of these contracts will include some additional site preparation finishing work which will be done in 1988/1989.

**4002 Shore Facilities**

The shore facilities will be used by the operating crews during shipping periods. The facilities include the accommodations building, a warehouse, the power plant, the desalination plant, sewage treatment package, incinerator, and all of the connecting and/or supporting piping, electrical, instrumentation and communication equipment.

The shore facilities will be specified by Parsons. The facilities will be installed and used by the contractors and will be purchased by the Authority for use during operation of the project.

**4003 Concentrate Storage**

This facility will be used to store lead (Pb) and zinc (Zn) concentrate from the time the last ocean shipment is made until shipping resumes the following year. This facility is housed in an "A" frame structure that is 1425 feet long, 214 feet wide, and 132 feet high with a storage capacity of 580,000 tons. Included in the subjob is the building complete with the concentrate haulage truck ramp.

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Saline rich subsurface soils recently discovered in the area of the concentrate storage facility at the Seaport may impact the design and are currently being assessed. Investigations into alternate foundations designs for the concentrate storage building are being made. The most significant design impact that could result is the relocation of the entire building from the present location to a new site some 2.5 miles inland. The resultant cost exposure is estimated to be approximately \$4,000,000 which is well within the project contingency budget.

#### **4004 Concentrate Handling**

The concentrate handling system is designed to reclaim the material from the truck unloading hopper and from the concentrate storage pile within the concentrate storage building. The system includes reclamation of the concentrate from the storage pile and the loading of the shuttle barges at the rate of 2000 tons per hour. The system consists of front-end loaders which feed a series of conveyors which, in turn, discharge onto a ship loader.

#### **4005 Offshore Development**

The offshore facilities consist of a shallow water dock which was constructed in 1986 and three 74-foot diameter cells which form the deep water dock scheduled for construction in 1988.

The shallow water dock is constructed of sheet piling with the interior being filled with compacted gravel and sand. The surface of the shallow water dock is covered with armorflex precast concrete mats. In the fall of 1986, one "H" sheet pile joint separation in the shallow water dock was detected. This caused some erosion of the interior fill material which resulted in some settlement of the armorflex mat. A fix has already been engineered and the minor damage will be repaired this summer. In Summer of 1987 a 44 foot extension to the South side of the dock will be made. In 1989, prior to module offloading the dock surface will be reworked and a concrete cap placed around the edge of the dock.

The cell design is based upon ice loading information furnished by Mr. Kenneth Vaudrey, an internationally recognized authority on polar ice. The cells will extend to a planned height of 25-feet above mean sea level. The design incorporates sheet piling with the interior being composed of compacted fill or soil cement topped with a concrete slab.

#### **4007 Supplies Handling**

The supplies handling function is to move and store all of the incoming materials, equipment and consumables required to support the Red Dog Mine. The supplies handling subjob scope is to provide for the acquisition of mobile equipment required for this purpose. The equipment will include semi-trailers, forklifts, fuel oil tankers, tractors and cranes.



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February 11, 1987

#### 4008 Fuel Storage and Distribution

The Project and the Red Dog Mine will consume approximately 8,200,000 gallons of diesel fuel per year. The annual fuel supply will be stored in four (4) large double wall tanks located at the Seaport. Fuel will be transported to the Red Dog mine site by use of trucks.

#### ROAD

The road was designed by Peratrovich, Nottingham & Drage, Incorporated, an experienced arctic civil engineering firm, located in Anchorage, Alaska. The road design meets or exceeds all of the requirements set forth by the State of Alaska Department of Transportation and Public Facilities.

All construction will be managed by Cominco per the AIDA/Cominco Agreement. The schedule calls for construction to begin in the Fall of 1987. A constructability analysis jointly performed by the Authority, Cominco, Parsons and an outside construction consultant, Argetsinger and Kulawik Inc. of Anchorage, Alaska indicated that no problems exist with the design, the schedule or the planned construction of the Road.

The construction of the thirty foot wide road will require the installation of nine bridges, four major culvert crossings, 500 minor culvert crossings, about 1,300,000 SY of geotextile, nearly 2,000,000 CY of embankment fill and 90,000 tons of surfacing material.

### PROJECT EXECUTION

#### CONTRACTS

The Project will be executed by using contractors to perform discrete portions of the work at the site. In accordance with the Procurement Management Plan developed with the Authority, Parsons will be responsible for defining the scope of work and providing the engineering together with the contract documents.

The Authority will award the contracts in compliance with all of the applicable State of Alaska statutes pertaining to formal advertising, bidder qualifications, and open bidding and award procedures.

The listing of the major procurements for the construction of project facilities is set forth in Attachment I PROJECT CONTRACT AND PROCUREMENT REGISTER. The register provides an abbreviated Scope Description, Title, Type of Contract, Award Date, Duration, Dollar Value and Comments.

The contracts will be administered in the field with construction management by Cominco per the AIDA/Cominco Agreement. Safeguards to ensure satisfactory contractor performance during the execution phase of the work will include

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close day-to-day supervision of activities for quality and quantity compliance; withholding of sufficient retainage, imposition of full value performance bonds; and, inspection of all equipment and materials.

### DEFINITIVE COST ESTIMATE

The definitive cost estimate prepared by Parsons in October 1986 amounted to a total Project cost of \$144,890,000. Attachment II shows the cash flow by quarters for the road and seaport including escalation and contingency.

### SCHEDULE

Conceptual design and permitting efforts commenced in 1983, Road design by PN&D started in 1984 and Seaport design by Parsons started in 1985.

The Project Construction Phase started with the award by the Authority of the Contract "C" DOCK in the Spring of 1986. In the Fall of 1986 the shallow water dock and some laydown areas were completed. This work was done to ensure the orderly start of the construction activities planned for 1987.

The initial work in 1987 will consist of preparing the fuel tank foundation which must take place while the ground is still frozen. This work will be done by Contractor "C" who was responsible for the installation of the shallow water dock. This work is scheduled for completion in May of 1987.

Major Project construction will begin with the onset of the open water season this summer. Currently, the Authority is preparing to receive bids on Contract "A" ROAD which defines the construction of the all weather road from the Seaport to the Red Dog mine site and the rough grading at the Seaport. The major milestones associated with this effort are shown in Attachment III which is an excerpt from the Contract "A" ROAD documents.

Schedule compliance will be assured by the close supervision of the efforts of the Contractor by the construction manager. Load counts, in-place surveys, road advances, daily equipment and manpower reports will all be used to monitor actual production against planned goals.

The other significant construction activity ongoing in the Summer of 1987 is the erection of the first 2,300,000 gallon double wall fuel tank. At this time the Authority has the intent to award the DIESEL FUEL STORAGE TANKS contract which is approximately 10% below the engineer's cost estimate.

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The installation of this tank will enable sufficient fuel to be stored to support winter construction without interruption.

Road access to the Red Dog mine site will be possible in the Summer of 1988. This completion is important to enable the pace of the work on the Red Dog mine site facilities to be accelerated. The erection of the second fuel tank will also be completed during the early Fall of 1988, along with the offshore deep water dock cells.

In 1989 all the Seaport permanent facilities will be completed. These include the concentrate storage building, the concentrate handling system, two fuel storage tanks; the living accommodations and all other required equipment.

### CONCLUSIONS

The Ralph M. Parsons Company is of the opinion that construction of the DeLong Mountain Regional Transportation System as designed can be completed within the allowable schedule and that the cost estimate and project budget is comprehensive and includes adequate levels of escalation and unobligated contingencies to complete the construction within the budgeted amount. Once built according to specifications, the system should be operable for its intended life with the practice of good maintenance procedures.

Parsons has been directly involved in the overall project and has reviewed the road designed by PN&D and the geotechnical reports from Dames & Moore. We believe that the design criteria and contract documents are based on sound engineering techniques and practices and that the project is technically feasible.

The permits listed on Attachment IV, PERMIT STATUS, which have been secured directly by Cominco, are adequate to satisfy all the required federal, state and local requirements. Stipulations imposed by the permits do not pose any significant obstacles to the successful completion of the work

Parsons has reviewed the technical feasibility and constructability of the mill facilities for the Cominco Red Dog Project and believe that the current schedule and budget is realistic and achievable.

Very truly yours,

THE RALPH M. PARSONS COMPANY  
MINING & METALLURGICAL DIVISION

  
N. G. Williams  
Project Manager

GJS:iw  
Attachments

CC: H. M. Giegerich - Cominco

**ATTACHMENT I**  
**DELONG MOUNTAIN REGIONAL TRANSPORTATION SYSTEM**  
**PROJECT CONTRACT AND PROCUREMENT REGISTER**

No.	Scope Description	Title	Type	Award	Duration End	\$1,000 Est. Value	Comments
1	Construct Shallow Water Dock and Laydown Area	Contract "C" 1986 Dock	Lumpsum Unit Rates	April 1986	May 1987	1,647 Actual Todate	Complete except for some change order work
2	Seaport Site Work and Road	Contract "A" Road	Lumpsum Unit Rates	April 1987	Fall 1988	60,000	Currently being bid.
3	Supply and Erect Four Fuel Storage Tanks	Fuel Storage Tanks	Lumpsum	April 1987	June 1989	3,000	Erect one tank 1987; One tank 1988; and Two Tanks 1989
4	Supply and Erect Concentrate Storage Building	Concentrate Storage Building	Lumpsum		July 1989	7,000	
5	Fuel Tank Geotechnical Instrumentatioin	Geotechnical	T & M	April 1987	August 1987	20	Directed Procurement Due to Specialty and Allowable Time
6	Fuel Tank Leak	Leak Detection	Lumpsum	April 1987	October 1987	25	Estimated
7	Offshore Deepwater Cells	Offshore Cells	Lumpsum	February 1988	September 1988	4,700	
8	Offshore Heavy Rigging	Rigging	Lumpsum	March 1989	September 1989	750	
9	General Contractor Electrical/Mech	Contract "B" Seaport Development	Lumpsum	March 1988	December 1989	6,600	
10	Equipment and Material P.O.	--	Lumpsum	April 1986	October 1987	42,001	



# ATTACHMENT II

AUTHORITY - ROAD AND SEAPORT  
CASH FLOW BY QUARTERS  
DEFINITIVE ESTIMATE BASIS  
1990 PLANT START-UP  
February 6, 1987

## NOTES:

- (1) All amounts are in thousands of dollars.
- (2) Excludes pre-7/01/85 expenditures of \$8,000,000.
- (3) Assumes fiscal years ending June 30.

YEAR	QTR	SEAPORT	ROADWAY	ESCALATION & CONTING.	TOTAL BY QUARTER	CUM. TOTAL BY QUARTER	TOTAL BY YEAR
		-----	-----	-----	=====	=====	=====
1985	3	38	72	0	110	110	
	4	112	72	0	184	294	
1986	1	145	72	20	237	531	
	2	274	72	20	366	897	897
1986	3	3,689	500	270	4,459	5,356	
	4	674	500	88	1,262	6,618	
1987	1	215	39	20	274	6,892	
	2	605	145	72	822	7,714	6,817
1987	3	2,407	3,219	601	6,227	13,941	
	4	2,070	7,213	1,095	10,378	24,319	
1988	1	1,727	10,140	1,469	13,336	37,655	
	2	5,128	7,084	1,673	13,885	51,540	43,826
1988	3	9,981	12,192	3,327	25,500	77,040	
	4	2,782	14,807	2,827	20,416	97,456	
1989	1	1,302	1,817	525	3,644	101,100	
	2	6,462	4,113	1,930	12,505	113,605	62,065
1989	3	9,669	6,507	3,150	19,326	132,931	
	4	5,767	3,785	1,983	11,535	144,466	
1990	1	92	142	52	286	144,752	
	2	0	113	25	138	144,890	31,285
		53,139	72,604	19,147	144,890	144,890	144,890

must include  
#3.4 expenditures

1288

398  
in actual  
slit

6618

17,701

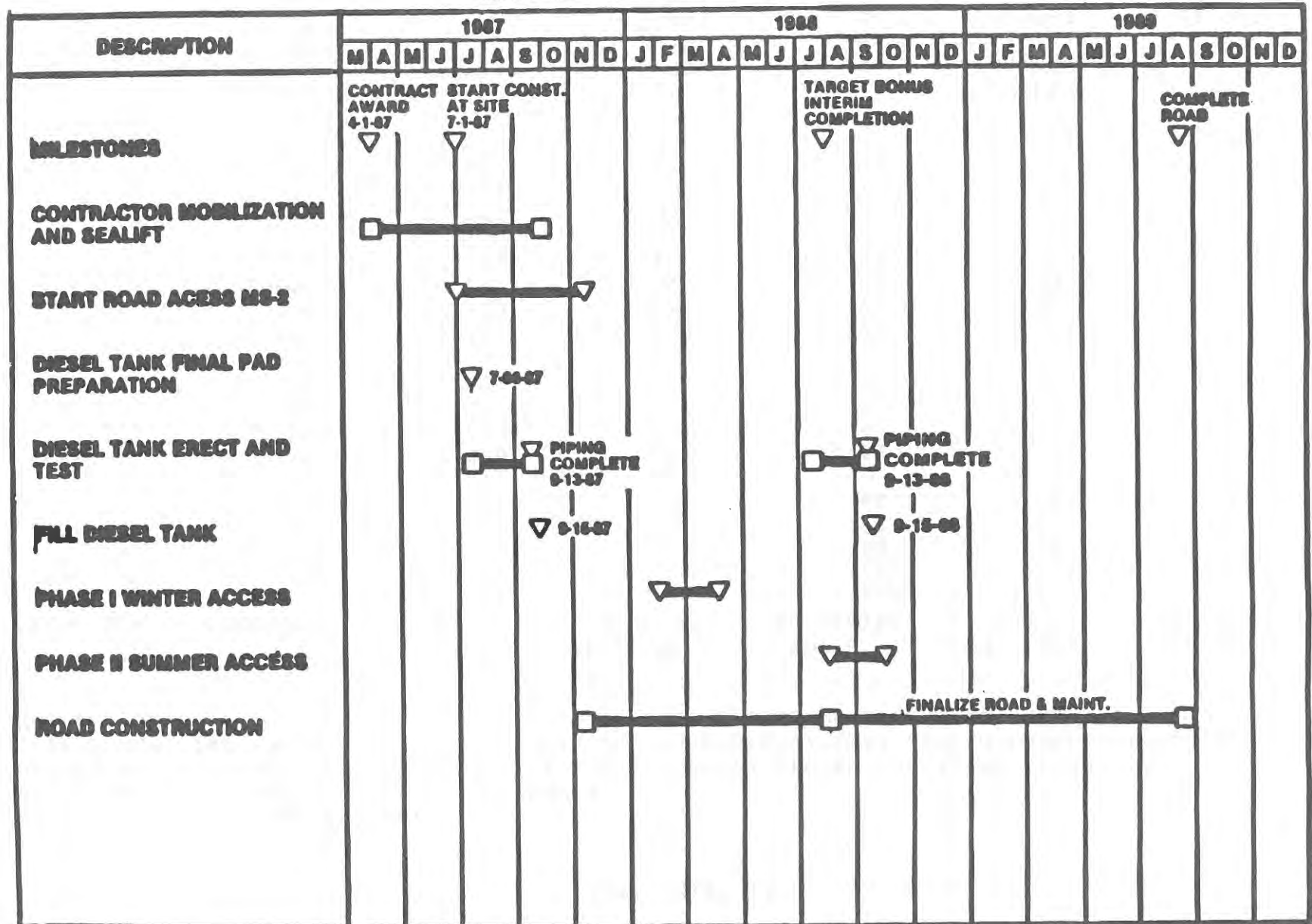
73,137

47,010

424

A-9

## ROAD AND SEAPORT CONTRACT A MAJOR MILESTONE SCHEDULE



ATTACHMENT IV

P E R M I T   S T A T U S

<u>Department</u>	<u>Permit Name</u>	<u>Permit No.</u>	<u>Status</u>	<u>Expiration Date</u>	<u>Projected Completion Date</u>
U.S. Army, Corps of Engineers	Port Site Mine Site Road/Material Sites	071-0YD-M-830359	Approved/Amend	7/2/96	6/87
		071-0YD-4-840012	Approved	9/31/90	
		071-0YD-M-830359	Approved	12/2/89	
Bureau of Land Management	Right-of-Way	F85267	Approved	8/5/2021	
Environmental Protection Agency	NPDES-Port NPDES-Mine Spill Prevention Port Site	AK-004064-9	Approved	8/20/91	
		AK-003865-2	Approved Draft Prepared	7/9/90	
National Park Service	Plan of Operations		Submitted		
U.S. Coast Guard	Operations Manual		Pending		1990
Governmental Coordination	Coastal Consistency	AK860415-10C	Approved/Amend		6/87
Fish and Game	W. New Heart	FG85-III-0397	Approved	12/31/88	
	New Heart	FG85-III-0398	Approved	12/31/88	
	E. New Heart	FG85-III-0399	Approved	12/31/88	
	Aufels Creek	FG86-III-0264	Approved	12/31/88	
	Deadman Creek	FG86-III-0001	Approved	12/31/88	
	W.Fork Straight Ck.	FG86-III-0002	Approved	12/31/88	
	Straight Creek	FG86-III-0003	Approved	12/31/88	
	Omikviorik Creek	FG86-III-0004	Approved	12/31/86	
	Mud Lake Creek	FG86-III-0005	Approved	12/31/88	
	Tutak Creek	FG86-III-0006	Approved	12/31/88	
	Little Creek	FG86-III-0007	Approved	12/31/88	
	Anxiety Creek	FG86-III-0263	Approved	12/31/88	

P E R M I T   S T A T U S

<u>Department</u>	<u>Permit Name</u>	<u>Permit No.</u>	<u>Status</u>	<u>Expiration Date</u>	<u>Projected Completion Date</u>
Natural Resources	Right-of-Way	ADL 409515	Approved	4/18/2041	10/86
	Tidelands Lease	ADL 412501	Approved		
	Material Site 7	ADL 412732	Approved		
	Material Site 7	ADL 412502	Approved		
	Material Site 8	ADL 412509	Approved		
	Material Site 8A	ADL 412510	Approved		
	Material Site 9	ADL 412511	Approved		
	Material Site 10	ADL 412512	Approved		
	Material Site 11A	ADL 412513	Approved		
	Material Site 12	ADL 412514	Approved		
	Land Use(Tundra Travel)	NR-86-043	Approved	8/1/87	
	Land Use(Temporary Camp)	NR-86-052	Approved	8/1/87	
	Water Rights(Thaw & Bear Lake)	LAS 4073	Approved	12/31/89	1987
	Tailing Dam		Submitted		
	Water Dam		Submitted		1987
Environmental Conservation	"401"Certificate of Reasonable Assurance	2-830359	Approved	3/1/91	1987
	Solid Waste Disposal MS2	8532-BA002	Approved		
	Solid Waste Disposal Port Site	8632-BA002	Approved		
	Spill Prevention Control		Draft Prepared	11/1/87	1987
	Prevention Significant Deterioration		Submitted		
	Solid Waste Disposal/Mine Site	8532-BA005	Approved/Extend	6/1/88	7/87
	Biomonitoring Program (NPDES)		Draft Submitted		
	Wastewater Treatment Facilities		Pending		
	Hazardous Substances		Pending		





Peat, Marwick, Mitchell & Co.  
 Certified Public Accountants  
 Alaska Mutual Bank Building  
 601 West 5th Avenue, Suite 700  
 Anchorage, Alaska 99501

The Board of Directors  
 Alaska Industrial Development Authority:

We have examined the balance sheet of the Alaska Industrial Development Authority Economic Development Fund as of June 30, 1986, and the related statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The activities of the Alaska Industrial Development Authority are accounted for in the Enterprise Development and Economic Development Funds. The accompanying financial statements include only the activities of the Economic Development Fund.

In our opinion, the aforementioned financial statements present fairly the financial position of the Alaska Industrial Development Authority Economic Development Fund at June 30, 1986, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

*Peat, Marwick, Mitchell & Co*

August 29, 1986

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Page 2

Balance Sheet

June 30, 1986

Assets

Cash	\$ 11,200
Investments (note 3)	24,805,618
Loans (note 4)	130,632,094
Less allowance for possible loan loss (note 5)	<u>3,019,447</u>
Net loans	127,612,647
Accrued interest receivable	2,070,545
Miscellaneous assets	<u>121,979</u>
	<u>\$154,621,989</u>

Liabilities and Equity

Miscellaneous liabilities	\$ <u>578</u>
	<u>578</u>
Equity:	
Contributed capital (note 2)	143,511,300
Retained earnings	<u>11,110,111</u>
Total equity	<u>154,621,411</u>
	<u>\$154,621,989</u>

Commitments (note 6)

See accompanying notes to financial statements.

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ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Statement of Earnings

Year ended June 30, 1986

Revenues:

Interest, net of servicing fees	\$ 11,110,107
Miscellaneous	<u>11,433</u>
Total revenues	11,121,540

Expenses:

Miscellaneous	<u>11,429</u>
---------------	---------------

Net earnings	<u>\$ 11,110,111</u>
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See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Statement of Changes in Financial Position

Year ended June 30, 1986

Sources of financial resources:	
Contributed capital	\$143,511,300
Net income	11,110,111
Loan reductions	13,702,021
Increase in:	
Liabilities	578
Allowance for loan loss	<u>1,825,096</u>
	<u>\$170,149,106</u>
Uses of financial resources:	
Appropriated loans, net	\$131,511,300
Loans purchased	11,628,464
Increases in:	
Cash	11,200
Investments	24,805,618
Accrued interest receivable	2,070,545
Miscellaneous assets	<u>121,979</u>
	<u>\$170,149,106</u>

See accompanying notes to financial statements.



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Notes to Financial Statements

June 30, 1986

The activities of the Alaska Industrial Development Authority are accounted for in the Enterprise Development Fund and the Economic Development Fund. Both Funds were established by the Legislature of the State of Alaska for separate and distinct purposes to be administered by the Authority and are not related in any way. In addition, the Authority is prohibited by statute from pledging or using assets of the Enterprise Development Fund to assist in financing, developing or operating a project of the Economic Development Fund. Therefore, separate financial statements are prepared for each Fund. The financial statements and related notes presented herein relate only to the financial activities of the Economic Development Fund.

(1) Historical

In 1984 the State Legislature addressed the possibility of lending support to the development of a lead and zinc mining operation in the DeLong Mountain area of Alaska through the facilities of the Alaska Industrial Development Authority by taking the following action: First, it established the Economic Development Fund of the Authority and provided that the fund may only be used to finance, acquire, manage and operate projects that the Authority intends to own and operate. Second, it appropriated \$5,000,000, which was reduced to \$3,400,000 by the Governor, for preconstruction activity, including geotechnical studies, routing, engineering, design and acquisition relating to a DeLong Mountain port and transportation system. As these funds are held and disbursed by the State of Alaska and will not be incorporated into the investment base of the project, they have not been accounted for in the Economic Development Fund.

During the 1985 Session, the Legislature enacted authorization to proceed with the DeLong Mountain Transportation Project and appropriated to the Economic Development Fund, effective July 1, 1985, the following to assist in providing funding for the project:

- (a) 2498 loans amounting to \$132,705,651 as of July 1, 1985, previously made or participated in by the State to various businesses and individuals in Alaska under seven economic assistance programs.
- (b) \$12,000,000 from the State's Multifamily Housing Loans Security Fund.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Notes to Financial Statements

As of June 30, 1986, \$3,124,623 of the \$3,400,000 appropriation was either expended or contractually encumbered within the State of Alaska's Financial Reporting System. As of October 31, 1986, all of these funds were either expended or obligated.

To date, only the DeLong Mountain Transportation Project has been authorized by the Legislature. This project consists of a road and port to serve regional needs and permit transportation of zinc concentrates and other minerals from the Red Dog deposit, one of the largest such deposits in the world, located in the DeLong Mountains in northwest Alaska.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Authority uses the accrual basis of accounting, under which revenues are recorded when earned, and expenditures are recorded when liabilities are incurred.

Investments

Investments are recorded at the acquisition cost which approximates market.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. According to the Alaska Statutes, the Authority constitutes a political subdivision of Alaska and is therefore exempt from State and Federal income taxes.

Allowance for Loan Loss

Management regularly reviews the loan portfolio and determines provision for loss based upon experience and management's estimate of potential loss.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure on loans or a deed received in lieu of foreclosure. It is carried at the lower of the unpaid loan balance at the time of foreclosure or the estimated fair market value of the property. When the balance of the Authority's investment in the loan is greater than the fair market value of the property, the difference is charged to the allowance for loan losses.

Contributed Capital

The two appropriations by the Alaska Legislature in 1985 gave the fund a capitalization of \$143,511,300.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Notes to Financial Statements

(3) Investments

At June 30, 1986, all investments were in United States Government securities or commercial paper yielding interest at 6.65% to 8.0% and maturing within one year.

(4) Loans

On May 30, 1986, the Authority used funds from the Economic Development Fund to purchase an additional \$11,628,464 in loans from the State.

An aging of loans as of June 30, 1986, follows:

<u>Loan Age</u>	<u>Amount</u>	<u>Percent</u>
Current	\$113,441,322	86.84%
Past due:		
30-60 days	5,807,226	4.45
61-90 days	2,329,000	1.78
Over 90 days	<u>9,054,546</u>	<u>6.93</u>
	<u>\$130,632,094</u>	<u>100.00%</u>

The Authority does not include in interest income the accrued interest on loans more than 90 days past due nor on loans foreclosed. Accrued interest deleted on past due loans through June 30, 1986, and on foreclosed loans to dates of foreclosure amounted to \$1,222,294 for the current fiscal year.

(5) Analysis of Allowance for Possible Loan Losses

Balance established upon initial appropriation of loans on July 1, 1985	\$1,194,351
Addition based on May 30, 1986, purchase of loans from State	<u>1,825,096</u>
Balance June 30, 1986	<u>\$3,019,447</u>

(6) Commitments

On June 30, 1986, AIDA entered into a contract with Cominco American, Inc. providing for the construction, use and operation of the Delong Mountain Transportation System. The agreement provides that Cominco will pay tolls for the use of the System, consisting of 56 miles of road and a port facility off the Chukchi Sea, for which AIDA will construct and operate the System. The amount of the tolls, referred to as minimum annual assessments, will be set such that over a 50 year term, beginning in 1991, AIDA will recover its investment in the project plus a 6-1/2% return.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT FUND

Notes to Financial Statements

On August 7, 1986, AIDA entered into an agreement with NANA Inc. providing for the lease of lands at the proposed port site and road route for a period of 99 years. The agreement provides that for consideration of \$1.1 million the entire lease term is prepaid for the entire 99 year term. The agreement additionally provides that AIDA will reimburse NANA for their "out of pocket" costs in arranging the land transfer with congress and also comply with the terms of the Caribou Monitoring plan contained in the land transfer documents. The costs of the transfer are capped at \$500,000 while the costs of the Caribou Program are capped at \$36,000 per year. Each is subject to various review, audits and conditions.



**INFORMATION PERTAINING TO THE BANKS**

The following provides information about the banks issuing the Primary Letter of Credit and the Standby Letter of Credit.

**BARCLAYS BANK PLC, NEW YORK BRANCH**

Barclays Bank PLC (the "Bank"), one of the four principal UK clearing banks, is one of the largest financial institutions in the world. Overseas, the Bank and its subsidiary companies (collectively, the "Barclays Bank Group") and its associated companies operate in some 70 countries, with increasing emphasis on the United States, Europe, Asia and Australasia.

At June 30, 1986, total assets of the Barclays Bank Group were £72,954 million, total deposits were £58,716 million, total advances and other accounts (including placings with banks repayable beyond 30 days and finance lease receivables) were £56,558 million and total capital resources were £5,721 million. On June 30, 1986, the noon buying rate for cable transfers in New York City payable in pounds sterling was US\$1.5320 per pound sterling.

The financial information set forth above has been extracted from the Annual Report on Form 20-F of the Bank for the year ended December 31, 1985 (the "Annual Report") filed with the Securities and Exchange Commission ("SEC"), and from the Interim Report on Form 6-K of the Bank filed with the SEC for the six-month period ended June 30, 1986 (the "Interim Report"). For further information, reference is made to the Annual Report, the Interim Report and to any subsequent Reports on Form 6-K filed by the Bank with the SEC, copies of which will be provided, without charge, to each person to whom this document is delivered, on the written request of such person directed to:

Barclays Bank PLC  
75 Wall Street  
New York, N.Y. 10265  
Attention: John S. Baerst,  
Senior Vice President  
General Counsel

**UNION BANK OF SWITZERLAND**

Union Bank of Switzerland ("UBS"), a Swiss banking corporation, was chartered as a bank in Zurich in 1912. UBS's principal executive offices are located at 45 Bahnhofstrasse, Zurich. UBS is the largest bank in Switzerland, and on the basis of assets as of December 31, 1985, UBS was among the 35 largest banks in the world. The New York Branch of UBS is licensed by the New York State Superintendent of Banks to conduct a banking business as a branch of a foreign bank. The office of the New York Branch is located at 299 Park Avenue, New York, N.Y. 10171.

UBS has 245 offices throughout Switzerland. UBS also has United States branches, subsidiaries and representative offices in New York, Chicago, Los Angeles, San Francisco and Houston, and other foreign offices including branches and subsidiaries in the Cayman Islands, Toronto, Panama, London, Frankfurt, Luxembourg, Hong Kong, Singapore and Tokyo for a total of 38 business offices abroad. In addition to the receipt of deposits and the making of loans and advances, UBS engages in other banking

and bank-related activities typical of the world's major international banks, including fiduciary, investment advisory and custodial services, foreign exchange and underwriting in the United States, Swiss and Euro-capital markets.

At December 31, 1985, UBS had total assets of Sfr. 139.5 billion, total deposits (including due to banks) of Sfr. 119.5 billion, other liabilities of Sfr. 11.5 billion and equity capital and reserves of Sfr. 8.1 billion. Such amounts are as reflected in UBS's 1985 Annual Report to Shareholders. The accounting principles applied in the preparation of its financial statements (and therefor reflected herein) may not conform to generally accepted accounting principles applied by United States banks.

Copies of UBS's annual reports to shareholders are available from UBS on request.

### **THE BANK OF TOKYO, LTD., NEW YORK AGENCY**

The Bank of Tokyo, Ltd. ("Bank of Tokyo") was founded in 1948 as the successor to the Yokohama Specie Bank, which was established in 1880. Bank of Tokyo has conducted its international financial operations as Japan's sole specialized foreign exchange bank since 1954. In addition to its headquarters and 32 branches in Japan, Bank of Tokyo operates more than 250 overseas offices, including those of its 25 overseas subsidiaries and associated institutions. Through this worldwide network, the Bank of Tokyo group conducts a full range of commercial banking activities and provides high-quality financial and financial advisory services to meet the diverse needs of customers in Japan and abroad.

Total deposits at fiscal year-end March 31, 1986 stood at \$58,077 million. The total of loans and bills discounted reached a total of \$51,854 million. All dollar amounts are stated at fiscal year-end rates.

Bank of Tokyo's single largest overseas network is in the United States, where, as of March 31, 1986, it operated seven agencies and branches, four representative offices, and five subsidiaries and associated institutions. Its combined assets in the United States exceeded \$20 billion at March 31, 1986, placing it among the top 20 banking organizations in the United States.

In Japan, Bank of Tokyo is under the supervision of the Ministry of Finance. In the United States, by virtue of its ownership of California First Bank and its other U.S. subsidiaries, Bank of Tokyo is a bank holding company under the Bank Holding Company Act of 1958, as amended (the "BHCA"). Under the BHCA, Bank of Tokyo is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") with respect to, among other things, the types of activities in the United States in which it may engage. As a foreign bank having branches, agencies and subsidiaries in the United States, Bank of Tokyo is required to file with the Federal Reserve Board an annual report containing detailed information with respect to the Bank of Tokyo and its United States branches, agencies and subsidiaries. Bank of Tokyo is also required to furnish the Federal Reserve Board with any additional information which the Federal Reserve Board may request.

The Bank of Tokyo, Ltd., New York Agency ("Bank of Tokyo New York") has been licensed by the New York State Superintendent of Banks (the "Superintendent") as a New York Agency. Bank of Tokyo New York is authorized by the Superintendent to engage in a broad range of commercial banking activities, including issuing letters of credit and making loans.

Bank of Tokyo New York is also subject to regulation under the International Banking Act of 1978. Bank of Tokyo New York is therefore also subject to regulation by the Federal Reserve Board. In addition, Bank of Tokyo New York is required to submit written financial reports to the Superintendent and is subject to periodic examinations by the New York State Banking Department.

Copies of the 1986 Annual Report of Bank of Tokyo are available upon written request mailed to Bank of Tokyo, Ltd., New York Agency, 100 Broadway, New York, New York 10005.

### **THE TORONTO DOMINION BANK**

The Toronto Dominion Bank ("TD"), is chartered under the Bank Act of Canada (the "Bank Act") with its Head Office located in Toronto, Ontario. TD is the fifth largest Canadian bank on the basis of total assets and the fourth largest on the basis of Common Shareholders equity and reserves and is the fifteenth largest bank in North America on the basis of total assets and twelfth largest in terms of Common Equity and Book Value.

Domestically, TD serves individuals, businesses, financial institutions and governments through a network of close to 1,000 retail branches and offices in Canada. Internationally, TD offers a broad range of credit and non-credit services to businesses, multi-national corporations, governments and correspondent banks through offices in the USA and other world financial capitals, and merchant banking subsidiaries in London, England and Australia.

As at TD's year end October 31, 1986, TD had total assets of Can. \$52.1 billion, total deposits of Can. \$43.9 billion, and Capital, Reserves and Debentures of Can. \$3.6 billion. In November 1986, TD issued 4.35 million Common Shares, improving its capital position by a further Can. \$97 million.

Copies of TD's Annual Report to Shareholders are available from TD on request.

### **THE BANK OF NOVA SCOTIA**

The Bank of Nova Scotia ("Scotiabank") was granted a charter under the laws of the Canadian Province of Nova Scotia in 1832, and commenced operations in Halifax, Nova Scotia in that year. Since 1871 Scotiabank has been a chartered bank under the Bank Act. The head office is located at 1709 Hollis Street, Halifax, Nova Scotia, and the executive offices are at 44 King Street West, Toronto, Ontario, M5H 1H1.

Scotiabank is a Schedule "A" bank under the Bank Act and the Bank Act is its charter. In accordance with the Bank Act, Scotiabank may engage in and carry on such business generally as appertains to the business of banking. The Bank Act also provides for the appointment of an Inspector General of Banks who is responsible to the Minister of Finance of Canada for the administration of the Bank Act. It is his duty under the Bank Act to examine and inquire into the business and affairs of each chartered bank to ensure that its provisions, having regard to the protection of the interests of the depositors, creditors and shareholders of banks, are being observed and that the banks are in sound financial condition.

Scotiabank is a major Canadian chartered bank conducting business on a global basis. In Canada, Scotiabank provides a full range of personal, commercial and corporate banking services through its extensive network of 1,016 branches in all the provinces and territories. Outside Canada, Scotiabank has 172 branches and offices in 50 countries which provide a wide range of banking and related financial services, either directly or through subsidiary and associated banks, trust companies and other financial firms.

As at its October 31, 1986 fiscal year-end, Scotiabank had total assets of Can. \$64 billion, total deposits of Can. \$53.3 billion, other liabilities of Can. \$6.5 billion and capital, reserves and subordinated debentures of Can. \$4.2 billion. A total of 163,113,878 Common Shares were issued, outstanding and widely held at fiscal year-end.

More complete information is included in the Scotiabank's Annual Reports which are available upon request.

### **DEUTSCHE BANK AG**

Deutsche Bank AG was originally established in 1870. In 1957, Deutsche Bank AG was reorganized under the laws of the Federal Republic of Germany into its present form. Its registered office is at Taunusanlage 12 D-6000 Frankfurt am Main 1, Federal Republic of Germany.

Deutsche Bank AG is the largest banking institution in the Federal Republic of Germany. Deutsche Bank AG and its consolidated subsidiaries (collectively the "Group") consist of commercial banks, mortgage banks, investment banking companies and specialized institutions in Germany and abroad. Deutsche Bank AG operates more than 1,100 branches and offices in the Federal Republic of Germany. It is represented through a subsidiary and such subsidiary's branches in each of Berlin and the Saarland and, worldwide, through a network of 15 branches, 18 representative offices and 10 wholly-owned subsidiaries of Deutsche Bank AG, and 14 branches of Deutsche Bank (Asia) AG, a majority-owned subsidiary of Deutsche Bank AG.

As of December 31, 1985, total assets of the Group were DM 237.2 billion, making it the 15th largest banking institution in the world. Total loans of the Group were DM 174.6 billion and total funds from outside sources were DM 215.6 billion. Capital and reserves of the Group amounted to DM 9.4 billion resulting in an equity to asset ratio of 4.0% and an equity to total loan ratio of 5.4%. Deutsche Bank AG's total assets as of December 31, 1985 were DM 141.9 billion, total loans were DM 84.5 billion and total funds from outside sources were DM 124.2 billion.

Deutsche Bank AG is a publicly-owned company. Its shares are listed on all eight German stock exchanges, as well as those in Amsterdam, Antwerp, Basel, Brussels, Geneva, London, Luxembourg, Paris, Vienna and Zurich. Over 40% of the shared capital of Deutsche Bank AG is believed to be owned by non-German investors.

Deutsche Bank AG operates the New York Branch pursuant to a license issued by the New York State Banking Department on July 14, 1978. The New York Branch conducts an extensive banking business serving U.S. customers and Deutsche Bank AG's German clients and their U.S. subsidiaries.

Annual reports are available on request.

### **COMMERZBANK AKTIENGESELLSCHAFT**

Commerzbank Aktiengesellschaft ("Commerzbank") originated from the merger of the successor institutions of Commerzbank Aktiengesellschaft of 1870, i.e. Commerzbank-Bankverein Aktiengesellschaft, Dusseldorf, with Commerz- und Credit-Bank Aktiengesellschaft, Frankfurt am Main, and Commerz- und Disconto-Bank Aktiengesellschaft, Hamburg, in November 1958. Cooperation agreements exist with Banco di Roma, Rome, Banco Hispano Americana, Madrid, and Credit Lyonnais, Paris.

Commerzbank has its registered office in Dusseldorf. It is represented in over 400 towns and cities in the Federal Republic of Germany through a network of 840 branches including 60 branches in Berlin.

Abroad, branches are maintained in Antwerp, Atlanta, Barcelona, Brussels, Chicago, Hong Kong, London, Los Angeles, Madrid, New York, Osaka, Paris and Tokyo. Representative offices are maintained in Cairo, Buenos Aires, Sao Paulo, Rio de Janeiro, Jakarta, Tehran, Tokyo, Sydney, Toronto, Mexico City, Manana, Moscow, Caracas and in Beijing. Together with Banco di Roma and Credit Lyonnais, Commerzbank operates a representative office in Johannesburg and with Credit Lyonnais a representative office in Copenhagen.

The object of Commerzbank is the handling of banking business of every kind and any operations in connection therewith. It is entitled to establish domestic and foreign branches and to take up participations in other companies. As a universal—or all purpose—bank, Commerzbank is engaged in all areas of commercial and investment banking, both at home and abroad.

As at October 31, 1986, the balance sheet volume (balance sheet total plus endorsement liabilities) of the Commerzbank Group was DM 144 billion. Commerzbank's equity capital totals DM 4.760 million. These figures are taken from the Annual Report 1985 and the Interim Report as of October 31, 1986. The accounting principles applied in the preparation of Commerzbank's financial statements may not conform to the generally accepted accounting principles applied by banks in the United States.

Copies of the Commerzbank Annual Report and Interim Report are available upon request.

### **THE MITSUBISHI BANK, LIMITED**

The Mitsubishi Bank, Limited ("Mitsubishi Bank") with its head offices at 7-1, Marunouchi, 2-Chome, Chiyoda-ku, Tokyo, Japan, is one of Japan's largest city banks. According to the July 1986 issue of Fortune Magazine, Mitsubishi Bank is the fifth largest commercial bank in the free world.

Mitsubishi Bank was established in the 1880's as the Mitsubishi Exchange Office and has played a vital role in the growth of modern Japan. In addition to its traditional corporate and wholesale banking business, Mitsubishi Bank now provides a full range of domestic banking services through 267 branches and offices throughout Japan. Further, Mitsubishi Bank is active in setting up services related to the newly established Tokyo International Banking Centre.

Mitsubishi Bank is enjoying increasing stature in international markets. As of August 1986, Mitsubishi Bank had 41 overseas offices including those of 9 branches, 12 subsidiaries and 20 representative offices. Geographically, 9 of these offices are located in North America, 5 in Latin America, 10 in Europe, 15 in Asia/Oceania and 2 in the Middle East. Furthermore, the Mitsubishi Bank is part owner of 9 international consortia. Services provided encompass most aspects of international banking including trade finance, loan syndications, underwriting/distribution of stocks and bonds, foreign exchange transactions and investment advisory and custodian services.

The office of the New York Branch of Mitsubishi Bank is located at One World Trade Center, Suite 8527, New York, N.Y. 10048.

As of Mitsubishi Bank's fiscal year end, March 31, 1986, total assets on a consolidated basis, including 12 overseas subsidiaries, stood at Japanese Yen 31,652 billion (about US \$176.2 billion). As of March 31, 1986, Mitsubishi Bank's stockholders' equity was Japanese Yen 616 billion (about US \$3.4 billion).

Annual reports are available on request.



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**INFORMATION AND RECENT DEVELOPMENTS PERTAINING TO COMINCO LTD.**

Cominco Ltd. is a corporation originally and now existing under the laws of Canada. Its registered and head office is at 2600-200 Granville Street, Vancouver, British Columbia, V6C2R2. In this Appendix, "Corporation" means Cominco Ltd. and "Cominco" means the Corporation and all its subsidiaries.

This information incorporates by reference the Annual Information Form of the Corporation dated February 20, 1987. Any statement, including financial statements, contained in the Annual Information Form shall be deemed to be modified or superseded to the extent that a statement in this Appendix D modifies or supersedes that statement. A copy of the Annual Information Form is available on request from the Corporation. The financial statements and discussion are expressed in Canadian dollars except where otherwise stated.

Cominco's business operations are grouped into three industry segments—Mining and Integrated Metals, principally the mining, processing, smelting and refining of zinc, lead, copper, silver and gold into concentrates and refined metals; Fertilizers, principally the production of ammonia, urea, potash, ammonium nitrate, ammonium phosphate, ammonium sulphate, sulphuric acid and sulphur dioxide; and Other Operations, principally fabricated metal products, electronic materials and public utility electric power generation and distribution.

## SELECTED FINANCIAL AND EXPLORATION INFORMATION AND RECENT DEVELOPMENTS

The following selected financial information should be read in conjunction with the consolidated financial statements which are included herein under the section titled Financial Statements. The financial statements are presented in accordance with Canadian generally accepted accounting principles.

Selected consolidated financial information of the Corporation for the indicated periods is as follows:(1)

	Year Ended December 31				
	(in millions except per share amounts)				
	1986	1985	1984	1983	1982
<b>Sales of Products and Services:</b>					
Mining and Integrated Metals .....	\$ 776	\$ 850	\$ 951	\$ 813	\$ 685
Fertilizers .....	359	444	461	422	386
Other Operations .....	205	175	182	164	174
Less internal sales to other segments .....	(13)	(11)	(13)	(24)	(10)
	<u>\$1,327</u>	<u>\$1,458</u>	<u>\$1,581</u>	<u>\$1,375</u>	<u>\$1,235</u>
<b>Operating Profit (loss):</b>					
Mining and Integrated Metals .....	\$ 21	\$ (22)	\$ 67	\$ 10	\$ (18)
Fertilizers .....	(19)	26	67	36	38
Other Operations .....	21	14	19	16	20
	<u>\$ 23</u>	<u>\$ 18</u>	<u>\$ 153</u>	<u>\$ 62</u>	<u>\$ 40</u>
Earnings (loss) before extraordinary items .....	\$ (48)	\$ (72)	\$ 18	\$ (38)	\$ (49)
Net earnings (loss) .....	(152)	(98)	23	(38)	(31)
<b>Data per Common Share (2):</b>					
Earnings (loss) before extraordinary items .....	(0.95)	(1.31)	0.07	(0.85)	(1.05)
Net earnings (loss) .....	(2.53)	(1.72)	0.15	(0.85)	(0.73)
Dividends paid (3) .....	0.17	0.16	0.15	0.13	0.43
Cash from operations .....	109	66	176	113	85
Capital expenditures .....	65	117	110	97	220
<b>Balance Sheet Data:</b>					
Working capital .....	170	84	156	183	217
Total assets .....	1,702	2,025	2,069	2,052	2,059
Long-term debt .....	476	674	617	649	688
Preferred shares .....	350	142	142	143	145
Common shareholders' equity .....	473	601	704	694	656

- (1) Prior period financial information has been adjusted to reflect a change in accounting for exploration expenditures and a proposed assessment for Workers' Compensation Claims which may arise from prior accidents.
- (2) Data per Common Share adjusted to reflect the subdivision of the Common Shares on a three for one basis on May 4, 1984. Earnings per Common Share are after providing for Preferred Share dividends.
- (3) Dividend paid to shareholders of record on December 9, 1986 was in the form of a stock dividend equivalent to \$0.17 per share.

\$103,250,000

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
DeLong Mountain Transportation Project  
Revenue Bonds, Series 1987A

Bond Debt Service Schedule

DATE	PRINCIPAL	COUPON	INTEREST	PERIOD TOTAL	FISCAL TOTAL
4/ 1/88			8,463,787.50	8,463,787.50	8,463,787.50
4/ 1/89			7,254,675.00	7,254,675.00	7,254,675.00
4/ 1/90			7,254,675.00	7,254,675.00	7,254,675.00
4/ 1/91			7,254,675.00	7,254,675.00	7,254,675.00
4/ 1/92	1,600,000.00	5.400000	7,254,675.00	8,854,675.00	8,854,675.00
4/ 1/93	1,685,000.00	5.600000	7,168,275.00	8,853,275.00	8,853,275.00
4/ 1/94	1,780,000.00	5.800000	7,073,915.00	8,853,915.00	8,853,915.00
4/ 1/95	1,885,000.00	6.000000	6,970,675.00	8,855,675.00	8,855,675.00
4/ 1/96	2,000,000.00	6.100000	6,857,575.00	8,857,575.00	8,857,575.00
4/ 1/97	2,120,000.00	6.250000	6,735,575.00	8,855,575.00	8,855,575.00
4/ 1/98	2,250,000.00	6.400000	6,603,075.00	8,853,075.00	8,853,075.00
4/ 1/99	2,395,000.00	6.500000	6,459,075.00	8,854,075.00	8,854,075.00
4/ 1/ 0	2,550,000.00	6.600000	6,303,400.00	8,853,400.00	8,853,400.00
4/ 1/ 1	2,720,000.00	6.700000	6,135,100.00	8,855,100.00	8,855,100.00
4/ 1/ 2	2,900,000.00	7.200000	5,952,860.00	8,852,860.00	8,852,860.00
4/ 1/ 3	3,110,000.00	7.200000	5,744,060.00	8,854,060.00	8,854,060.00
4/ 1/ 4	3,335,000.00	7.200000	5,520,140.00	8,855,140.00	8,855,140.00
4/ 1/ 5	3,575,000.00	7.200000	5,280,020.00	8,855,020.00	8,855,020.00
4/ 1/ 6	3,830,000.00	7.200000	5,022,620.00	8,852,620.00	8,852,620.00
4/ 1/ 7	4,105,000.00	7.200000	4,746,860.00	8,851,860.00	8,851,860.00
4/ 1/ 8	4,400,000.00	7.200000	4,451,300.00	8,851,300.00	8,851,300.00
4/ 1/ 9	4,715,000.00	7.200000	4,134,500.00	8,849,500.00	8,849,500.00
4/ 1/10	5,055,000.00	7.200000	3,795,020.00	8,850,020.00	8,850,020.00
4/ 1/11	5,420,000.00	7.200000	3,431,060.00	8,851,060.00	8,851,060.00
4/ 1/12	5,810,000.00	7.200000	3,040,820.00	8,850,820.00	8,850,820.00
4/ 1/13	6,230,000.00	7.200000	2,622,500.00	8,852,500.00	8,852,500.00
4/ 1/14	6,680,000.00	7.300000	2,173,940.00	8,853,940.00	8,853,940.00
4/ 1/15	7,165,000.00	7.300000	1,686,300.00	8,851,300.00	8,851,300.00
4/ 1/16	7,690,000.00	7.300000	1,163,255.00	8,853,255.00	8,853,255.00
4/ 1/17	8,245,000.00	7.300000	601,885.00	8,846,885.00	8,846,885.00
	103,250,000.00		157,156,292.50	260,406,292.50	
ACCRUED	103,250,000.00		157,156,292.50	260,406,292.50	
	=====		=====	=====	

DATED 2/ 1/87 WITH DELIVERY OF 2/ 1/87  
BOND YEARS 2,196,998.333  
AVERAGE COUPON 7.153  
AVERAGE LIFE 21.278  
M I C % 7.153228 % USING 100.0000000





	Initials	Date
Prepared By		
Approved By		

WRITE	1	2	3	4	5	6	
			Actually				
	Paid	Per O/S					
1							1
2	{ 12/1/86 - 4/1/87 (pd 10/1/87)	2418225	1209088				2
3	{ 4/2/87 - 10/1/87	3627338	3627338				3
4	4/1/88	3627337	3627337				4
5	10/1/88	3627337	3627337				5
6	4/1/89	3627338	3627338				6
7	10/1/89	3627337	3627337				7
8	4/1/90	3627338	19345776 @ 12/1/89				8
9	Per O/S	24182250					9
10							10
11							11
12							12
13							13
14							14
15							15
16							16
17							17
18							18
19							19
20							20
							21



## Production and Sales Statistics

Production and sales of Cominco's products for the five years ended December 31, 1986 were as follows:

		<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
<b>PRODUCTION</b>						
<b>REFINED METAL</b>						
Zinc .....	tons	272,600	303,000	302,900	271,100	250,300
Lead .....	tons	122,300	132,300(1)	166,900	164,600	159,700
Silver(2) .....	ounces	8,470,400	10,759,400	11,565,700	11,451,300	10,337,800
Gold .....	ounces	139,800	121,600	129,600	91,900	104,300
<b>CONCENTRATES</b>						
Zinc .....	tons	845,500	828,100	833,400	666,000	722,700
Lead .....	tons	383,500	377,700(1)	380,800	313,600	386,800
Copper(3) .....	tons	66,400	44,200	42,200	37,100	11,900
Molybdenum(3) ...	tons	1,200	—	—	—	—
<b>CHEMICALS AND FERTILIZERS</b>						
Nitrogen products .	tons	1,161,300	1,320,300	1,252,800	1,102,800	1,171,000
Phosphates .....	tons	262,700	323,300	339,200	300,600	250,700
Potash .....	tons	988,200	1,140,000	1,361,100	1,122,400	793,700
Other .....	tons	348,500	369,000	344,200	278,200	281,900
<b>SALES</b>						
<b>REFINED METAL</b>						
Zinc .....	tons	273,200	302,900	298,700	279,100	255,900
Lead .....	tons	123,500	129,100(1)	166,300	179,000	147,200
Silver(2) .....	ounces	8,369,800	10,559,700	11,380,100	11,316,100	10,003,800
Gold .....	ounces	138,900	121,700	132,800	89,700	104,100
<b>CONCENTRATES</b>						
Zinc(4) .....	tons	192,200	324,800	350,800	261,600	215,700
Lead .....	tons	252,500	224,600(1)	157,900	169,600	142,200
Copper(3) .....	tons	67,500	44,100	44,000	33,600	17,900
Molybdenum(3) ...	tons	1,100	—	—	—	—
<b>CHEMICALS AND FERTILIZERS</b>						
Nitrogen products .	tons	1,124,400	1,194,000	1,167,900	1,151,900	1,192,000
Phosphates .....	tons	280,500	302,000	303,100	356,900	241,900
Potash .....	tons	940,300	1,147,400	1,251,400	1,113,800	827,300
Other .....	tons	347,400	374,100	356,400	272,200	274,500

- (1) Sales of lead from the Magmont Mine previously reported as sales of refined metal are now reported as sales of concentrate.
- (2) Includes silver produced and sold in concentrates and intermediate products.
- (3) Tonnages are for copper and molybdenum contained in concentrate.
- (4) Sales exclude concentrates processed at Trail, British Columbia, and concentrates processed through other smelters both of which are reported as refined metal sales.

## Ore Reserves and Exploration

Mineral reserves at the operations of Cominco and associated corporations are classified as measured and indicated. The reserves are recalculated annually by the Corporation's engineering and geological staff based upon individual evaluations of operating results, drilling, other engineering data, and long-term metal price forecasts. The term "measured" is limited to those reserves at a mine which

can be projected from one or more exposed faces on the basis of actual operating results. Reserves are classified as "indicated" where there is sufficient information about the deposit or a portion of it to form the basis of a mine production forecast.

Ore reserves as at December 31, 1986 at mines of Cominco and at mines of associated companies, which were then in production or being prepared for production, were estimated as set out in the following table:

	Measured and Indicated Ore(1)	Grade		
	(thousands of tons)	% Zinc	% Lead	Silver Ozs./Ton
<u>Cominco</u>				
Zinc-Lead				
Sullivan . . . . .	29,000	6.9	4.6	1.0
Polaris . . . . .	20,000	14.5	3.9	—
Pine Point . . . . .	3,700	9.6	3.5	—
Magmont . . . . .	5,300	1.1	5.9	0.3
Gold				
Buckhorn . . . . .	1,800	Gold Ozs./Ton		
		0.04		
Copper				
Valley . . . . .	940,000	% Copper		
		0.40		
Phosphate Rock				
Warm Springs . . . . .	7,600	% P <sub>2</sub> O <sub>5</sub>		
		30		
Potash				
Vade . . . . .	145,000	% K <sub>2</sub> O Equivalent		
		25.3		
<u>Associated companies</u>				
Zinc-Lead				
Que River . . . . .	1,500	11.6	6.7	6.0
Rubiales . . . . .	7,100	6.8	1.1	0.4
Troya . . . . .	2,400	13.0	1.0	—
Diamonds				
Hondeklip . . . . .	300	Carats Per Ton		
		0.5		

(1) Ore reserves figures are the total reserves at the mines and are not limited to Cominco's interest.

Ore reserves at the Sullivan and Pine Point Mines have been reduced, by the current year's production and by 5.8 million tons and 8.8 million tons respectively, as the outlook for future costs and prices at these operations continued to deteriorate.

The objectives of Cominco's exploration programs are to extend known reserves at existing mines, and to discover new deposits that could be developed into profitable mines. Zinc and gold are the main targets, but emphasis is also being placed on the search for lead, silver, copper, speciality metals and industrial minerals. Reserves computed on the basis of limited drilling and geological data, and through application of geological projections which are insufficient to support a mine production forecast are classified as "inferred".

Cominco and its associated companies own or control a number of potentially significant mineral deposits. The most important of these is the Red Dog zinc-lead-silver deposit in Northwestern Alaska which is held by Cominco American Incorporated under an agreement entered into in 1982 with the owner of the mineral rights, NANA Regional Corporation, Inc., an Alaska Native-owned corporation.



The agreement provides for the development of this deposit by Cominco. The most important deposit owned or controlled by an associated company is the Hellyer zinc-lead-silver deposit in Tasmania.

Tonnage and grade estimates of deposits are estimated to be as follows:

<u>Cominco</u>	<u>Indicated and Inferred Ore (1)</u> (thousands)	<u>Grade</u>
Red Dog (2) .....	85,000	17.1% Zinc, 5.0% Lead, 2.4 ozs Silver/Ton
<u>Associated Companies</u>		
Hellyer .....	18,000	11.8% Zinc, 6.4% Lead, 4.3 ozs Silver/Ton

(1) Deposit figures are not limited to Cominco's interest.

(2) NANA Regional Corporation, Inc. will receive advance royalties until Cominco has recovered its capital investment, interest and advanced royalties. Thereafter NANA will have a carried interest in the net proceeds of production from the mine starting at 25% and increasing by 5% at five-year intervals up to a maximum of 50%.

## MANAGEMENT'S DISCUSSION

In 1985 Cominco's consolidated net loss was \$98.1 million after extraordinary items totalling \$26.6 million which consisted of (a) provisions of \$36.0 million after taxes for the writedown of the assets of Pine Point Mines Limited and provision for mine closure costs, and the writedown of the Corporation's investment in Vestgron Mines Limited, and (b) a gain of \$9.4 million realized from the sale of a portion of the Corporation's equity shares in Pine Point Mines Limited. The provisions for writedowns were based upon revised forecasts of long-term metal prices and the effect of these prices on the remaining mine life of the Pine Point and Black Angel Mines. Sales for the year were \$1,458.1 million, a decrease of \$122.9 million from 1984 levels. The Corporation experienced lower profit margins on sales of refined zinc, zinc concentrate, lead concentrate, silver and gold, offset in part by higher profits from copper concentrate. With the exception of copper, metal prices were consistently below the levels achieved in 1984. The price for zinc deteriorated significantly during the last half of the year when uncertainty developed in metal markets due to an oversupply of metal and the suspension by the London Metal Exchange of tin trading on the Exchange. For the year, the price for zinc sold in the United States averaged 40.4 U.S. cents per pound compared to 48.6 U.S. cents per pound in 1984. Silver and gold prices for the year averaged \$6.14 U.S. per ounce and \$318.00 U.S. per ounce respectively compared to \$8.14 U.S. per ounce and \$361.00 U.S. per ounce respectively in the previous year. Excess worldwide capacity continued to put pressure on fertilizer prices, particularly urea, concentrated superphosphate and potash. Average realized prices for potash for the year were substantially lower than those realized last year. Potash sales tonnage at 1,147,400 tons declined by 104,000 tons from last year's levels. The Corporation's share of earnings from associated companies was \$9.7 million compared to \$14.0 million in 1984.

In 1986 Cominco's consolidated net loss of \$48.2 million or \$0.95 per common share before extraordinary items. On February 20, 1987 the Board of Directors approved a Restructuring Plan under which certain assets not considered essential to the core business of the Company will be disposed of and the proceeds used to reduce debt. As a result, the Corporation recorded a provision for loss on disposition of \$157.0 million as an extraordinary loss; offsetting that charge are extraordinary gains of \$53.6 million resulting from the sale of the Con Gold Mine and the Corporation's equity in Fording Coal Limited. The net extraordinary loss increases the total loss for 1986 to \$151.6 million or \$2.53 per common share.



The Corporation experienced improved results from the Mining and Integrated Metals business segment which had an operating profit of \$21.4 million. Recent improvements in the prices for zinc, lead and gold together with productivity improvements and cost reductions benefited operating profits particularly in the fourth quarter. The Fertilizers business segment incurred an operating loss of \$18.9 million. 1986 was an extremely difficult year for the North American fertilizer industry. Prices and demand for all major fertilizers dropped steadily throughout the year. Agricultural commodity prices were driven downward by the continued world-wide surplus of grain, particularly in the United States. Historically high grain inventories and generally favourable prospects for a large 1986 crop, together with the possibility of further U.S. government acreage reduction programs, have created buyer resistance and caused fertilizer inventories to increase. In addition, a late harvest due to adverse weather conditions postponed normal Fall fertilizer applications, which resulted in further increases in fertilizer inventories. These high fertilizer inventories, combined with low-cost foreign imports, have depressed North American fertilizer prices.

Other Operations, principally metal production and electric power distribution, earned an operating profit of \$20.9 million compared to \$13.5 million in 1985. A significant improvement in earnings was achieved by the Electronic Materials Division and Cominco Engineering Services Limited. The Corporation had earnings from associated companies of \$0.8 million in 1986, a decrease of \$8.9 million from 1985. This decrease resulted principally from the elimination of earnings formerly contributed by Fording Coal Limited and reduced earnings by the Exploracion Minera Internacional Espana, S.A. resulting from lower average prices received for zinc and the effect of the declining U.S. dollar on international exchange rates.

Cash generated from operations improved substantially and totalled \$108.8 million before paying \$85.3 million of interest on short-term and long-term debt. In 1985 the Corporation generated \$66.3 million before payment of \$88.7 million for interest costs. Cash required to pay dividends on Preferred and Common Shares was \$14.5 million compared with \$23.8 million in 1985. During the year the Corporation raised \$35.8 million in additional long-term debt and repaid \$55.8 million of existing debt. A \$75.0 million loan with Canadian Pacific Securities was converted to 3,000,000 Floating Rate Preferred Shares. Common Shares issued in conjunction with the sale of investment tax credits and tax deductions for Canadian exploration expenditures amounted to \$46.6 million.

Capital expenditures totalled \$65.0 million, a decrease of \$56.1 million from 1985 levels. The 1986 expenditures included \$52.0 million for improvements to buildings and production facilities and \$13.0 million for the development and preparation of mining properties. These costs were financed from the proceeds from the sale of assets of \$13.4 million and from the sale of the Corporation's 40% interest in Fording Coal Limited for \$87.0 million and the Con Gold Mine for \$64.3 million.

Current borrowing, net of cash and short-term investments, decreased by \$157.2 million to \$125.3 million at year-end. As of December 31, 1986 the total lines of credit available to Cominco and its consolidated subsidiaries were \$543.0 million of which \$393.0 million remained unutilized.

Cominco's capital expenditures in 1987, estimated at \$185.0 million, will include \$42.0 million on the development of the Red Dog Mine, \$26.0 million on the first stage of its lead smelter modernization program, \$46.0 million at the Highland Valley Mine and the balance, principally for replacement of and additions to plant and equipment, will depend on market conditions for Cominco's principal products. Long-term debt scheduled for repayment in 1987 is estimated to be \$38.2 million and preferred share dividends are estimated to be \$17.6 million. Cominco expects to meet these disbursements and the balance of its cash requirements in 1987 from internally-generated funds, the issue of additional securities and the use of existing bank lines of credit. \$80.0 million is expected to be realized from the sale of West Kootenay Power and Light Company, Limited and the proceeds used to reduce debt.

At year-end 1986, total debt stood at \$643.9 million compared with \$1,014.5 million in 1985. The reduction in debt reflects the removal from the consolidated accounts of West Kootenay Power and

Light Company, Limited and Western Canada Steel Limited which are for sale. Debt removed on deconsolidation of these companies was \$103.2 million.

### **Red Dog Deposit**

On November 26, 1986, the Corporation made a production decision to proceed with the development of the Red Dog zinc-lead-silver deposit which is located at the end of the port-road project of the Alaska Industrial Development Authority described in the Official Statement to which this Appendix D is attached. Total development costs for the deposit are estimated at U.S. \$265 million, in addition to the toll fees payable to the Authority. The Corporation expects to fund the development costs from institutional sources as well as from internally generated funds.

### **Highland Valley Copper Partnership**

The Corporation and Lornex Mining Corporation Ltd. concluded a partnership agreement known as "Highland Valley Copper" effective July 1, 1986. The partnership owns and operates the former Cominco Valley Mine and mill and Lornex copper and molybdenum mine and mill in the Highland Valley of British Columbia. Development has begun to increase the capacity of the higher grade Valley Mine to supply feed to both mills. Development costs estimated at \$83 million will be funded by short-term borrowing by the partnership. When completed in late 1987, annual output is expected to be in excess of 400 million pounds of copper and 3 million pounds of molybdenum. The Corporation's financial participation in the partnership is 55% and the Corporation consolidates its proportion of the financial accounts of the partnership.

### **West Kootenay Power and Light Company, Limited**

The Corporation has agreed to sell its investment in West Kootenay Power and Light Company, Limited to UtiliCorp United Inc. for approximately \$80 million. The sale is subject to regulatory approval in Canada and in the United States. The United States approvals have been received and the Minister of Regional Industrial Expansion (Canada) has approved the transaction. Public hearings before the British Columbia Utilities Commission have been concluded, but no decision has been announced. This transaction will result in a gain of approximately \$45 million. The assets and liabilities of West Kootenay have been removed from the Corporation's consolidated accounts at December 31, 1986. The Corporation will continue to own its two hydro-electric plants which supply electrical energy to its smelting and refining plants at Trail, B.C. and to the Sullivan Mine at Kimberly, B.C.

### **Trail Lead Smelter**

The Corporation is proceeding with the modernization of its lead smelter at Trail, B.C. This \$260 million project has been approved in principle by the Corporation's Board of Directors and the Corporation is proceeding with the first phase that is estimated to cost \$126 million. The Canadian and British Columbia governments have agreed to invest in \$134 million of the Corporation's Series E and F Preferred Shares. On October 27, 1986, the governments purchased the first installment of 390,000 of the Corporation's Preferred Shares for \$39 million. The dividend entitlement and redemption of the Preferred Shares are based upon the world prices for lead and silver. Lurgi GmbH and the Corporation have reached an agreement to use Lurgi's QSL technology for lead furnace construction.

### **Con Mine**

On December 10, 1986, the Corporation sold its gold mining operations located at Yellowknife, Northwest Territories to NERCO Minerals-Canada Ltd. for \$64 million. The proceeds of sale were used to reduce bank borrowings. The sale resulted in a gain of approximately \$12.2 million.

### **Pine Point Mines Limited**

Pine Point Mines Limited, approximately 50% owned by the Corporation, announced plans for the shutdown of its zinc and lead mining operations in the Northwest Territories, Canada. The mine, which employs 440, has been operating under an accelerated production plan since December 1985. It is contemplated that mining will cease by July 1987, and milling operations will cease by year-end 1987. Shipping and sales of concentrate are expected to continue up to three years after milling ceases. The current production plan will result in a zinc concentrate inventory accumulation of approximately 400,000 tons by December 31, 1987, part of which is committed for sale to the Corporation's Trail, B.C. smelter. This inventory would carry a value at cost of approximately \$52 million.

### **Change of Control**

On October 16, 1986, NUNACHIAQ INC., a private corporation owned 50% by Teck Corporation and 25% by each of Metallgesellschaft Canada Limited and M.I.M. (Canada) Inc., acquired 20,000,000 Common Shares of the Corporation from Canadian Pacific Enterprises Limited. The remaining 14,230,318 Common Shares held by Canadian Pacific Enterprises Limited were sold to the public.

The following were elected to the Board of Directors on October 16, 1986: Dr. Norman B. Keevil, Dr. Norman B. Keevil Jr., Robert E. Hallbauer and David A. Thompson, senior officers of Teck Corporation, of Vancouver; Norman C. Fussell and John Middlin, officers of M.I.M. Holdings Limited, of Brisbane, Australia; Dr. Heinz Schimmelbusch, a director of Metallgesellschaft AG, of Frankfurt, West Germany and Dr. Klaus Zeitler, President of Metallgesellschaft Canada Limited, of Toronto.

Continuing on the Board are J.L. Anderson, President of Cominco Fertilizer Division; R.G. Duthie and D.J. Kelsey of Vancouver; R. Hougen of Whitehorse; R.A. MacKimmie of Calgary; and F.H. Tyaack of Hamilton. On December 16, 1986, W.G. Wilson resigned as a director and President of Cominco Metals Division. On February 20, 1987 J. E. Fletcher, Senior Vice-President, Cominco Metals Division, was appointed to fill an interim vacancy on the Board.

Dr. Norman B. Keevil Jr. has been elected Chairman of the Board and Robert E. Hallbauer, President and Chief Executive Officer.

### **FINANCIAL STATEMENTS**

Following hereinafter are certified financial statements for the year ended December 31, 1986.

# Thorne Ernst & Whinney

Chartered Accountants

Predecessor firms:  
Thorne Riddell  
Ernst & Whinney

## AUDITORS' REPORT

To the Shareholders  
of Cominco Ltd.

We have examined the consolidated balance sheet of Cominco Ltd. as at December 31, 1986 and the consolidated statements of earnings, earnings reinvested in the business and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for exploration expenditures as explained in note 1(a) to the consolidated financial statements, on a basis consistent with that of the preceding year.

*Thorne Ernst & Whinney*

Vancouver, Canada  
February 20, 1987

Chartered Accountants

Mine development costs incurred to maintain current production are included in operating costs. Mine development costs incurred to expand the capacity of operating mines, to develop new orebodies or to develop mine areas substantially in advance of current production are capitalized and charged to operations on a units-of-production or on a time basis related to the mineral reserves position.

If a property is abandoned or if there is a permanent impairment in value, the unrecoverable portion of such investment is charged to earnings in the year such determination is made.

Depletion on operating mines is provided on a units-of-production or on a time basis related to the mineral reserves position.

#### **Taxes on Income**

Income tax laws in Canada and in some other countries permit the deduction of depreciation and other items from income to determine taxable income at times which do not coincide with those used for financial reporting purposes. Income tax provisions are made on the basis of income for financial reporting purposes (the Tax Allocation method) and accordingly the differences in timing of deductions result in taxes being provided for which are not currently payable.

Tax savings from the utilization of or the proceeds from the sale of Investment Tax Credits are applied to reduce the cost of the related qualifying expenditures, and as a result are recognized in earnings at the time the related expenditures are charged to earnings.

Withholding taxes, where applicable, on earnings of foreign operations are provided in the accounts to the extent of dividends anticipated in the future.

#### **Research and Product Development**

Research and product development costs are charged against earnings as incurred.

#### **Interest**

Interest is charged to earnings except for interest on funds applied to major expenditures for fixed assets, which is capitalized during the construction period. Capitalization is based upon the actual interest on debt specifically incurred for the asset or on the average borrowing rate for all other debt except where shares are issued to cover the cost of the project.



### **Start-Up Costs**

Start-up costs related to major projects are deferred until the facilities achieve commercial operation. These deferred costs are amortized against earnings on a straight-line basis over a reasonable period of time.

### **Earnings per Share**

Earnings per Common Share are calculated by dividing net earnings less a provision for dividends on Preferred Shares by the weighted average number of shares outstanding during the year.

COMINCO LTD.  
CONSOLIDATED STATEMENT OF EARNINGS

Year Ended December 31, 1986

	1986	1985 RESTATEMENT
	(thousands)	
REVENUE		
Sales of products and services	\$1,327,521	\$1,458,000
Income from investments	<u>1,268</u>	<u>3,000</u>
	<u>1,328,789</u>	<u>1,461,000</u>
COSTS AND EXPENSES		
Costs of products and distribution	1,138,438	1,269,500
General, administrative and selling	80,843	87,500
Mineral exploration	18,407	35,700
Interest (Note 9)	85,343	88,600
Depreciation, depletion and amortization	<u>87,654</u>	<u>108,200</u>
	<u>1,410,685</u>	<u>1,589,800</u>
LOSS BEFORE THE FOLLOWING	81,896	128,600
Add(deduct)		
Taxes on income(reduction) including resource taxes (Note 10)	(33,451)	(45,100)
Minority interests in net earnings(loss) of subsidiaries	572	(2,200)
Equity in earnings of associated companies	<u>(766)</u>	<u>(9,700)</u>
LOSS BEFORE EXTRAORDINARY ITEMS	48,251	71,500
Extraordinary items (Note 11)	<u>103,375</u>	<u>26,600</u>
NET LOSS	<u>\$ 151,626</u>	<u>\$ 98,100</u>
LOSS PER COMMON SHARE		
Loss before extraordinary items	\$ 0.95	\$ 1.00
Extraordinary items	<u>1.58</u>	<u>0.40</u>
Loss per Common Share	<u>\$ 2.53</u>	<u>\$ 1.40</u>

## COMINCO LTD.

## CONSOLIDATED STATEMENT OF EARNINGS REINVESTED IN THE BUSINESS

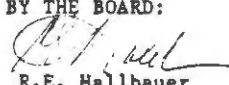
Year Ended December 31, 1986

	1986	1985 RESTATED (thousands)
AMOUNT AT BEGINNING OF YEAR as previously reported	\$365,906	\$487,136
Adjustments to figures for prior periods		
Change in policy for accounting for exploration expenditures (Note 1(a))	(21,294)	(21,775)
Adjustment of Workers' Compensation Board charges (Note 12)	<u>(9,390)</u>	<u>(7,994)</u>
Retained earnings as restated	335,222	457,367
Net loss	<u>151,626</u>	<u>98,135</u>
	<u>183,596</u>	<u>359,232</u>
Deduct		
Costs on issue of shares (net of taxes)	714	212
Dividends paid		
Preferred - Series A \$2.00 per share	3,302	3,346
- Series C \$1.66 per share (1985 - \$1.80)	3,320	3,603
- Series D \$3.25 per share	6,500	6,500
- Series G \$0.38 per share	1,140	-
Common - \$0.17 per share (1985-\$0.16) (Note 7(d))	<u>11,099</u>	<u>10,349</u>
	<u>26,075</u>	<u>24,010</u>
AMOUNT AT END OF YEAR	<u>\$157,521</u>	<u>\$335,222</u>

COMINCO LTD.  
CONSOLIDATED BALANCE SHEET  
at December 31, 1986

	1986	1985 RESTATED
	(thousands)	
<b>CURRENT ASSETS</b>		
Cash and short-term investments	\$ 4,003	\$ 16,002
Accounts receivable	171,363	211,541
Inventories (Note 2)	307,056	343,378
Prepaid expenses	17,681	17,117
	<u>500,103</u>	<u>588,038</u>
<b>SHARE SUBSCRIPTIONS RECEIVABLE (Note 7)</b>	<u>95,000</u>	<u>-</u>
<b>INVESTMENTS</b>		
Associated companies (Note 3)	29,733	98,261
Other investments (Note 3)	380	4,068
	<u>30,113</u>	<u>102,329</u>
<b>FIXED ASSETS</b>		
Land, buildings and equipment	1,258,836	1,757,101
Less accumulated depreciation	474,784	746,377
	<u>784,052</u>	<u>1,010,724</u>
Mineral properties and development (Note 4)	173,447	292,928
	<u>957,499</u>	<u>1,303,652</u>
<b>ASSETS FOR SALE (Note 1)</b>	<u>98,444</u>	<u>-</u>
<b>OTHER ASSETS (Note 5)</b>	<u>20,987</u>	<u>30,706</u>
	<u>\$1,702,146</u>	<u>\$2,024,725</u>
<b>CURRENT LIABILITIES</b>		
Bank loans and notes payable	\$ 129,306	\$ 298,469
Accounts payable and accrued liabilities	158,475	162,098
Income and resource taxes	4,507	1,736
Long-term debt due within one year	38,211	41,579
	<u>330,499</u>	<u>503,882</u>
<b>LONG-TERM DEBT (Note 6)</b>	<u>476,387</u>	<u>674,438</u>
<b>DEFERRED LIABILITIES</b>	<u>43,055</u>	<u>31,926</u>
<b>INCOME TAXES PROVIDED BUT NOT CURRENTLY PAYABLE</b>	<u>16,489</u>	<u>58,170</u>
<b>MINORITY INTERESTS</b>	<u>12,749</u>	<u>13,633</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital (Note 7)	655,457	403,097
Earnings reinvested in the business	157,521	335,222
Cumulative translation adjustment (Note 8)	9,989	4,357
	<u>822,967</u>	<u>742,676</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 14)</b>	<u>\$1,702,146</u>	<u>\$2,024,725</u>

APPROVED BY THE BOARD:

(signed)  Director

(signed)  Director

## COMINCO LTD.

## CONSOLIDATED STATEMENT OF CHANGES IN CASH RESOURCES

Year Ended December 31, 1986

	1986	1985 RESTATED
	(thousands)	
CASH FROM(USED IN) OPERATIONS		
Loss before extraordinary items	\$ (48,251)	\$ (71,526)
Add(deduct) items not involving cash		
Depreciation, depletion and amortization	87,654	108,257
Amortization of deferred pit preparation costs	22,403	13,574
Deferred income taxes	(31,832)	(48,319)
Other items	10,837	(6,515)
Dividends from associated companies	1,864	4,077
Increase in non-cash working capital	(19,256)	(21,934)
	23,419	(22,386)
Add interest, a financing activity	85,343	88,676
	<u>108,762</u>	<u>66,290</u>
CASH FROM(USED IN) FINANCING ACTIVITIES		
Interest charged to earnings	(85,343)	(88,676)
Dividends - to preferred shareholders	(14,262)	(13,449)
- to common shareholders	(221)	(10,349)
- to minority shareholders of subsidiaries	-	(238)
	(99,826)	(112,712)
Redemption of preferred shares	(854)	(350)
Repayment of long-term debt	(55,835)	(51,856)
Conversion of debt to preferred shares	(75,000)	-
Issue of preferred shares for debt	75,000	-
Issue of common shares	33,392	9,761
Issue of preferred shares	39,000	-
Additions to long-term debt	35,819	105,800
Net borrowings of investments in operations		
removed from the consolidation (Note 1(b))	3,182	6,617
	<u>(45,122)</u>	<u>(42,740)</u>
CASH FROM(USED IN) INVESTING ACTIVITIES		
Land, buildings and equipment	(51,949)	(80,654)
Mineral properties and development	(13,066)	(35,949)
Other items	(4,603)	(14,965)
	(69,618)	(131,568)
Proceeds from disposal of fixed assets and investments	13,397	6,210
Proceeds from extraordinary items (Note 11)	149,745	20,718
	<u>93,524</u>	<u>(104,640)</u>
INCREASE(DECREASE) IN CASH RESOURCES	157,164	(81,090)
NET BORROWINGS AT BEGINNING OF YEAR	<u>282,467</u>	<u>201,377</u>
NET BORROWINGS AT END OF YEAR	<u>\$ 125,303</u>	<u>\$ 282,467</u>

Net borrowings comprise short-term borrowings net of cash and short-term investments. The Corporation and its subsidiaries have short-term lines of credit available totalling \$543 million (1985 - \$556 million), of which \$393 million (1985 - \$262 million) was unutilized at December 31, 1986.

COMINCO LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1986

1. ACCOUNTING POLICIES

The significant accounting policies followed by the Corporation and its subsidiary companies are summarized under the caption "Summary of Significant Accounting Policies".

Set out below are a number of significant items incorporated in these financial statements which affect the comparability of the 1986 and 1985 accounts.

(a) Change In Accounting Policy

In 1986 the Corporation changed its method of accounting for exploration expenditures, which is described under the caption "Summary of Significant Accounting Policies". This change has been applied retroactively and accordingly the 1985 accounts have been restated in these financial statements. The effect of the change on the accounts was to decrease the reported loss in 1986 by \$7,721,000 and in 1985 by \$481,000. This change resulted in a cumulative decrease in retained earnings of \$21,775,000 at December 31, 1984.

(b) Assets for Sale

The Corporation has adopted a Restructuring Plan under which the investment in certain subsidiary and associated companies and other operations, as described below, not considered essential to the core business of the Corporation will be disposed of and the proceeds used to reduce debt.

i) Subsidiary Companies

In 1986, the Corporation agreed to sell its investment in West Kootenay Power and Light Company, Limited to Utilicorp United Inc. for approximately \$80,000,000. This sale, which will result in an after tax gain of approximately \$45,000,000, is subject to approval of the British Columbia Utilities Commission. Hearings before that Commission have been concluded but no decision has been announced. The assets and liabilities of that company have been removed from the consolidation at December 31, 1986 and the net investment included under Assets for Sale. The earnings of this subsidiary will be included on an equity basis until the sale is consummated.



The Corporation has decided to sell Western Canada Steel Limited and its investment in that company has been written down to estimated net realizable value. The assets and liabilities of that company have been removed from the consolidation at December 31, 1986. The earnings of this subsidiary will be included on an equity basis until a sale is consummated.

ii) Associated Companies

The Corporation has determined that it will sell its investment in certain associated companies. The net carrying values have been included under Assets for Sale.

iii) Other Operations

The Corporation has decided to sell several operations which are no longer considered essential to its core business. The assets and liabilities of these operations have been removed from the consolidation at December 31, 1986 and included under Assets for Sale. Provision has been made for the estimated loss on disposition and for estimated operating losses to the time of sale.

A summary of the net assets removed from the consolidation at December 31, 1986 and included under Assets for Sale is as follows:

	(thousands)
Subsidiary Companies	
Working capital	\$ 22,319
Fixed and other assets	128,954
Long-term debt	(103,225)
Associated Companies	37,066
Other Operations	
Working capital	77,850
Fixed and other assets	<u>92,480</u>
	255,444
Provision for loss on disposition of assets (note 11)	<u>(157,000)</u>
	<u>\$ 98,444</u>

The amount that will be realized from the sale of these assets is uncertain. As the dispositions are completed or as additional information becomes available the effect, if any, will be reflected in earnings. The provision for loss on disposition has not been reduced by the anticipated gain on sale of West Kootenay Power and Light Company, Limited estimated to be \$45,000,000.

**(c) Highland Valley Copper Partnership**

Effective July 1, 1986 the Corporation and Lornex Mining Corporation Limited formed a partnership to operate under the name "Highland Valley Copper". The partnership owns and operates the former Cominco Valley Mine and Mill and the former Lornex Copper and Molybdenum Mine and Mill in the Highland Valley of British Columbia. The operations are jointly managed and financed by the parties. Working and other capital requirements are provided 45% by Lornex and 55% by the Corporation and cash generated from the partnership is to be distributed on the same basis. The Corporation consolidates its proportionate share of the assets, liabilities, revenues and expenses of the partnership. A summary of the proportionate amounts included in the consolidated accounts at December 31, 1986 is as follows:

	(thousands)
Current assets	\$ 44,399
Current liabilities	<u>(38,399)</u>
Working capital	6,000
Property, plant and equipment (net)	93,398
Mining property (net)	97,528
Other assets	750
Long-term debt	<u>(549)</u>
Proportionate Equity	<u>\$197,127</u>
Revenues	\$ 58,841
Expenses	<u>58,605</u>
Share of Earnings	<u>\$ 236</u>

**2. INVENTORIES**

	1986	1985
	(thousands)	
Finished goods	\$157,778	\$ 174,355
Raw materials and partially processed materials	90,439	90,434
Stores and operating supplies	<u>58,839</u>	<u>78,589</u>
	<u>\$307,056</u>	<u>\$ 343,378</u>

### 3. INVESTMENTS

	1986 (thousands)	1985 (thousands)
Associated companies		
Shares at cost	\$ 27,199	\$ 68,392
Equity in undistributed earnings	7,622	46,294
Equity in cumulative translation adjustment	<u>(5,088)</u>	<u>(16,425)</u>
	<u>\$ 29,733</u>	<u>\$ 98,261</u>
Other investments	<u>\$ 380</u>	<u>\$ 4,068</u>

The Corporation has written off its investment in Panarctic Oils Ltd. and in other mineral companies where it considers the investment to be impaired or unlikely to be recovered.

### 4. MINERAL PROPERTIES AND DEVELOPMENT

	1986 (thousands)	1985 (thousands)
Operating mineral properties	\$184,387	\$299,952
Less accumulated depletion	<u>57,430</u>	<u>50,334</u>
	126,957	249,618
Mine under development	33,565	32,197
Exploration properties	<u>12,925</u>	<u>11,113</u>
	<u>\$173,447</u>	<u>\$292,928</u>

### 5. OTHER ASSETS

	1986 (thousands)	1985 (thousands)
Debt financing costs, less amounts amortized	\$ 818	\$ 1,423
Loan to Bankeno Mines Limited	3,000	3,000
Loan to Greenex A/S	447	5,492
Deferred start-up costs, less amounts amortized	-	2,452
Deferred translation losses, less amounts amortized	7,135	9,854
Other	<u>9,587</u>	<u>8,485</u>
	<u>\$20,987</u>	<u>\$30,706</u>

6. LONG-TERM DEBT (excluding amounts due within one year)

	1986	1985
	(thousands)	
Cominco Ltd.		
10% Serial Notes due 1988 to 1996		
U.S. \$30,002,000	\$ 41,418	\$ 46,586
8 1/2% Sinking Fund debentures due 1991	45,348	47,150
10 7/8% Sinking Fund debentures due 1995	36,295	39,859
Bank loans and other loan facilities due 1988 to 1994 with interest related to prime bank rates	322,000	430,600
West Kootenay Power and Light Company, Limited		
(Removed from the consolidated accounts at December 31, 1986)	-	65,000
Other Subsidiary Companies		
Bank loans and other long-term debt due 1988 to 2000		
U.S. Funds, 8 1/2% (U.S. \$409,000)	564	3,410
Canadian funds, with interest related to prime bank rates	<u>30,762</u>	<u>41,833</u>
	<u>\$476,387</u>	<u>\$674,438</u>

Payments required on long-term debt assuming the conversion of certain revolving bank loans into five-year term loans are: 1987 - \$38,211,000; 1988 - \$68,351,000; 1989 - \$62,860,000; 1990 - \$63,014,000; 1991 - \$103,642,000.

## 7. CAPITAL

The Corporation is incorporated under the Canada Business Corporations Act and is authorized to issue an unlimited number of Preferred and Common Shares.

### (a) Share Capital

	1986 (thousands)	1985
Common		
68,416,527 shares (1985 - 65,038,288)(Note 7(c))	<u>\$305,577</u>	<u>\$261,307</u>
Preferred - issued and fully paid		
1,635,184 shares (1985 - 1,671,584) \$2.00 Tax Deferred Exchangeable Preferred Shares Series A (Note 7(e))	40,880	41,790
2,000,000 shares - Floating Rate Preferred Shares Series C	50,000	50,000
2,000,000 shares - \$3.25 Cumulative Redeemable Preferred Shares Series D	50,000	50,000
280,000 shares - Redeemable Preferred Shares Series E	28,000	-
110,000 shares - Redeemable Preferred Shares Series F	11,000	-
3,000,000 shares - Floating Rate Preferred Shares Series G	<u>75,000</u>	<u>-</u>
	<u>254,880</u>	<u>141,790</u>
Preferred - subscribed for and allotted		
510,000 shares - Redeemable Preferred Shares Series E	51,000	-
440,000 shares - Redeemable Preferred Shares Series F	<u>44,000</u>	<u>-</u>
	<u>95,000</u>	<u>-</u>
	<u>\$655,457</u>	<u>\$403,097</u>

At December 31, 1986 the Stated Capital Account of the Corporation, as defined in the Canada Business Corporations Act, for Common Shares issued and outstanding is \$330,409,000 and for Preferred Shares is \$254,880,000.

**(b) Preferred Shares**

The Corporation has constituted the following Preferred Shares:

- 2,000,000 shares as "\$2.00 Tax Deferred Exchangeable Preferred Shares Series A"
- 2,000,000 shares as "\$2.4375 Preferred Shares Series B"
- 2,000,000 shares as "Floating Rate Preferred Shares Series C"
- 2,000,000 shares as "\$3.25 Cumulative Redeemable Preferred Shares Series D"
- 790,000 shares as "Redeemable Preferred Shares Series E"
- 550,000 shares as "Redeemable Preferred Shares Series F"
- 3,000,000 shares as "Floating Rate Preferred Shares Series G"

Each Series A Preferred Share is entitled to a fixed cumulative cash dividend of \$2.00 per annum payable semi-annually. After June 1, 1988, the Series A Preferred Shares are exchangeable by the holders into Series B Preferred Shares.

Each Series C Preferred Share is entitled to a cumulative cash dividend which is related to the prime rate of interest charged by certain Canadian banks, adjusted quarterly and payable semi-annually. The holders of the Series C Preferred Shares may call for retraction on March 31, 1988.

Each Series D Preferred Share is entitled to a fixed cumulative cash dividend of \$3.25 per annum payable quarterly. The holders of the Series D Preferred Shares may call for retraction on March 31, 1988. The Corporation may elect on or after February 1, 1988 to designate a further series of Preferred Shares into which the Series D Preferred Shares may be converted.

Each Series E Preferred Share and Series F Preferred Share is entitled to a cumulative cash dividend commencing not earlier than March 31, 1987, and is redeemable or subject to cancellation not earlier than March 31, 1997 based upon a rate of return index governed by world prices for lead and silver. The Series E Preferred Shares and the Series F Preferred Shares may be purchased for cancellation or redeemed at the option of the Corporation at the issue price.

Each Series G Preferred Share is entitled to a quarterly cumulative cash dividend which is related to the daily prime rate of interest charged by The Royal Bank of Canada. The holders of the Series G Preferred Shares may call for retraction on October 16, 1991. The holders of the Series G Preferred Shares may convert their Series G Preferred Shares into another series or class of Preferred Shares if Preferred Shares of such series or class of Preferred Shares are first issued and sold or distributed to the public after October 16, 1986, except where such Preferred Shares are convertible into Common Shares of the Corporation.



(c) Shares issued during the year

	1986	1985
	(thousands)	
Common		
2,564,673 shares (1985 - 724,410 shares)	\$ 33,297	\$ 9,642
805,766 shares (note 7(d))	10,878	-
7,800 shares (1985 - 9,750 shares)		
(Note 7(f))	95	119
	<u>\$ 44,270</u>	<u>\$ 9,761</u>
Preferred		
280,000 shares - Series E	\$ 28,000	\$ -
110,000 shares - Series F	11,000	-
3,000,000 shares - Series G	75,000	-
	<u>\$114,000</u>	<u>\$ -</u>

In 1986 the Corporation sold 240,863 Common Shares under an agreement with CMP 1986 Mineral Partnership and Company, Limited for a cash consideration of \$6,617,000 being the stated capital of the shares. For accounting purposes \$2,797,000 has been added to the paid-in capital of the Corporation, and \$3,820,000 has been applied to reduce current income tax expense.

In December, 1986 the Corporation sold 2,323,810 Common Shares together with certain investment tax credits for a cash consideration of \$40,000,000 being the stated capital of the shares. For accounting purposes \$30,500,000 has been added to the paid-in capital of the Corporation, \$3,900,000 has been applied to reduce the cost of the related fixed assets, \$1,800,000 to reduce research and development costs and \$3,800,000 has been deferred until qualifying expenditures have been made.

In 1986, under the terms of a financing agreement, 790,000 Preferred Shares Series E and 550,000 Preferred Shares Series F were respectively subscribed for and allotted to the Government of Canada and the Government of the Province of British Columbia. Of these, 280,000 Preferred Shares Series E and 110,000 Preferred Shares Series F were issued and fully paid during the year.

On October 16, 1986 3,000,000 Floating Rate Preferred Shares Series G were issued to Canadian Pacific Securities Limited as consideration for the conversion of a \$75,000,000 loan.

(d) Common stock dividend

A common stock dividend equivalent to \$0.17 per share held was paid to shareholders of record on December 9, 1986. Fractional share entitlements were paid in cash. The dividend resulted in the issue of 805,766 Common Shares and a cash payment of \$221,000.

e) Shares purchased for cancellation

During 1986, the Corporation purchased for cancellation 36,400 Series A Preferred Shares with an issued value of \$910,000 for \$854,000 cash.

f) Stock option plans

The Corporation has 24,800 Common Shares remaining available for issuance under stock option plans in favour of certain executives in the full-time employment of the Corporation or a subsidiary. Options are exercisable within five years of issue at a minimum of 90% of the market price on the day prior to the day when granted.

Outstanding options at December 31, 1986 are as follows:

Granted	Minimum Price	Out- standing	Exercised in 1986
1982	\$12.23	47,850	7,800
1983	\$15.34	71,550	-
1984	\$16.09	74,700	-
1985	\$12.49	86,250	-
1986	\$12.04	<u>127,000</u>	<u>-</u>
		<u>407,350</u>	<u>7,800</u>

In 1986 an additional stock option of 100,000 shares was granted contingent upon approval of the reservation of additional shares by the shareholders at the next annual general meeting.

8. CUMULATIVE TRANSLATION ADJUSTMENT

This adjustment represents the net unrealized foreign currency translation gain on the Corporation's net investment in self-sustaining foreign operations, principally in the United States.

Changes during the year are as follows:

	1986 (thousands)	1985
Cumulative unrealized gain(loss) at beginning of year as restated	\$ 4,357	\$(4,732)
Unrealized gain for the year on translation of net assets	<u>2,836</u>	<u>11,015</u>
	7,193	6,283
Realized loss on dividends paid by foreign operations	358	294
Amount due to writedown of foreign investments	2,438	-
Removal of Vestgron Mines Limited from the consolidation (Note 11(b))	<u>-</u>	<u>(2,220)</u>
Cumulative unrealized gain at end of year	<u>\$ 9,989</u>	<u>\$ 4,357</u>

## 9. INTEREST

Interest charges were as follows:

	1986 (thousands)	1985 (thousands)
Long-term debt interest	\$68,668	\$68,031
Short-term debt interest	<u>21,542</u>	<u>25,269</u>
	90,210	93,300
Less interest capitalized	<u>4,867</u>	<u>4,624</u>
Charged to earnings	<u><u>\$85,343</u></u>	<u><u>\$88,676</u></u>

## 10. TAXES ON INCOME

The major factors which cause variations from the Corporation's combined federal and provincial statutory Canadian income tax rates of 50.0% (1985 - 50.1%) were the following:

	1986 (thousands)	1985 (thousands)
Income tax(reduction) on loss at statutory tax rates	\$(40,948)	\$(64,469)
Tax effect of:		
Resource allowance and earned depletion net of resource taxes	6,095	15,147
Inventory allowance	(440)	(2,903)
Differences in foreign tax rates	359	749
Non deductible costs	3,729	5,637
Other items	<u>(2,246)</u>	<u>641</u>
Taxes on income(reduction) included in statement of earnings	<u><u>\$(33,451)</u></u>	<u><u>\$(45,198)</u></u>

## 11. EXTRAORDINARY ITEMS

The amount of \$103,375,000 consists of the following:

	(thousands)
Gain on sale of investment in Fording Coal Limited	\$(41,388)
Gain on sale of Con Gold Mine	(12,237)
Provision for loss on disposition of assets	<u>157,000</u>
	<u><u>\$103,375</u></u>

- (a) In January, 1986 the Corporation sold its 40% interest in Fording Coal Limited to Canadian Pacific Limited for \$87,000,000. An extraordinary gain of \$41,388,000 was realized on the transaction. No income taxes were exligible as the transfer was done under Section 85 of the Income Tax Act.
- (b) In December, 1986 the Corporation sold its investment in the Con Gold Mine for net proceeds of \$62,745,000 which resulted in an extraordinary gain of \$12,237,000 after deferred income taxes of \$5,400,000.
- (c) Under a Restructuring Plan adopted by the Corporation and described in Note 1 (b), certain operations have been identified for divestiture. A provision of \$157,000,000 has been included as an extraordinary charge to earnings to cover the estimated loss on disposal of assets, closure costs and operating losses to date of disposal. Adjustments, if any, to the provision will be reflected in earnings.

In 1985 the amount of \$26,609,000 consists of the following:

- (a) In January 1985 the Corporation realized an extraordinary gain of \$9,412,000 after taxes of \$380,000 on the sale of 800,000 shares from its holdings in Pine Point Mines Limited for a consideration of \$20,720,000.
- (b) The Corporation incurred losses of \$36,021,000 on write-down of assets and provision for closure costs as follows:

- i) Pine Point Mines Limited - \$21,873,000

Pine Point Mines Limited adopted revised production plans that called for mining of its most economic ore reserves by 1987. Pine Point wrote down the carrying value of its assets to estimated net realizable value and provided for estimated future shut-down costs. This resulted in a charge to consolidated earnings of \$21,873,000 after minority interests.

- ii) Vestgron Mines Limited - \$14,148,000

Due to depressed metal prices and financing difficulties encountered by Vestgron Mines Limited's subsidiary Greenex A/S, the Corporation concluded that its share investment in Vestgron Mines Limited should be written off and that company's assets and liabilities removed from the consolidated accounts. This resulted in a charge to earnings of \$14,148,000 after deducting current and deferred income tax credits of \$4,897,000.

## 12. PRIOR PERIOD ADJUSTMENT

The Workers' Compensation Board of British Columbia has proposed that the Corporation's funding basis be changed from self-funding to an insured rate. In the worst event it is estimated that the change of status would require the Corporation to fund \$14,800,000 to cover estimated workers' claims and expenses resulting from accidents that occurred prior to December 31, 1985. The Corporation is contesting this proposal. An amount of \$1,396,000 net of deferred taxes of \$804,000 has been incorporated in these accounts for 1985 and the remainder of \$7,994,000 net of deferred taxes of \$4,606,000 has been charged to retained earnings at December 31, 1984.

### 13. PENSIONS

The Corporation and its subsidiaries have several pension and retirement plans which are mainly non-contributory and which cover substantially all employees. Pension costs are determined annually by independent actuaries and include current service costs and a provision for the amortization of prior service costs. Pension costs for current service are being funded and charged to earnings in the year incurred. The liability for past service is funded and charged to earnings over varying periods up to 15 years.

The date of the most recent actuarial evaluation for most pension plans is December 31, 1985. At December 31, 1986, actuarial estimates of the liability for past service to be funded in future years amounts to \$25,000,000 (1985 - \$35,000,000). The vested portion of the actuarial liability for past service is fully funded. In determining the unfunded liability for past service, the actuarial value of assets is calculated as an average of adjusted market values over the past five years.

Based on the actual market value of assets at December 31, 1986, the actuarial liability for employee pensions is fully funded.

Total pension expense including past service costs was \$14,000,000 for 1986 and \$21,100,000 for 1985.

### 14. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Corporation has guaranteed bank loans of a subsidiary company for \$10,000,000 and of an associated company for U.S.\$12,000,000. At December 31, 1986 the amounts drawn under the guaranteed loans subject to the Corporation's guarantee was \$7,800,000.
- (b) Under the terms of an agreement reached between the Alaska Industrial Development Authority (AIDA) and Cominco American Incorporated, a wholly owned subsidiary of the Corporation, AIDA will finance road and port facilities to service the development of the Red Dog deposit in north-western Alaska. The Corporation has provided a 14-year letter of credit for U.S.\$120,000,000 as collateral security to permit AIDA to proceed with its financing of these facilities.
- (c) The Corporation is proceeding with the first phase of the modernization of its lead smelter at Trail, British Columbia at an estimated cost of \$126,000,000 of which \$26,000,000 is expected to be spent in 1987.

The development of the Red Dog deposit in Alaska has been approved and U.S.\$30,000,000 is expected to be spent in 1987.

In addition to the above projects unexpended amounts remaining on approved major capital projects were \$44,000,000 at December 31, 1986 of which \$25,000,000 is expected to be spent in 1987.

- (d) At December 31, 1986 the aggregate minimum payments under operating leases were estimated at \$83,580,000 with annual payments in each of the next five years of: 1987 - \$23,053,000; 1988 - \$19,461,000; 1989 - \$14,735,000; 1990 - \$9,879,000; 1991 - \$6,160,000.



## 15. RELATED PARTY TRANSACTIONS

Until October 16, 1986 related parties consisted of the Corporation's associated companies and Canadian Pacific Limited and their respective subsidiary and associated companies. From October 17, 1986 related parties consist of the Corporation's associated companies and Teck Corporation, Metallgesellschaft A.G., M.I.M. Holdings Limited and their respective subsidiary and associated companies.

Sales (all at fair market prices) to related parties amounted to \$43,700,000 (1985 - \$31,600,000).

The Corporation had a revolving line of credit with Canadian Pacific Securities Limited in the amount of \$75,000,000 which provided for loans beyond one year at interest rates related to commercial paper rates. On October 16, 1986 the loan was converted into 3,000,000 Floating Rate Preferred Shares Series G (see Note 7(b)). Interest expense on these loans to the date of conversion amounted to \$5,076,000 (1985 - \$7,013,000).

The Corporation makes extensive use of both major Canadian railroads, one of which is a division of Canadian Pacific Limited (CP Rail), for the transportation of its raw materials and finished products. Freight charges from CP Rail are at published tariff rates. In addition, in the regular conduct of its business, the Corporation makes use of other services, facilities and products of the Canadian Pacific organization. These transactions are at rates and terms similar to those for unrelated customers.

## 16. SUBSEQUENT EVENT

The Corporation has entered into agreements to raise approximately \$7,000,000 in 1987 and \$10,000,000 in 1988 for Canadian mineral exploration programs by way of flow-through Common Share issues. The issue price of the shares will include premiums which reflect the value of the tax deductions sold.

## 17. SEGMENTED INFORMATION

(a) Cominco's business operations are grouped into three industry segments:

### Mining and Integrated Metals:

Principally the mining and processing of mineral ores, the production and sale of zinc, lead and copper concentrates, the smelting and refining of concentrates to produce zinc, lead, silver, gold and various by-products including fertilizers.

### Fertilizers:

Principally the production of ammonia, urea, potash, ammonium nitrate, ammonium phosphate, ammonium sulphate and sulphuric acid.

### Other Operations:

Principally the production of steel products, high-purity metals and compound semiconductor materials, and the generation and distribution of electric power.



- b) Sales to other segments are accounted for at prices which approximate market.
- c) Investment income and certain corporate expenditures and assets relating to the overall direction and management of the Corporation's activities are not allocated to industry segments.
- d) Segmented data for 1986 and 1985 include the revenue, earnings and operating assets of those operations to be sold under the Corporation's Restructuring Plan (see note 1(b)).
- e) Canadian export sales amounted to \$618,000,000 (1985 - \$671,000,000).

SEGMENTED INFORMATION  
YEAR ENDED DECEMBER 31, 1986  
(millions)

BY INDUSTRY SEGMENT	Mining and Integrated Metals		Fertilizers		Other Operations		Corporate & Unallocated		Consolidated	
	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985
<b>REVENUE</b>										
Sales to external customers	\$ 766	\$ 841	\$ 356	\$ 442	\$ 205	\$ 175			\$1,327	\$1,458
Sales to other segments	10	9	3	2	-	-				
	<u>\$ 776</u>	<u>\$ 850</u>	<u>\$ 359</u>	<u>\$ 444</u>	<u>\$ 205</u>	<u>\$ 175</u>				
<b>EARNINGS(LOSS)</b>										
Operating profit (loss) before unallocated items, below	\$ 21	\$ (22)	\$ (19)	\$ 26	\$ 21	\$ 14			\$ 23	\$ 18
Mineral exploration							\$ (18)	\$ (36)	(18)	(36)
Interest expense							(85)	(89)	(85)	(89)
Corporate (net)							(2)	(22)	(2)	(22)
Income and resource taxes							33	45	33	45
Earnings(loss) before minority interest, equity in earnings of associates, and extraordinary items	<u>\$ 21</u>	<u>\$ (22)</u>	<u>\$ (19)</u>	<u>\$ 26</u>	<u>\$ 21</u>	<u>\$ 14</u>	<u>\$ (72)</u>	<u>\$ (102)</u>	<u>\$ (49)</u>	<u>\$ (84)</u>
<b>IDENTIFIABLE ASSETS</b>										
Segment assets										
- Operating	\$1,121	\$1,154	\$ 371	\$ 416	\$ 207	\$ 205	\$ 157	\$ 54	\$1,856	\$1,829
- Undeveloped properties and construction in progress	15	19	4	3	4	3	77	69	100	94
	<u>\$1,136</u>	<u>\$1,173</u>	<u>\$ 375</u>	<u>\$ 419</u>	<u>\$ 211</u>	<u>\$ 208</u>	<u>\$ 234</u>	<u>\$ 123</u>	<u>\$1,956</u>	<u>\$1,923</u>
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>										
	<u>\$ 55</u>	<u>\$ 72</u>	<u>\$ 21</u>	<u>\$ 24</u>	<u>\$ 10</u>	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 88</u>	<u>\$ 108</u>
<b>CAPITAL EXPENDITURES</b>										
	<u>\$ 29</u>	<u>\$ 68</u>	<u>\$ 12</u>	<u>\$ 16</u>	<u>\$ 10</u>	<u>\$ 17</u>	<u>\$ 14</u>	<u>\$ 16</u>	<u>\$ 65</u>	<u>\$ 117</u>

BY GEOGRAPHIC REGION	Canada		United States		Other Countries		Consolidated	
	1986	1985	1986	1985	1986	1985	1986	1985
<b>REVENUE</b>								
Sales to external customers	\$ 983	\$1,039	\$ 342	\$ 373	\$ 2	\$ 46	\$1,327	\$1,458
Sales to other regions	82	87	11	14	-	-		
	<u>\$1,065</u>	<u>\$1,126</u>	<u>\$ 353</u>	<u>\$ 387</u>	<u>\$ 2</u>	<u>\$ 46</u>		
<b>EARNINGS(LOSS)</b>								
Operating profit(loss) before unallocated items	\$ 28	\$ 19	\$ (5)	\$ 4	\$ -	\$ (5)	\$ 23	\$ 18
<b>IDENTIFIABLE ASSETS</b>								
Regional assets								
- Operating	\$1,657	\$1,621	\$ 189	\$ 195	\$ 10	\$ 13	\$1,856	\$1,829
- Undeveloped properties and construction in progress	22	24	69	62	9	8	100	94
	<u>\$1,679</u>	<u>\$1,645</u>	<u>\$ 258</u>	<u>\$ 257</u>	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$1,956</u>	<u>\$1,923</u>
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>								
	<u>\$ 76</u>	<u>\$ 87</u>	<u>\$ 12</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ 88</u>	<u>\$ 108</u>
<b>CAPITAL EXPENDITURES</b>								
	<u>\$ 45</u>	<u>\$ 85</u>	<u>\$ 19</u>	<u>\$ 26</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ 65</u>	<u>\$ 117</u>

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

This Appendix contains a summary of certain provisions of the Bond Resolution, as supplemented (together, the "Resolution"). This summary is not to be considered a full statement of the terms of the Resolution and accordingly is qualified by reference to the Resolution and subject to the full text thereof. Copies of the Resolution may be obtained from the Authority on request. Capitalized terms not otherwise defined herein have the meanings set forth in the Resolution or the Official Statement.

**Definitions**

*Accountants* shall mean a firm of nationally recognized certified public accountants appointed by the Authority and approved by the Trustee, and, if not one of the top eight nationally recognized accounting firms, such accountants shall be approved by each Credit Facility Issuer not in default under the terms of its Credit Facility.

*Accrued Aggregate Debt Service* means, as of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series of Bonds, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar quarter (in making such calculation interest to accrue with respect to any Outstanding Variable Interest Rate Bonds shall be computed based on the Maximum Interest Rate), and (ii) Principal Installments, including Sinking Fund Installments, due and unpaid and the Principal Installment, including any Sinking Fund Installment, for each Series to accrue to the end of such calendar quarter. For purposes of this calculation, each Principal Installment, including any Sinking Fund Installment, on each Series of Bonds shall be deemed to accrue at a rate that would amortize such Principal Installment, including a Sinking Fund Installment, in substantially equal installments payable on the first day of each calendar quarter during the period since the prior Principal Installment (or, if there is no prior Principal Installment, over a period of 12 months) or such other period as may be specified in the Supplemental Resolution authorizing such Series, and interest and Principal Installments, including Sinking Fund Installments, shall be calculated based on the assumption set forth in the definition of Debt Service.

*Aggregate Debt Service* for any period means, as of the date of calculation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds.

*Appropriated Loans* means loans appropriated by the State Legislature to the Economic Development Fund for the Project by the Appropriations Act, and, except as otherwise provided under State law, additional loans, if any, subsequently appropriated by the State Legislature for the Project, or loans purchased in the Economic Development Fund for the Project with proceeds of moneys in the Economic Development Fund or loans otherwise appropriated by the State Legislature for the Project.

*Appropriations Act* means the act of the State Legislature entitled "An Act transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund, transferring and appropriating money to the economic development fund; and providing for an effective date," as amended or supplemented from time to time.

*Available Moneys* means any moneys continuously on deposit in trust with the Trustee for the benefit of the Bondholders which constitute (i) amounts paid under the Credit Facility, (ii) proceeds of the Bonds, the Refunding Bonds or the Subordinated Debt, (iii) amounts paid or proceeds of collateral pledged by the Authority which have been on deposit with the Trustee for a period of 124 consecutive days during which the Authority is not Insolvent, (iv) amounts paid by Cominco which have been on deposit with the Trustee for a period of 124 days during which, to the knowledge of the Trustee and the Authority, Cominco is not Insolvent, (v) proceeds of a drawing under the Cominco Credit Enhancement, (vi) interest earnings on Available Moneys, or (vii) moneys derived from any other source provided that the Trustee receives an unqualified opinion of nationally recognized bankruptcy counsel acceptable to the Trustee that payment of such moneys to the Bondholders would not constitute

avoidable preferences under Section 547 of the Bankruptcy Act or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the Bankruptcy Act or similar state laws with avoidable preference provisions by or against the Authority.

*Bankruptcy Act* means the Bankruptcy Reform Act of 1978, as amended from time to time, or any successor legislation.

*Bond or Bonds* means any bond or bonds, note or notes, or other evidences of indebtedness (other than Subordinated Debt), as the case may be, authenticated and delivered under and pursuant to the Resolution.

*Business Day* means any day that is not a Saturday, Sunday or legal holiday in the State or the State of New York nor a day on which banking institutions chartered in the State, the State of New York or the United States are legally authorized to close.

*Capital Reserve Fund Requirement* means, as of any date of calculation, an amount equal to the maximum Aggregate Debt Service coming due on Bonds then Outstanding in the then current or any future Fiscal Year to which the calculation relates, excluding accrued interest on Bonds to be paid from deposits to the Debt Service Fund from the proceeds of such Bonds (including amounts, if any, transferred from the Construction Fund).

*Cash Coverage* means the condition, as of any date of calculation, that, (A) following initial completion of construction of the Project and payment or provision for payment of all related Costs of Acquisition and Construction, the market value of Available Moneys in the Revenue Fund, the Project Economic Development Fund, the Capital Reserve Fund, the Debt Service Fund, and the Subordinated Debt Fund shall be equal to at least 120% of the principal amount of Outstanding Bonds and Subordinated Debt, or, (B) prior to initial completion of construction of the Project and payment or provisions for payment of all Costs of Acquisition and Construction, such percentage shall be equal to at least 125%. Any calculation of the date on which the Authority has attained or is projected to attain Cash Coverage shall be accompanied by a report of Accountants verifying such calculations and, if projected, shall be based on the Cashflow Projections.

*Cashflow Projections* means the following:

(i) Projections that separately identify, on a semiannual basis for each Bond Year from the then current Bond Year to and including the last Bond Year in which Bonds will be scheduled to be Outstanding, projected Appropriated Loan revenues; ongoing Expenses, which must be limited to a fixed, maximum amount; payments constituting minimum annual assessments to be made under the Cominco Agreement; investment earnings; Debt Service on Outstanding Bonds excluding the proposed Series and Subordinated Debt Service on Subordinated Debt; projected debt service on the proposed Series, with the Maximum Interest Rate used in the case of Variable Interest Rate Bonds; and the Debt Service Coverage Ratio and Cash Coverage calculation, both computed on the basis of all Outstanding Bonds, Subordinated Debt, and any proposed Series.

(ii) Projections that are based on the assumptions that:

(a) Investments of funds will be at the lower of 5% or the lowest rate in effect on the date of the calculation for payment of interest on passbook savings accounts of Citibank, N.A., New York, New York;

(b) Scheduled payments on Appropriated Loans will include only payments applicable to Appropriated Loans closed under the Veterans Loan Program and the Small Business Loan Program; will be reduced by all scheduled payments on such Appropriated Loans in foreclosure or at least 120 days delinquent at the time of calculation; and will be further reduced by the higher of:

(1) in the case of the Veterans Loan Program, 15%; and in the case of the Small Business Loan Program, 25%; or



(2) the highest quarterly shortfall percentage since June 30, 1985 as applicable to each such Program. The shortfall percentage for any quarter is determined by subtracting from 100% the percentage determined by dividing:

(x) The actual payments received on the uneliminated loans during the quarter, by

(y) The total scheduled payments on Appropriated Loans of the Program in question during the calendar quarter in question, eliminating scheduled payments on loans in foreclosure or at least 120 days delinquent on the first day of the quarter and loans prepaid during the quarter; and

(c) There is no subsequent recovery of any scheduled payments on the Appropriated Loans eliminated pursuant to subsection (b) above.

(iii) Projections that further incorporate, in separate schedules prepared in accordance with (i) and (ii) above, the following alternative assumptions:

(a) Prepayment rates on loans under the Veterans Loan Program assuming 0% and 100% of the U.S. Federal Housing Administration (FHA) loan prepayment experience, as well as assuming a three year and five year average life.

(b) If provision will not be made for a bond call from unexpended bond proceeds, use of a 2% investment rate on funds held under the Resolution and any Supplemental Resolution in connection with the weakest Cashflow Projection of those prepared in connection with clause (a) above, provided that a higher investment rate may be used during those periods in which such higher rate is guaranteed or otherwise fully assured.

(c) Such other schedules as may be reasonably required by any Credit Facility Issuer in order to fully test the sufficiency of the Revenues in light of the bond structure for the proposed Series and of any applicable termination or modification options with respect to the timing or amount of pledged Revenues.

(iv) Prior to, or simultaneously with, the issuance of any proposed Series, each Credit Facility Issuer shall receive the final Cashflow Projections (as outlined above but based on final numbers), together with verification report and certification of the Accountants, which shall include each Credit Facility Issuer as an addressee, confirming the mathematical accuracy of the Cashflow Projections and their conformance with applicable provisions of the Resolution, all Supplemental Resolutions and all User Contracts.

*Cominco Agreement* means the Agreement for the Financing, Construction, Use, Operation and Maintenance of the DeLong Mountain Transportation System, dated June 30, 1986, between the Authority and Cominco American Incorporated, as assigned by Cominco American Incorporated to Cominco, as such Agreement may be amended or supplemented from time to time in accordance with the terms thereof, and including the Guaranty Agreement dated as of June 30, 1986, with respect thereto between Cominco Ltd., a Canadian corporation, and the Authority, and further including the Cominco Credit Enhancement.

*Cominco Credit Enhancement* means the Primary Letter of Credit and the Standby Letter of Credit, or any substitute letter of credit permitted under the terms of the Primary Letter of Credit or the Standby Letter of Credit and the Resolution.

*Cost or Costs of Acquisition and Construction* means the initial Project budget and any subsequent budget accepted by the Trustee in accordance with the terms of the Resolution, which may include all or any part of the aggregate costs determined by the Authority to be necessary to finance the construction, acquisition or equipping of the Project, including, without limitation, the cost of acquiring real or tangible personal property, the cost of constructing buildings and improvements in connection with the Project, the cost of constructing the road constituting a portion of the Project and any other means of access to and from the Project, the cost of constructing extensions of utility systems to or for the Project, the cost of financing the Project, the cost of issuance of Bonds or Subordinated Debt, the

cost of Credit Facilities, interest charges before, during or after construction, acquisition or equipping of the Project, costs related to the determination of the feasibility, planning, design or engineering of the Project, administrative expenses in connection with the construction, acquisition, equipping, financing or operation of the Project prior to completion of construction thereof, the cost of machinery or equipment to be used in the operation of the Project and expenses of installation, replacement or rehabilitation of the same, reimbursement to Cominco of pre-July 1, 1985 Project expenditures, including interest, all as calculated in accordance with the Cominco Agreement, and all other costs, charges, fees and expenses which may be determined by the Authority to be necessary to finance the construction, acquisition or equipping of the Project.

*Credit Expiration Date* means the date falling 10 years after commencement of payments under the Cominco Credit Enhancement, which commencement shall be assumed to be January 1, 1991 unless, at the time of calculation of the Credit Expiration Date, such commencement shall actually have occurred on another date.

*Credit Facility* means any letter of credit, bond insurance policy or other credit enhancement securing a Series of Bonds or a series of Subordinated Debt.

*Credit Facility Issuer*, to the extent a Series of Bonds or a series of Subordinated Debt is insured or otherwise credit enhanced and remains Outstanding, means the insurer or other issuer of a Credit Facility named in the Supplemental Resolution authorizing the issuance of such Series of Bonds or series of Subordinated Debt.

*Debt Service* for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest payable during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits made from Bond proceeds into the Debt Service Fund (including amounts, if any, transferred thereto from the Construction Fund), and (ii) that portion of each Principal Installment, including a Sinking Fund Installment, for such Series which is payable during such period. For purposes of this calculation, interest and Principal Installments, including Sinking Fund Installments, for such Series of Bonds shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment, including a Sinking Fund Installment, on the due date thereof, and interest payable with respect to any particular Outstanding Variable Interest Rate Bonds shall be computed based on the Maximum Interest Rate.

*Debt Service Coverage Ratio* means the ratio for the applicable Fiscal Year of Revenues less Expenses to the sum of (1) the Aggregate Debt Service payable during such Fiscal Year and (2) Subordinated Debt Service payable during such Fiscal Year.

*Economic Development Fund* means the Economic Development Fund held by the Authority and created under the Alaska Industrial Development Authority Act.

*Excess Investment Earnings*, with respect to each Series of Tax-Exempt Bonds or each series of Tax-Exempt Subordinated Debt, means for each Bond Year, the excess of (i) the amount earned on certain investments held under the Resolution as specified in the Supplemental Resolution authorizing the issuance of such Bonds or Subordinated Debt (excluding amounts held in the Excess Investment Earnings Fund and amounts in the Revenue Fund or such other Fund as shall be provided in the Supplemental Resolution authorizing such Bonds or Subordinated Debt, but including unrealized gains and losses upon the retirement of such Bonds or Subordinated Debt) over (ii) the amount that would have been earned on such investments at the yield on such Bonds or Subordinated Debt (determined on a present value basis from the date of issuance of the such Bonds or Subordinated Debt, without adjustment for costs of issuance).

*Expenses* means Operation and Maintenance Expenses less Operation and Maintenance Revenues.

*Fiscal Year* means a calendar year or such other 12 month period established by the Authority from time to time as the fiscal year for purposes of the Project.



*Government Securities* means Investment Securities described in clause (i) of the definition of Investment Securities.

*Insolvent* means the filing of a bankruptcy petition pursuant to the Bankruptcy Act or the institution of proceedings under state insolvency or other laws affecting creditors rights generally by or against the Authority, which petition or proceeding is not dismissed or has been dismissed but remains subject to appeal.

*Investment Securities* means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds:

(i) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(ii) (a) Direct obligations or fully guaranteed certificates of beneficial ownership of U.S. Export-Import Bank; (b) Certificates of beneficial ownership of Farmers Home Administration; (c) General Services Administration participation certificates; (d) Government National Mortgage Association guaranteed mortgage-backed bonds or guaranteed pass-through obligations; (e) Guaranteed Title XI financings of U.S. Maritime Administration; (f) U.S. government guaranteed debentures of New Communities; and (g) U.S. government guaranteed public housing notes and bonds.

(iii) Bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following U.S. government agencies: Federal Financing Bank, Federal Home Loan Bank System, Federal Housing Administration debentures, Federal Home Loan Mortgage Corporation participation certificates, Federal National Mortgage Association mortgage-backed securities and senior debt obligations, Student Loan Marketing Association senior debt obligations.

(iv) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or fully secured at all times by collateral described in (i) and/or (ii) above and issued by commercial banks having capital, surplus and undivided profits of not less than \$50,000,000, or, savings and loan associations or mutual savings banks having deposits of not less than \$100,000,000; provided that prior to making such an investment secured by collateral described above, an Opinion of Counsel shall be delivered to the Trustee to the effect that the collateral has been delivered to the Authority, the Trustee, or a third party acting as agent for the Trustee, that the Bondholders have a perfected first security interest in the collateral and that the collateral is free and clear of all liens, claims and encumbrances, except those of the Trustee for the benefit of the Bondholders.

(v) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States of America having combined capital, surplus and undivided profits of not less than \$75,000,000 or any national banking association or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is continuously secured by any one or more of the securities described in clause (i) or (ii) above and securities issued or guaranteed by Federal Home Loan Mortgage Corporation or Federal National Mortgage Association, and which have a fair market value equal to 100% of the face amount of the arrangement plus accrued interest, which are delivered for or, if not certificated, recorded in the name of the Trustee or its agent (which shall be approved in writing by each Credit Facility Issuer which is not in default under the terms of its Credit Facility) in order to perfect a security interest in such collateral under the Uniform Commercial Code and which are marked to market weekly.

(vi) Investment contracts, including guaranteed investment contracts, approved by each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

(vii) Any investment approved in writing by each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

*MAA Schedule* means the schedule prepared by the Authority and consented to by Cominco in writing, as supplemented or amended from time to time, stating the amount and date of each credit enhanced payment to be made by Cominco under the Cominco Agreement.

*Maximum Interest Rate* means, with respect to any particular Variable Interest Rate Bonds, a numerical rate of interest, which shall be set forth in the Supplemental Resolution authorizing such Bonds, that shall be the maximum rate of interest such Bonds may at any time bear.

*Moody's* means Moody's Investors Service, Inc. and any successor thereto.

*Operation and Maintenance Expenses* means all the Authority's costs and expenses for operation and maintenance of the Project and ordinary repairs, replacements and reconstruction of the Project (other than Sustaining Capital Costs), including, without limitation, all salaries, supplies, utilities, labor, and materials with respect to the Project; costs of maintenance and repair of the Project; costs of maintenance facilities for the Project and maintenance equipment for the Project and repair, maintenance or replacement of such maintenance facilities and equipment; replacement parts for the Project; embankment rebuilding and shoulder maintenance of the road constituting a portion of the Project; fuel for the Project; Project equipment and periodic repair and replacement thereof; insurance for the Project; other ordinary and necessary expenses and costs of operating and maintaining the Project and related appurtenances, facilities and equipment; general administrative expenses in connection with or relating to the Project; costs of administering the Appropriated Loans and other assets securing the Project; easement and right-of-way rents or royalties in connection with the Project; data processing, legal, accounting, management, consulting and banking services and expenses; any portion of the cost of the Cominco Credit Enhancement agreed to in writing by the Authority; fees and expenses of Fiduciaries and other agents of the Authority incurred in connection with or relating to the Project; costs of issuance of the Bonds or Subordinated Debt not paid out of the proceeds of such Bonds or Subordinated Debt; and, payments, if any, into reserves in the Operation and Maintenance Fund for items of Operation and Maintenance Expenses.

*Operation and Maintenance Revenues* means all revenue, income, rents and receipts received or to be received for Operation and Maintenance Expenses.

*Parity* means the condition that, following completion of construction of the Project and payment or provision for payment of all Costs of Acquisition and Construction, but not sooner than seven years after the issuance of the Initial Issue, the Trustee (with a copy to each Credit Facility Issuer which is not in default under the terms of its Credit Facility) shall have received a notice of Parity and irrevocable written instructions from the Authority to pay the Debt Service on Outstanding Bonds and Subordinated Debt Service on Outstanding Subordinated Debt when due or upon earlier redemption as directed by such instructions, and the Trustee shall hold in the Revenue Fund, the Project Economic Development Fund, the Capital Reserve Fund, the Debt Service Fund, and the Subordinated Debt Fund (exclusive of amounts not constituting Available Moneys), Parity Obligations, the payments on which when due will provide moneys which will be sufficient to pay when due Debt Service and redemption premium, if any, on Outstanding Bonds and Subordinated Debt Service on Outstanding Subordinated Debt, after required transfers to the Excess Investment Earnings Fund. A notice of Parity shall include calculations showing the sufficiency of such payments and shall be accompanied by a report of Accountants verifying such calculations addressed to the Authority, the Trustee and each Credit Facility Issuer which is not in default under the terms of its Credit Facility and approved by each Credit Facility Issuer not in default under the terms of its Credit Facility.

*Parity Obligations* means: (i) any Investment Securities described in clause (i) of the definition of Investment Securities; and (ii) any payment under the Cominco Agreement which is (A) due within 36 months after the date of Parity, and (B) secured by a Cominco Credit Enhancement of a bank (1) whose credit is rated at least AA by Moody's or by S&P, or if unrated by either Moody's or S&P, has received a minimum individual rating from the International Bank Credit Analysis ("IBCA") of B and a legal rating of 2, (2) which has not been the subject of a negative notice from Moody's or been placed by S&P on "credit watch" with negative implications or has not been "noticed" by Moody's with negative implications; and (3) which does not demonstrate deterioration in financial performance for



the immediately preceding five-year period and current year-to-date as evaluated by each Credit Facility Issuer which is not in default under the terms of its Credit Facility, in its sole and absolute discretion. For purposes of this determination if a bank is not rated by Moody's, S&P or the IBCA, the acceptability of any bank shall be determined by each Credit Facility Issuer which is not in default under the terms of its Credit Facility in its sole discretion.

*Primary Letter of Credit* means the irrevocable letter of credit issued on or prior to the issuance of the Initial Issue by Union Bank of Switzerland, Barclays Bank PLC, The Bank of Tokyo, Ltd., The Toronto Dominion Bank, Deutsche Bank AG, The Bank of Nova Scotia, CommerzBank Aktiengesellschaft and The Mitsubishi Bank, Limited to the Trustee securing payments to be made by Cominco under the Cominco Agreement.

*Revenues* means (i) all revenues, income, rents and receipts derived or to be derived by the Authority from or attributable or relating to the ownership and operation of the Project, including all revenues attributable or relating to the Project or to the payment of the cost thereof received or to be received by the Authority from or on behalf of Project Applicants under any User Contracts, including, without limitation, the Cominco Agreement (other than any indemnification payments made to the Authority under any User Contract) and any drawings or payments under the Cominco Credit Enhancement or the proceeds of any securities delivered in replacement of the Cominco Credit Enhancement, and, in either case, subject to repayment to the issuers of the Cominco Credit Enhancement of any such drawings or payments (or portions thereof) that the Authority notifies the Trustee are in excess of the amounts payable by Cominco under the Cominco Agreement, (ii) the proceeds of any insurance on any loss relating to the Project (unless deposited in the Construction Fund to be used to repair or rebuild any portion of the Project), (iii) any payments or repayments of principal of and interest on Appropriated Loans, the proceeds, if any, of insurance or sale of property securing such Appropriated Loans as a result of default by the debtor under any such Appropriated Loan, the proceeds of condemnation, if any, of property securing such Appropriated Loans or the proceeds of sale or other disposition of such Appropriated Loans, until release of Appropriated Loans from the lien created under the Resolution as provided therein, and (iv) investment income received or to be received on any moneys or securities held in Funds established under the Resolution (other than the investment income with respect to moneys held in the Excess Investment Earnings Fund).

*S&P* means Standard & Poor's Corporation and any successor thereto.

*Small Business Loan Program* means Appropriated Loans appropriated by the State Legislature from the small business revolving loan fund pursuant to the Appropriations Act.

*Standby Letter of Credit* means the standby letter of credit issued simultaneously with the Primary Letter of Credit by Union Bank of Switzerland and Barclays Bank PLC.

*Subordinated Debt Service* for any period means, as of any date of calculation and with respect to any series of Subordinated Debt, an amount equal to the sum of (i) interest payable during such period on Subordinated Debt of such series, except to the extent that such interest is to be paid from deposits made from Subordinated Debt proceeds into the Subordinated Debt Fund or other fund or account established for such purpose under the Supplemental Resolution establishing such series of Subordinated Debt, (ii) that portion of each principal installment, including sinking fund installments, for such series which is payable during such period, and (iii) applicable redemption premiums, if any, for such series which are payable during such period. For purposes of this calculation, interest and principal installments, including sinking fund installments, for such series shall be calculated on the assumption that no Subordinated Debt of such series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each principal installment, including a sinking fund installment, on the due date thereof, and interest with respect to any Subordinated Debt issued at a variable interest rate shall be computed based on the maximum rate of interest such Subordinated Debt may bear at any time.

*Sustaining Capital Costs* means any expenditure after completion of the Project for an item of property relating to the Project with a useful life of one year or more (excluding all Operation and

Maintenance Expenses, development costs incurred by the Authority on or before the date of completion of construction of the Project in connection with the financing and construction of the Project, and items with an aggregate cost of \$500 or less).

*User Contracts* means the Cominco Agreement and any other contract under which the Authority grants a Person the right to use the Project or any portion thereof.

*Veterans Loan Program* means Appropriated Loans appropriated by the State Legislature from the Alaska World War II Veterans' revolving fund pursuant to the Appropriations Act.

### **Pledge**

The principal of and premium, if any, and interest on all Bonds issued under the Resolution are payable solely from and secured solely by a pledge and assignment of (1) the proceeds of the sale of the Bonds, (2) all right, title and interest of the Authority in, to and under the Cominco Agreement (except for indemnification payments to be made to the Authority pursuant thereto), (3) the Revenues, (4) the Appropriated Loans, and (5) all Funds established by the Resolution (other than the Excess Investment Earnings Fund), including the investments, if any, thereof, subject to the application thereof pursuant to the provisions of the Resolution, except that the Resolution provides that upon the occurrence of Parity, the pledge, assignment and security interest in the Appropriated Loans and Revenues derived therefrom is to be released from the lien of the Resolution and the Resolution further provides that when Cash Coverage has been attained any moneys in excess of the amount necessary to maintain Cash Coverage is to be released from the lien of the Resolution. See "Parity" and "Cash Coverage" herein.

### **Application of Revenues**

*General.* Revenues are pledged by the Resolution to payment of principal and premium, if any, and interest on the Bonds, subject to the provisions of the Resolution permitting application thereof for other purposes. The Resolution establishes the following Funds held as described below for the application of Revenues:

<u>Funds</u>	<u>Held by</u>
Construction Fund, which shall include an Economic Development Account	Trustee
Revenue Fund, which shall include a Cash Collateral Account	Trustee
Operation and Maintenance Fund	Authority
Debt Service Fund	Trustee
Subordinated Debt Fund	Trustee
Sustaining Capital Fund	Trustee
Excess Investment Earnings Fund	Trustee
Capital Reserve Fund	Trustee
Project Economic Development Fund	Trustee

*Operation and Maintenance Revenues.* The Resolution provides that Operation and Maintenance Revenues are to be deposited by the Authority directly to the Operation and Maintenance Fund to be used to pay Operation and Maintenance Expenses. The Resolution further requires if the Authority becomes Insolvent or is in default under the Resolution, the Authority is to transfer moneys on deposit in the Operation and Maintenance Fund and subsequent Operation and Maintenance Revenues to the Trustee to be deposited by the Trustee in a separate fund which will then constitute the Operation and Maintenance Fund and used in accordance in the Resolution.

Amounts in the Operation and Maintenance Fund determined by the Authority to be in excess of the amounts required therein are to be applied to make up deficiencies in the Construction Fund, the Cash Collateral Account in the Revenue Fund, any other Account in the Operation and Maintenance Fund, the Debt Service Fund, the Capital Reserve Fund, the Excess Investment Earnings Fund, the Subordinated Debt Fund and the Sustaining Capital Fund in accordance with the Resolution.



*Appropriated Loan Revenues.* On the twentieth day of each month, the Authority is to transfer to the Trustee Revenues received by the Authority on or prior to the fifth day of such month derived from Appropriated Loans, which shall be deposited by the Trustee in the Project Economic Development Fund, or after Cash Coverage is attained, to the Cash Collateral Account. In addition, the Authority is to transfer to the Trustee for deposit into the Project Economic Development Fund on the date of original issuance of the 1987A Bonds moneys and securities on deposit in the Economic Development Fund for the account of the Project.

The Trustee is to transfer moneys from the Project Economic Development Fund to fund (1) Other Funds and Accounts established under the Resolution, including the Economic Development Account of the Construction Fund, such amounts as may be directed by the Authority from time to time; provided that: (a) transfers may be made to the Operation and Maintenance Fund in (i) an aggregate amount equal to \$500,000 for each calendar year commencing January 1, 1988 for the payment of Operation and Maintenance Expenses as specified in a requisition or requisitions from the Authority, (ii) an additional amount equal in the aggregate to \$2,000,000 to be transferred from time to time at the direction of the Authority pursuant to the Cominco Agreement, and (iii) additional amounts as may be transferred from time to time at the direction of the Authority with the approval of each Credit Facility Issuer which is not in default under the terms of its Credit Facility, and (b) transfers may be made to the Sustaining Capital Fund in an aggregate amount equal to \$5,000,000 to be transferred from time to time at the direction of the Authority pursuant to the Cominco Agreement and additional amounts may be transferred from time to time at the direction of the Authority with the approval of each Credit Facility Issuer which is not in default under the terms of its Credit Facility, (2) deficiencies in the Debt Service Fund, (3) deficiencies in the Capital Reserve Fund, and (4) within 30 days after each Bond Year, the Excess Investment Earnings Fund in an amount estimated by the Accountant so that the amount on deposit therein equals the Excess Investment Earnings for the Bond Year. Moneys may also be transferred from the Project Economic Development Fund, upon direction of the Authority, to any other Fund established in the Resolution as provided therein.

Upon the occurrence of Parity, the Appropriated Loans shall be transferred to the Economic Development Fund to the extent not required to pay then current and future Operation and Maintenance Expenses as determined by the Authority. See "Parity" herein. Upon the attainment of Cash Coverage, amounts on deposit in the Project Economic Development Fund are to be transferred to the Cash Collateral Account. See "Cash Coverage" herein.

*Sustaining Capital Costs.* On the twentieth day of each month the Authority will transfer to the Trustee revenues paid on or prior to the fifth day of such month to amortize Sustaining Capital Costs, such Revenues to be deposited by the Trustee directly to the Sustaining Capital Fund. Moneys in the Sustaining Capital Fund are to be applied to the payment of costs of major renewals, replacements, repairs, additions, betterments and improvements with respect to the Project necessary to keep the Project in good operating condition or to prevent a loss of Revenues therefrom, or as are required by any governmental agency with jurisdiction over the Project or by any User Contract. Amounts in the Sustaining Capital Fund are also to be used to fund deficiencies in the Debt Service Fund, the Capital Reserve Fund or the Excess Investment Earnings Fund in accordance with the Resolution.

*Revenue Fund.* On the twentieth day of each month the Authority will transfer to the Trustee revenues received by the Authority on or prior to the fifth day of such month, other than as required to be deposited as provided above. Prior to the attainment of Cash Coverage, such revenues are to be deposited by the Trustee in the Revenue Fund, or after Cash Coverage is attained, to the Cash Collateral Account and applied, on the first day of each calendar quarter prior to the attainment of Cash Coverage, in the following manner and in the following order:

- (1) To the Debt Service Fund, the amount, if any, required so that the balance in such Fund shall equal the Accrued Aggregate Debt Service as of the last day of the then current calendar quarter; provided that, for the purposes of computing the amount to be deposited in such Fund, there shall be excluded from the balance of such Fund the amount, if any, set aside in such Fund from the proceeds of Bonds (including amounts, if any, transferred thereto from the Construction

Fund) for the payment of interest on a Series of Bonds less that amount of such proceeds to be applied in accordance with the Resolution to the payment of interest accrued and unpaid and to accrue on Bonds to the last day of the then current calendar quarter; and provided further, however, that so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable Redemption Price and interest thereon), no transfers shall be required to be made to the Debt Service Fund. See "Debt Service Fund" herein.

(2) To the Capital Reserve Fund, the amount, if any, so that the amount on deposit therein shall equal the Capital Reserve Fund Requirement or the amount, if any, to be deposited to such Fund in accordance with the Resolution as a result of a loss in connection with investments of such Fund. See "Capital Reserve Fund" herein.

(3) To the Subordinated Debt Fund, the amount, if any, as shall be required to pay Subordinated Debt Service on each series of Subordinated Debt and reserves therefor, accrued and unpaid and to accrue to the end of the then current calendar quarter, as required by the Supplemental Resolution authorizing such series of Subordinated Debt. See "Subordinated Debt" herein.

(4) Prior to completion of construction of the Project, to the Excess Investment Earnings Fund an amount equal to any deficiency therein after transfers from the Project Economic Development Fund and the Construction Fund as provided in the Resolution, and in each Bond Year after completion of the Project, to the Excess Investment Earnings Fund one-fourth of the amount, if any, as is necessary to cause the amount on deposit in the Excess Investment Earnings Fund to be equal to the estimate of Excess Investment Earnings for such Bond Year. See "Excess Investment Earnings Fund" herein.

(5) To the Operation and Maintenance Fund in an amount as directed by the Authority and approved in writing by each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

Upon the attainment of Cash Coverage, moneys in the Cash Collateral Account of Revenue Fund are to be applied in the following manner:

(1) To the Debt Service Fund, at least 10 Business Days prior to the date on which any payment of Debt Service is due for any Series of Bonds, the amount necessary to pay Accrued Aggregate Debt Service on Outstanding Bonds.

(2) To the Capital Reserve Fund, on January 1 and July 1, the amount, if any, so that the amount on deposit therein shall equal the Capital Reserve Fund Requirement.

(3) To the Subordinated Debt Fund, at least 10 Business Days prior to the date in which any payment of Subordinated Debt Service is due for a particular series of Subordinated Debt, the amount necessary to make such Subordinated Debt payment.

(4) To the Excess Investment Earnings Fund in each Bond Year the amount, if any, necessary to cause the amount on deposit therein to equal the estimate of Excess Investment Earnings for such Bond Year.

(5) After compliance with, and as expressly provided for in, the most recent semiannual valuation of the Cash Collateral Account by the Authority, to the Operation and Maintenance Fund, the amount, if any, directed by the Authority to pay then current or any future Operation and Maintenance Expenses in excess of the amount needed to maintain Cash Coverage and meet the debt service requirements set forth in the Resolution.

(6) After completion of construction of the Project and in compliance with and as expressly provided for in the most recent semiannual valuation of the Cash Collateral Account by the Authority, to the Authority for deposit to the Economic Development Fund, any amounts directed by the Authority, after payment of any fees or reimbursements due to each Credit Facility Issuer,



in excess of the amount needed to maintain Cash Coverage and meet the debt service requirements set forth in the Resolution.

Upon receipt by the Trustee of a notice from the Authority stating that a payment was made under the Cominco Credit Enhancement or under securities delivered in replacement of all or any portion of the Cominco Credit Enhancement in excess of the amount payable under the Cominco Agreement in respect of which such payment was made, as established by the Authority in accordance with the Cominco Credit Enhancement with an Accountant's verification to the extent required by the Cominco Credit Enhancement, and further stating the amount of such excess, the Trustee shall pay to Cominco at the address stated in the notice from the Authority from the Revenue Fund an amount equal to such excess.

#### **Construction Fund**

The Resolution establishes a Construction Fund, to be held by the Trustee, into which will be paid amounts required by the provisions of the Resolution and any Supplemental Resolution and, at the option of Authority, any moneys received for or in connection with the Project by the Authority from any other source, unless required to be otherwise applied as provided in the Resolution. Any moneys transferred to the Construction Fund from the Project Economic Development Fund shall be deposited in a separate account of the Construction Fund established by the Trustee entitled the Economic Development Account.

The Trustee will pay to or for the account of the Authority, upon the requisitions of the Authority therefor pursuant to the Resolution, from the Construction Fund, the Cost of Acquisition and Construction of the Project. During the construction of the Project, the Trustee will pay to the Authority, upon the requisition therefor, a sum or sums aggregating at any time not more than \$2,500,000 to be used by the Authority to establish a revolving fund to pay Costs of Acquisition and Construction which cannot otherwise be paid conveniently. To the extent that other moneys are not available therefor, amounts in the Construction Fund will be applied to the payment of principal of and interest on Bonds when due.

The Resolution restricts the Authority from requisitioning Costs of Acquisition and Construction in an aggregate amount in excess of the amount of the initial Project budget (the "Aggregate Funding Limitation") unless (1) Cominco agrees in writing that work on the Project shall continue and that such costs will be included in the "investment base" as defined in the Cominco Agreement, (2) either (i) each Credit Facility Issuer which is not in default under the terms of its Credit Facility approves the requisition, or (ii) immediately after the requisition, the Authority could have issued one dollar of Additional Bonds as evidenced by compliance with the requirements of the Resolution pertaining to Cash Coverage and the Debt Service Coverage Ratio, with disbursements in excess of the Aggregate Funding Limitation treated for this purpose as constituting Additional Bonds; and (3) the Trustee and each Credit Facility Issuer which is not in default under its Credit Facility receive evidence of Cominco's agreement as provided above and a recalculation of Cominco's resulting payment obligations under the Cominco Agreement verified by an Accountant, provided that if such recalculated payment obligation exceeds \$12,000,000 for each Fiscal Year the Trustee may not disburse any moneys under the Resolution to pay any cost of Acquisition and Construction unless the annual amount of such recalculated payment obligation is fully secured by the Cominco Credit Enhancement until the Credit Expiration Date. No funds may be disbursed by the Trustee for the payment of any Cost of Acquisition or Construction without the prior written consent of each Credit Facility Issuer not in default under the terms of its Credit Facility after Cominco has issued a notice to stop work under the Cominco Agreement.

#### **Capital Reserve Fund**

If on the tenth Business Day preceding the date on which Debt Service on any Series of Bonds is to be paid, the amount in the Debt Service Fund shall be less than the amount necessary to make such Debt Service payment, the Trustee is to apply amounts from the Capital Reserve Fund to the extent

necessary to cure such deficiency. Whenever the moneys on deposit in the Capital Reserve Fund exceed the Capital Reserve Fund Requirement, such excess may, if requested by the Authority, be transferred to the Revenue Fund.

Whenever the amount in the Capital Reserve Fund, together with the amount in the Debt Service Fund is sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable Redemption Price and interest thereon), the funds on deposit in the Capital Reserve Fund shall be transferred to the Debt Service Fund. Prior to such transfer, all investments held in the Debt Service Fund are to be liquidated to the extent necessary in order to provide for the timely payment of principal of, premium, if any, and interest on Bonds.

In the event of the refunding of one or more Series of Bonds or one or more maturities within a Series of Bonds, the Trustee, upon the direction of the Authority, is to withdraw from the Capital Reserve Fund amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Series or maturities within a Series of Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Series or maturities within a Series of Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (b) the amount remaining in the Capital Reserve Fund after such withdrawal shall not be less than the Capital Reserve Fund Requirement.

If moneys or Investment Securities on deposit in the Capital Reserve Fund shall be less than the Capital Reserve Fund Requirement as a result of any loss in connection with any investments of such Fund, then the Trustee shall give written notice of such loss to the Authority, requiring that the Authority pay the amount of such deficiency in four quarterly installments, commencing the first calendar quarter after such notice is so given.

The Authority agrees that it will certify in writing to the governor of the State and the State Legislature, and request an appropriation of, the amount required to restore the Capital Reserve Fund to the Capital Reserve Fund Requirement or the amount required to fund any deficiency in a Capital Reserve Account of the Subordinated Debt Fund as required by the Supplemental Resolution authorizing the applicable series of Subordinated Debt. The Authority further agrees in the Resolution to transfer any amounts so appropriated to the Trustee for deposit to the appropriate Fund. This provision of the Resolution in no way obligates the governor of the State or the State Legislature to appropriate moneys for purposes of the Capital Reserve Fund or any Capital Reserve Account of the Subordinated Debt Fund or is to be construed as creating a liability of the State.

#### **Debt Service Fund**

The Resolution provides that the Trustee is to pay out of the Debt Service Fund on or before each payment date for the Bonds the amount required to pay principal of, premium, if any, and interest on the Bonds.

Amounts in the Debt Service Fund to pay any Sinking Fund Installment may be applied to purchase Bonds of the Series and maturity for which such Sinking Fund Installment was established as provided in the Resolution.

In the event of the refunding of one or more Series of Bonds or one or more maturities within a Series of Bonds, the Trustee, upon the direction of the Authority, is to withdraw from the Debt Service Fund amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Series or maturities within a Series of Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Series or maturities within a Series of Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (b) the amount remaining in the Debt Service Fund after such withdrawal shall not be less than the amount required by the Resolution.

### **Excess Investment Earnings Fund**

An Accountant retained by the Trustee is to determine the amount of any Excess Investment Earnings for each Bond Year for each Series of Tax-Exempt Bonds and Tax-Exempt Subordinated Debt within 30 days of the close of such Bond Year for such Series prior to completion of construction of the Project, and on or prior to commencement of each such Bond Year after completion of the Project, the Accountant is to estimate the Excess Investment Earnings for each such Bond Year. Within 30 days of the end of each Bond Year after the completion of the Project, the Accountant is to determine the actual amount of Excess Investment Earnings for each such Series for such Bond Year and the Trustee is to transfer from or to the Excess Investment Earnings Fund such amount as is necessary to cause the amount transferred to or from such Fund to equal the Excess Investment Earnings for such Series in accordance with the Resolution.

Amounts in the Excess Investment Earnings Fund are held free and clear of the lien of the Resolution, and the Trustee is to remit such amounts to the United States of America not less frequently than once each five years after the date of issuance of the applicable Series and not later than 60 days after redemption of the last Bond or Subordinated Debt of such Series.

### **Additional Bonds**

The Authority may issue Additional Bonds to the extent necessary, as shown in a certificate of an Authorized Officer, to complete the Project, provided that the Authority certifies that (1) the issuance of such Additional Bonds will not delay the projected attainment of Cash Coverage beyond 12 months immediately preceding the Credit Expiration Date, and (2) the projected Debt Service Coverage Ratio for each Fiscal Year, taking into consideration the incurrence of Debt Service on such Additional Bonds and excluding Debt Service covered by capitalized interest, will be at least 1.30.

The Authority may also issue Additional Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of major renewals, replacements, repairs, additions, betterments or improvements to the Project, to keep the Project in good operating condition or to prevent a loss of Revenues therefrom, or if such facilities are required by the Cominco Agreement, provided that the Authority certifies that (1) the issuance of such Additional Bonds will not delay the attainment of Cash Coverage beyond the earlier of (a) the inservice date of such facilities or (b) 12 months immediately preceding the Credit Expiration Date, and (2) the projected Debt Service Coverage Ratio for each Fiscal Year, taking into consideration the incurrence of Debt Service on such Additional Bonds and excluding Debt Service covered by capitalized interest, will be at least 1.30. Prior to the issuance of Additional Bonds each Credit Facility Issuer must agree that the Cashflow Projections meet the requirements of the Resolution.

As a condition of the issuance of each Series of Additional Bonds, the Authority is required to deliver to the Trustee for deposit in the Capital Reserve Fund the amount necessary so that such Fund shall equal the Capital Reserve Requirement calculated immediately after the authentication and delivery of such Series of Bonds, including any amounts necessary to cure any deficiency in such Fund.

The Authority may not issue Additional Bonds if excess moneys have been released from the Cash Collateral Account after the attainment of Cash Coverage or after the occurrence of Parity, without the prior written consent of each Credit Facility Issuer which is not in default under its Credit Facility.

### **Refunding Bonds**

One or more Series of Refunding Bonds may be issued to refund all Outstanding Bonds of one or more Series or one or more maturities within a Series or all outstanding Subordinated Debt of one or more series or one or more maturities within such series. The issuance of Refunding Bonds to refund Outstanding Bonds or Subordinated Debt is subject to delivery of an Opinion of Counsel that such issuance will not affect the exemption from Federal income taxation of the interest on any Outstanding Tax-Exempt Bonds or Tax-Exempt Subordinated Debt of the Series to be refunded.

The Resolution provides for the refunding of Bonds or Subordinated Debt by an exchange of Refunding Bonds for Bonds or Subordinated Debt being refunded.



### **Subordinated Debt**

The Resolution provides for the issuance of Subordinated Debt, payable from and which may be secured by a pledge of the Subordinated Debt Fund, for any Project-related purpose, including the financing of the Cost of Acquisition and Construction of the Project, the refunding of any Outstanding Bonds or Subordinated Debt, the funding of the Sustaining Capital Fund or the payment of Operation and Maintenance Expenses. The pledge of the Subordinated Debt Fund is to be subordinate in all respects to the pledge created by the Resolution as security for the Bonds. Subordinated Debt may be issued if the Cash Coverage and Debt Service Coverage Ratio tests set forth above under "Additional Bonds" are met, as applied to the issuance of such Subordinated Debt, and the Credit Facility Issuers agree that the Cashflow Projections satisfy the requirements of the Resolution. Subordinated Debt may not be issued if excess moneys have been released from the Cash Collateral Account after the attainment of Cash Coverage, or after the occurrence of Parity, without the prior written consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility as discussed under "Additional Bonds" above.

The Supplemental Resolution authorizing the issuance of a series of Subordinated Debt may authorize the establishment of a Capital Reserve Account in the Subordinated Debt Fund in respect of such series. See "Capital Reserve Fund" herein.

### **Investment of Certain Funds and Accounts**

The Resolution provides that moneys held in all Funds (other than the Subordinated Debt Fund and the Project Economic Development Fund) must be invested to the fullest extent practicable in Investment Securities. The Resolution provides that such investments will mature no later than such times as necessary to provide moneys when needed to make payments from such Funds. Funds on deposit in the Capital Reserve Fund are to be invested only in Government Securities as provided in the Resolution.

Investment income (net of the return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds or Accounts, other than the Construction Fund, the Project Economic Development Fund or the Excess Investment Earnings Fund, will be paid into the Debt Service Fund; provided, however, that during construction of the Project, such interest will be paid into the Revenue Fund or the appropriate separate Account in the Construction Fund as directed by the Authority. Interest on moneys or investments in the Construction Fund, the Project Economic Development Fund or the Excess Investment Earnings Fund, respectively, will be held in such Fund for the purposes thereof.

The Trustee may deposit moneys in all Funds and Accounts held by it under the Resolution in banks or trust companies organized under the laws of any state of the United States or national banking associations with capital stock, surplus and undivided earnings aggregating at least \$50,000,000 ("Depositaries") or such other Depositary approved by each Credit Facility Issuer which is not in default under the terms of its Credit Facility. All monies held by the Authority constitute trust funds and the Authority will deposit such monies with a Depositary in trust for the Trustee. All moneys held under the Resolution by the Trustee or any Depositary must be either (i) continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (ii) continuously and fully secured by depositing with the Trustee or any Federal Reserve Bank as collateral security such securities as are described in clauses (i) through (ii), inclusive, of the definition of "Investment Securities" having a market value (inclusive of accrued interest) not less than the amount so deposited, except as may otherwise be approved pursuant to clause (vii) of the definition of "Investment Securities." All moneys held by the Trustee or any Depositary are to be held in such other manner as may then be required by applicable Federal or State laws and regulations and applicable state laws and regulations of the state in which the Trustee or such Depositary is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it will not be necessary for the Trustee or any Depositary to give security for the deposit of any moneys held in trust by it and set aside for the payment of the principal or redemption price or of interest on any Bonds.

### **Parity**

The Authority may declare Parity following construction of the Project and payment or provision for payment of all Costs of Acquisition and Construction, but not sooner than seven years after issuance of the 1987A Bonds, by delivering to the Trustee a notice of Parity containing a direction to liquidate certain investments and make certain other investments, as discussed below, and to pay Debt Service on Outstanding Bonds and Subordinated Debt pursuant to such notice. Upon the declaration of Parity, the Appropriated Loans and the Revenues derived therefrom are to be released from the lien of the Resolution.

In order to effect Parity, upon the direction of the Authority, the Trustee is to (a) liquidate existing securities constituting Available Moneys on deposit in the Revenue Fund, the Debt Service Fund, the Subordinated Debt Fund, the Capital Reserve Fund and the Project Economic Development Fund, and (b) simultaneously invest the proceeds of such liquidation in Government Securities.

### **Cash Coverage**

Not later than January 31 of each Fiscal Year, the Authority is to determine whether Cash Coverage has been attained. Once Cash Coverage has been attained, the Authority is to provide notice to the Trustee and to each Credit Facility Issuer which is not in default under the terms of its Credit Facility of such attainment and direct the Trustee to liquidate existing securities in the Revenue Fund, the Project Economic Development Fund, the Debt Service Fund, and the Subordinated Debt Fund (to the extent the existing securities do not constitute Government Securities) to the extent necessary to fund the Cash Collateral Account in an amount equal to Cash Coverage, plus an amount necessary (taking into consideration amounts in the Capital Reserve Fund) to pay or provide for the Aggregate Debt Service and Subordinated Debt Service on the Outstanding Bonds and Subordinated Debt for the forthcoming 12 months and simultaneously invest the proceeds of such liquidation in Government Securities with maturities not exceeding five years from the date of investment unless otherwise approved in writing by each Credit Facility Issuer which is not in default under the terms of its Credit Facility and transfer such Government Securities to the Cash Collateral Account. Thereafter, any investments of amounts on deposit in the Cash Collateral Account shall be made in Government Securities with maturities not exceeding five years from the date of investment unless otherwise approved in writing by each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

The Authority is to review the Cash Collateral Account and the Capital Reserve Fund semiannually and have such Fund and Account audited by an Accountant at least once each Fiscal Year and such audit shall be delivered to the Trustee, the Authority and each Credit Facility Issuer not in default under the terms of its Credit Facility. If after any such valuation it is determined that Cash Coverage is not maintained or that the amount on deposit therein is insufficient to pay Aggregate Debt Service and Subordinated Debt Service for the forthcoming 12 months, the Authority is to direct the Trustee to redeem Bonds or Subordinated Debt at the earliest possible date permitted under the terms thereof in an amount sufficient to permit Cash Coverage to be maintained.

### **Encumbrances; Disposition of Properties**

The Authority has covenanted in the Resolution that it will not issue bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than Bonds, payable out of or secured by a security interest in or pledge or assignment of the Revenues, the Authority's right, title and interest in the Cominco Agreement, or other moneys, securities or Funds held or set aside under the Resolution, or, subject to the release thereof from the lien of the Resolution, Appropriated Loans and Revenues derived therefrom, nor will the Authority create or cause to be created any lien or charge thereon; however, to the extent permitted by law, the Authority may issue (1) bond anticipation notes, (2) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the Project or (b) payable out of, or secured by a security interest in, a pledge and



assignment of Revenues to be received after the discharge of the pledge of Revenues provided in the Resolution, (3) Subordinated Debt issued in accordance with the provisions of the Resolution or (4) evidences of indebtedness secured by moneys, loans or other property in the Economic Development Fund (other than moneys relating to the Project), the Enterprise Development Fund of the Authority and other assets of the Authority not pledged under the Resolution.

The Authority will not sell, mortgage, lease or otherwise dispose of any part of the Project, except for sales or exchanges of property or facilities (1) which are not useful in operation of the Project, or (2) for which the proceeds received from a sale of or the fair market value of the subject property are \$100,000 or less, or (3) except as provided in the Resolution, for which the proceeds or fair market value exceed \$100,000 and as to which an Authorized Officer of the Authority certifies that the ability of the Authority to pay Debt Service on the Bonds will not be impaired. The proceeds of any such transaction not used to acquire other property necessary for the operation of the Project will be deposited in the Sustaining Capital Fund.

The Authority will not lease or make contracts or grant licenses for the operation or use of, or make arrangements for the use of, or grant easements or any other rights with respect to, any part of the Project which would impair the ability of the Authority to pay Debt Service on the Bonds. If the depreciated cost of the subject property exceeds \$500,000, an Authorized Officer of the Authority must certify with the Trustee and each Credit Facility Issuer which is not in default under the terms of its Credit Facility that the proposed action of the Authority does not result in a breach of the above-mentioned conditions. Any payments of the Authority in connection with any such transaction will constitute Revenues. The Authority may sell or otherwise dispose of any part of the Project to the extent required by the User Contracts. Any payments received therefrom will be deposited in the Sustaining Capital Fund.

#### **Annual Budget**

The Authority will file with the Trustee an Annual Budget for each Fiscal Year prepared in accordance with the requirements of the Cominco Agreement or any other User Contract. The Annual Budget will include quarterly appropriations for the estimated Operation and Maintenance Expenses and other expenditures for the Project for such year and monthly appropriations for the estimated amount to be credited during each calendar quarter to the Operation and Maintenance Fund and the Sustaining Capital Fund. The Authority shall review quarterly its estimates set forth in the Annual Budget and in the event such estimates do not substantially correspond with actual Revenues, Operation and Maintenance Expenses or other requirements, or if there are extraordinary receipts or payments of unusual costs, the Authority is to prepare an amended Annual Budget for the remainder of such Fiscal Year. The Authority may also at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

#### **Insurance**

The Authority is to use its best efforts to maintain, or cause to be maintained, insurance with responsible insurers which are, to the extent such insurers are willing to supply necessary insurance, licensed and rated by Best's Insurance Reports (or any successor publication of comparable standing) as A (Excellent) Class XII or better (or the then equivalent of such rating) or such other insurer approved by each Credit Facility Issuer not in default under the terms of its Credit Facility, with policies for the benefit of the Trustee and of the Authority and other parties to the User Contracts as their interests will appear, against risk of direct physical loss, damage or destruction of the Project, at least to the extent that similar insurance would be carried by prudent Persons constructing and operating facilities of a similar nature to the facilities constituting the Project, including liability insurance and employers' liability insurance, but in no case less than will satisfy any applicable regulatory requirements. Insurance maintained pursuant to the Cominco Agreement or any other User Contract is deemed to comply with this requirement.

### **Covenants with Respect to the Cominco Agreement and Other User Contracts**

The Authority has agreed to collect and deposit with the Trustee all amounts (other than the Operation and Maintenance Revenues) payable to it pursuant to the User Contracts or otherwise payable to it for use of the Project.

The Authority has further agreed to use good business judgment to enforce the provisions of the User Contracts and duly perform its covenants and agreements thereunder. Moreover, the Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take action under or in connection with any User Contract which will impair the ability of the Authority to pay Debt Service on the Bonds. The Authority agrees that prior to Parity it will not take, or omit to take, any action under any User Contract which will result in the occurrence of an event of default thereunder. Without the prior written consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility the Authority will not terminate the Cominco Agreement, and shall not enter into a User Contract in replacement thereof, if any such action shall materially adversely affect the rights of the Owners of the Bonds.

The Authority agrees that it shall immediately notify the Trustee of any termination of the Cominco Agreement by Cominco, of the occurrence of a default, and of the failure of Cominco to pay when due and payable any amount payable under the Cominco Agreement and such amount shall not have been otherwise paid on Cominco's behalf.

The Authority will take no action under the Cominco Agreement to cause the "Post-Payback Period" as defined in the Cominco Agreement to occur prior to the earlier of (a) the payment in full of all Bonds and Subordinated Debt issued under the Resolution or (b) the defeasance of all Bonds and Subordinated Debt issued under the Resolution pursuant to the Resolution. Upon the commencement of the Post-Payback Period under the Cominco Agreement, the Authority promptly will provide notice of such occurrence to the Trustee.

The Authority agrees that it will not adopt any regulations which will materially impair Cominco's rights under the Cominco Agreement so as to entitle Cominco to any abatement or reduction in fees payable to the Authority under the Cominco Agreement and which abatement or reduction would adversely affect the rights of the Owners of the Bonds or owners of the Subordinated Debt. No regulations that would result in such abatement or reduction may be adopted without the prior written consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility. Notwithstanding the foregoing, the Authority shall not terminate or permit the termination of the Cominco Credit Enhancement without the prior written consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

### **Drawings on the Cominco Credit Enhancement**

At least 30 days prior to the first day on which the Trustee is entitled to make a drawing under the Cominco Credit Enhancement, the Trustee is to request that the Authority prepare or cause to be prepared certificates or other documentation required to be delivered pursuant to the Cominco Credit Enhancement. Upon the request of the Trustee, the Authority is to deliver, as soon as practicable, to the Trustee, or assist the Trustee in procuring, properly completed and executed certificates and other documentation to the extent required pursuant to the Cominco Credit Enhancement. The Resolution provides that on the first day on which the Trustee is entitled to make a drawing under the Cominco Credit Enhancement, the Trustee is to draw under the Cominco Credit Enhancement an amount equal to the credit enhanced payment due and owing by Cominco on such date in accordance with the terms of the Cominco Credit Enhancement. If the Trustee has not received a certificate or other documentation, the Trustee is to draw an amount equal to the maximum amount permitted to be drawn on such date under the Cominco Credit Enhancement.

Upon the failure by any bank party to the Primary Letter of Credit to make any payment thereunder, the Trustee shall immediately notify the Authority, each Credit Facility Issuer which is not

in default under the terms of its Credit Facility and Cominco, and shall draw under the Standby Letter of Credit in accordance with its terms. Upon a failure by any bank party to the Standby Letter of Credit to make any payment due thereunder, the Trustee is to immediately notify the Authority, the Credit Facility Issuers and Cominco, in writing, of such failure and the amount of such deficiency, and request that Cominco immediately pay the amount of such deficiency to the Trustee. The Trustee, at the direction of the the Authority or any Credit Facility Issuer, is to take any remedy available to the Trustee at law or in equity or by statute, as recommended by counsel to the Authority acceptable to the Trustee and any Credit Facility Issuer not in default under the terms of its Credit Facility, to enforce the payments due under the Cominco Credit Enhancement. To the extent that any bank party to the Cominco Credit Enhancement dishonors a draw thereunder claiming that a draft or any accompanying certificate or documentation does not conform to the requirements of the Cominco Credit Enhancement, after such draft and accompanying certificate has been corrected, resubmitted and subsequently dishonored, the Trustee shall immediately seek a judicial determination concerning the conformance of the draw from any court having jurisdiction over the matter and shall provide evidence to each Credit Facility Issuer not in default under the terms of its Credit Facility that such judicial determination has been sought.

At the direction of the Authority with written consent of each Credit Facility Issuer, and in accordance with the provisions of the Cominco Credit Enhancement and the Resolution, the Trustee is to release or reduce all or any part of the Cominco Credit Enhancement. If, upon any such release or reduction, the Credit Enhancement is replaced by securities, the Trustee is to deposit such securities in the Revenue Fund, and the proceeds of such securities shall be applied as provided in the Resolution. At the direction of the Authority with written consent of each Credit Facility Issuer, the Trustee may accept another letter of credit in substitution for the obligations of any issuer of the Cominco Credit Enhancement in accordance with the terms of the Cominco Credit Enhancement and the Resolution. As provided in the Resolution, upon notification from the Authority that the aggregate amount payable under the Cominco Credit Enhancement is to be increased, the Trustee with written consent of each Credit Facility Issuer is to take any action necessary to draw such increased amount under the Cominco Credit Enhancement. The Trustee shall not terminate the Cominco Credit Enhancement without the written consent of the Authority and each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

#### **Accounts and Reports**

The Authority will keep or cause to be kept proper and separate books of record and account relating to the Project, the Revenues and the Funds and Accounts established under the Resolution and relating to costs and charges under the Cominco Agreement and other User Contracts. Such books will at all times be subject to the inspection of the Trustee, the State legislative auditor and the Owners of an aggregate of not less than 50% in principal amount of Bonds then Outstanding.

The Authority is to advise the Trustee within 120 days after the close of the Fiscal Year of transactions relating to the Operation and Maintenance Fund.

#### **Amendments and Supplemental Resolutions**

The Resolution may be supplemented and amended by the Authority without the consent of any Owner of the Bonds or any owner of Subordinated Debt and without the consent of the Trustee for the following purposes:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Bonds, Subordinated Debt or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the Authority in the Resolution, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Resolution as theretofore in effect;



(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in the Resolution, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(5) To authorize Subordinated Debt of a series and, in connection therewith, specify and determine such matters and things relative to such Subordinated Debt which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Subordinated Debt;

(6) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Resolution of the Revenues, any User Contract, the Appropriated Loans or of any other moneys, securities or the Funds;

(7) To modify, supplement or amend the Resolution to effect qualification under the Trust Indenture Act of 1939, as amended, or under any similar Federal statute hereinafter enacted, and to add to the Resolution such other provisions as may be expressly permitted by the Trust Indenture Act of 1939, as amended, and to permit the qualification of any Series of Bonds or Subordinated Debt for sale under the securities laws of any state or the United States; or

(8) To appoint the Trustee or any Paying Agent.

The Resolution may also be supplemented and amended, with the consent of the Trustee and each Credit Facility Issuer which is not in default under the terms of its Credit Facility, but without the consent of any Owner of the Bonds or any owner of Subordinated Debt, for the following purposes:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution;

(2) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To satisfy the requirements of the providers of credit enhancement for, or any rating agency in connection with, any of the Series of Bonds or Subordinated Debt, if such requirements do not materially and adversely affect the rights of the Bondholders;

(4) To specify or determine any matters and things relative to the Bonds or the Subordinated Debt which are not contrary to or inconsistent with the Resolution and which shall not materially and adversely affect the rights of the Bondholders;

(5) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee or either of them, or to grant or pledge to the Trustee for the benefit of the Bondholders any additional security other than that granted or pledged under the Resolution, including, without limitation, a security interest in any User Contract;

(6) To modify any of the provisions of the Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof; or

(7) To make any other changes which do not, in the sole opinion of the Trustee with the written consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility, materially and adversely affect the rights of the Bondholders.

In addition, the Resolution may be amended upon the consent of the Owners of at least a majority in principal amount of the Bonds, or if less than all of the several Series of Bonds are to be affected by such amendment, upon consent of the Owners of at least a majority in principal amount of the Series so affected and Outstanding. No such amendment is to permit (1) an extension of the maturity of any Outstanding Bond, (2) a change in the redemption terms or a reduction in any premium payable upon such redemption, (3) a reduction of an installment of interest, (4) a reduction in principal or redemption price or in the rate or extension of time of paying interest, or (5) the interest on any Tax-Exempt Bond or Tax-Exempt Subordinated Debt, without the consent of the Owner of such Bond or owner of such Subordinated Debt. No such amendment is to reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect such amendments. Under the Resolution, the Insurer is deemed to be the Owner of all Outstanding 1987A Bonds for purposes of taking all actions under the Resolution, including the giving of approvals to amendments of the Resolution.

#### **Trustee, Paying Agents**

The Resolution requires the appointment by the Authority of a Trustee and one or more Paying Agents (which may include the Trustee). The Trustee may at any time resign on 90 days' written notice to the Authority and may at any time be removed by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Outstanding Bonds, with the consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility, or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority. So long as no event of default exists or would exist with notice and/or passage of time, the Trustee may be removed at any time for cause by a resolution of the Authority. A successor Trustee may be appointed by the Authority, with the written consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility, or if the Authority fails to appoint a successor Trustee within 45 days, by the Owners of a majority in principal amount of the Outstanding Bonds with the consent of each Credit Facility Issuer which is not in default under the terms of its Credit Facility.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within 90 days after the Trustee shall have given to the Authority written notice or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any other reason whatsoever, all Credit Facility Issuers which are not in default under the terms of their respective Credit Facilities may appoint a successor Trustee or upon their failure to do so within 15 days, the Trustee (in the case of its resignation) or the Owner of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee. Any successor Trustee must be a bank or trust company organized under the laws of any state or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50 million if there be such an entity willing to accept such appointment.

#### **Exchange of Bonds**

The 1987A Bonds will be initially registered in the name of Cede & Co., as nominee for DTC as discussed in the Official Statement under "The Bonds—Book-Entry Only System."

The Authority may determine that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, whereupon 1987A Bond certificates will be delivered. In the event that the book-entry system is discontinued in respect of any Series of Bonds, such Bonds, upon surrender thereof at the corporate trust office of the Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the Owner or his duly authorized attorney,



may, at the option of the Owner thereof, be exchanged for an equal aggregate principal amount of Bonds of the same maturity and of any authorized denominations.

If the privilege of exchanging the Bonds or transferring the Bonds is exercised, the Authority will execute and the Trustee will authenticate and deliver in exchange for or transfer new Bonds in accordance with the provisions of the Resolution. For every such exchange or transfer of the Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Authority nor the Trustee will be required to transfer or exchange the Bonds for a period of 15 days next preceding any selection of Bonds to be redeemed, or to transfer, exchange or register any Bonds called for redemption except that Bonds surrendered for partial redemption may be exchanged for new Bonds in authorized denominations equal to the aggregate of the redeemed portion thereof.

#### **Defeasance**

The pledge of the Revenues and other moneys and securities under the Resolution and all covenants, agreements and other obligations of the Authority to the Owners of the Bonds under the Resolution will cease, terminate and become void and be discharged and satisfied whenever all Bonds have been paid in full. Bonds will be deemed to have been so paid whenever the following conditions are met: (1) there have been deposited with the Trustee either moneys in an amount which will be sufficient, or Government Securities the principal of and the interest on which, when due, will provide moneys which, together with any moneys also deposited with the Trustee, will be sufficient, to pay when due the Principal Installments or redemption price, if applicable, and interest due or to become due on such Bonds, (2) in the case of Bonds to be redeemed prior to maturity, the Authority has given to the Trustee irrevocable instructions to publish the notice of redemption therefor, (3) a verification by Accountants of the adequacy of such Available Moneys and securities shall be provided and addressed to the Trustee and each Credit Facility Issuer which is not in default under the terms of its Credit Facility and shall be approved by each such Credit Facility Issuer, (4) an Opinion of Counsel is provided to the Trustee and any Credit Facility Issuer whose Credit Facility secures the Series of Bonds being so defeased to the effect that, upon deposit of Available Moneys or Government Securities as provided in clause (2) above, all Outstanding Bonds of such Series shall no longer be secured under the Resolution, and (5) in the event such Bonds are not subject to redemption within the next succeeding 60 days, the Authority has given to the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (1) above has been made with the Trustee and that such Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the Principal Installments or redemption price, if applicable, on such Bonds. The Trustee will, as and to the extent necessary, apply moneys held by it as above described to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution.

If so directed by the Authority prior to (i) the maturity date of Bonds deemed to have been paid as described in the preceding paragraph which are not to be redeemed prior to the maturity date or (ii) the publication of the notice referred to in clause (2) above with respect to Bonds deemed to have been paid as described above which are to be redeemed prior to the maturity date, the Trustee is required to apply moneys deposited with it in respect of Bonds in accordance with clause (1) above and redeem or sell Government Securities so deposited with it and apply the proceeds thereof to the purchase of such Bonds and the Bonds so purchased shall be immediately cancelled by the Trustee. No such Bonds shall be purchased unless the moneys and Government Securities remaining on deposit with the Trustee after such purchase and cancellation would be sufficient to pay when due the Principal Installment or redemption price, if applicable, and interest due or to become due on all remaining Bonds in respect to which such moneys and Government Securities are being held by the Trustee. In the event that on any interest payment date as a result of any such purchases and cancellations of Bonds the total amount of moneys and Government Securities remaining on deposit with the Trustee is in excess of the total amount required to be deposited with the Trustee on such date in respect to the remaining Bonds in

order to comply with clause (1) of the preceding paragraph, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of the pledge or lien of the Resolution unless amounts remain due and owing to any Credit Facility Issuer which is not in default under the terms of its Credit Facility in which case such moneys shall be paid to each such Credit Facility Issuer on a pro rata basis.

#### **Events of Default and Remedies**

Events of Default specified in the Resolution include (1) failure to pay principal or redemption price of any Bond when due; (2) failure to pay any interest installment on any Bond or the unsatisfied balance of any Sinking Fund Installment thereon due; and (3) failure for 60 days after written notice of a default in the performance or observance of any other covenants, agreements or conditions contained in the Resolution or in the Bonds. Upon the happening of any such Event of Default the Trustee (by notice in writing to the Authority and with the written consent of each Credit Facility Issuer not in default under the terms of its Credit Facility if the majority in principal amount of the Bonds Outstanding are subject to a Credit Facility or Credit Facilities) or the Owners of not less than a majority in principal amount of the Bonds Outstanding (by notice in writing to the Authority, the Trustee and each Credit Facility Issuer not in default under the terms of its Credit Facility) may declare the principal of and any accrued interest on all Bonds then Outstanding due and payable (subject to a rescission of such declaration upon the curing of such default before the Bonds have matured).

Upon the occurrence of any Event of Default which has not been remedied, the Authority will, upon demand of the Trustee or each Credit Facility Issuer which is not in default under the terms of its Credit Facility (1) order all Project Applicants to make payments due under the User Contracts (including Operation and Maintenance Revenues) directly to the Trustee for deposit in the Revenue Fund, (2) grant to the Trustee all rights and remedies of the Authority in the User Contracts, (3) pay over or cause to be paid over to the Trustee forthwith, all moneys, securities and funds held by the Authority under the Resolution and all Revenues which are not paid directly to the Trustee, and (4) to the extent permitted under Laws of the State and to the extent that any Appropriated Loan is pledged under the Resolution and is subject to the control of the Authority, transfer or cause to be transferred to the Trustee, such Appropriated Loans and all payments due thereunder.

During the continuance of an Event of Default, the Trustee is to apply moneys or Revenues (other than amounts in the Excess Investment Earnings Fund which may be applied for the purposes thereof) as follows and in the following order: (i) to payment of the reasonable and proper charges, expenses and liabilities of the Trustee and Paying Agents, (ii) to the payment of Operation and Maintenance Expenses and for reasonable renewals, repairs and replacements of the Project necessary in the Trustee's judgment, subject to the written consent of each Credit Facility Issuer if the majority in principal amount of the Outstanding Bonds are subject to a Credit Facility, to prevent loss of Revenues, (iii) to satisfy deficiencies in the Excess Investment Earnings Fund, and (iv) to the payment of interest and principal or Redemption Price of Bonds without preference or priority of interest over principal or principal over interest or of any installment of interest, unless the principal of all Bonds has not been declared due and payable, in which case first to the payment of interest and second to the payment of principal or Redemption Price on those Bonds which have become due and payable in order of their due dates and, if the amount available is not sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date. Upon receipt by the Trustee of a notice from the Authority stating that a payment was made under the Cominco Credit Enhancement or under securities delivered in replacement of all or any portion of the Cominco Credit Enhancement in excess of the amount due under the Cominco Agreement in respect of which such payment was made, as established by the Authority in accordance with the Cominco Credit Enhancement with an Accountant's verification to the extent required by the Cominco Credit Enhancement and further stating the amount of such excess, the Trustee shall pay to Cominco at the address stated in the notice from the Authority an amount equal to such excess from moneys, securities, Funds (other than the Excess Investment Earnings Fund) and Revenues prior to

payment of other amounts hereunder. In addition, the Trustee upon the written consent of each Credit Facility Issuer if the majority in principal amount of the Outstanding Bonds are subject to a Credit Facility will have the right to apply in an appropriate proceeding for appointment of a receiver of the Project.

If an Event of Default has occurred and has not been remedied, the Trustee may, or on written request of the Owners of not less than a majority in principal amount of Bonds Outstanding must, proceed to protect and enforce its rights and the rights of the Owners of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant in the Resolution or in aid of the execution of any power granted in the Resolution or for an accounting against the Authority or in the enforcement of any other legal or equitable right, as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Resolution. The Trustee may, and upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, or the Credit Facility Issuers as provided in the Resolution, and upon being furnished with reasonable security and indemnity must, institute and maintain such suits and proceedings to prevent any impairment of the security under the Resolution or to preserve or protect the interests of the Trustee and of the Owners of the Bonds.

No Owner of the Bonds will have any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless (a) such Owner of the Bonds previously has given the Trustee and each Credit Facility Issuer written notice of an Event of Default, (b) the Owners of at least a majority in principal amount of the Bonds then Outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity to exercise its powers or institute such suit, action or proceeding, (c) there have been offered to the Trustee adequate security and indemnity against its costs, expenses and liabilities to be incurred and (d) the Trustee has refused to comply with such request within 60 days after receipt of such notice, request and offer of indemnity. Nothing in the Resolution or the Bonds affects or impairs the Authority's obligation to pay the Bonds and interest thereon when due or the right of any Owner of the Bonds to enforce such payment.

The Owners of not less than a majority in principal amount of the Outstanding Bonds may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred upon the Trustee, provided that to the extent that the Owners of a majority in principal amount of the Outstanding Bonds fail to take such action within 60 days after the occurrence of an Event of Default, Credit Facility Issuers may so direct the Trustee as provided in the Resolution. Notwithstanding the foregoing, to the extent all Outstanding Bonds are secured by a Credit Facility or Credit Facilities, the Trustee may exercise the rights and remedies pursuant to the Resolution only upon the direction of each Credit Facility Issuer which is not in default under its Credit Facility. The Trustee may decline to follow any such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to Owners of the Bonds not parties to such direction.

If the Bonds have not been accelerated, the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may, with the approval of the Credit Facility Issuers, on behalf of the Owners of all the Bonds, waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of, or premium, if any, on the Bonds.

The Resolution provides that the Insurer is deemed the Owner of all 1987A Bonds for purposes of giving direction, consents or waivers of an Event of Default or remedies under the Resolution.

#### **Notice of Default**

Notice of the occurrence of any Event of Default will be given to each Owner of the Bonds then Outstanding at his address appearing on the registry books of the Authority. Until the book-entry only system is discontinued, the Beneficial Owners will receive such notice only to the extent that DTC (or its successor) supplies such notice to such Beneficial Owner.

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## FORM OF OPINION OF BOND COUNSEL

March , 1987

Alaska Industrial Development Authority  
1577 C Street  
Anchorage, Alaska 99501-5177

Goldman, Sachs & Co.  
85 Broad St.  
New York, New York 10004  
As Representatives of the Underwriters

Re: \$103,250,000

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY  
DeLong Mountain Transportation Project  
Revenue Bonds, Series 1987A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Alaska Industrial Development Authority (the "Authority") of its \$103,250,000 DeLong Mountain Transportation Project Revenue Bonds, Series 1987A (the "Bonds"), dated as of February 1, 1987. The Bonds are being issued as part of the financing for the DeLong Mountain Transportation Project (the "Project") pursuant to the Constitution and Statutes of the State of Alaska, as amended, and particularly the Alaska Industrial Development Authority Act, codified at Title 44, Chapter 88, and an act of the Alaska State Legislature entitled "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date" (collectively, the "Act"), and under and pursuant to the DeLong Mountain Transportation Project Revenue Bond Resolution, as supplemented and amended (collectively, the "Resolution"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Resolution.

The Project consists of a road and port to serve regional needs and permit transportation of zinc concentrates and other minerals from a deposit located in the DeLong Mountains in Northwest Alaska. The initial principal user of the Project will be Cominco Alaska Incorporated ("Cominco"), a business corporation organized under the laws of the State of Alaska. Cominco is a wholly-owned subsidiary of Cominco Ltd., a Canadian corporation ("Cominco Ltd."). Cominco American Incorporated, a business corporation organized under the laws of the State of Washington and a wholly-owned subsidiary of Cominco Ltd. ("Cominco American"), and the Authority have entered into an Agreement for the Financing, Construction, Use, Operation, and Maintenance of the DeLong Mountain Transportation System dated June 30, 1986 (as supplemented and assigned by Cominco American to Cominco, the "Agreement") pursuant to which Cominco has undertaken to pay the Authority toll fees with certain minimum amounts that are to be determined pursuant to the Agreement based on the total cost of the Project. The Authority has assigned the Agreement and the right to the toll fees to the Trustee for use as a source of payment for the Bonds. Cominco Ltd. and the Authority have entered into a Guaranty Agreement dated June 30, 1986 (the "Guaranty") pursuant to which Cominco Ltd. guarantees the timely payment of the obligations of Cominco under the Agreement. The Authority has assigned the Guaranty to the Trustee along with the Agreement. A syndicate of banks has issued a letter of credit (the "Primary Letter of Credit") to the Trustee with respect to the first 10 minimum annual toll fees payable by Cominco under the Agreement. Each bank's obligation under the Primary Letter of Credit is a several obligation, limited to a percentage of the aggregate amount of the Primary Letter of Credit. Two of the banks, Union Bank of Switzerland and Barclays Bank PLC, have also issued a standby letter of credit (the "Standby Letter of Credit") upon which the Trustee may draw, subject to the limits contained therein, in the event that the other banks fail to make payments under the Primary Letter of Credit.

The payment of the principal of (whether at maturity or upon mandatory sinking fund redemption, but not upon acceleration or optional redemption, as described herein) and interest on the Bonds will be



unconditionally guaranteed under a Municipal Bond Guaranty Insurance Policy to be issued by the Municipal Bond Investors Assurance Corporation.

The Authority will use the proceeds of the Bonds to finance construction of the port as an exempt facility under the Internal Revenue Code of 1986 (the "Code"), to provide a Capital Reserve Fund, and to pay a portion of the costs of issuing the Bonds. The Authority will finance the balance of the Project and the costs of issuance from funds appropriated by the State of Alaska.

In our capacity as Bond Counsel, we have examined such documents and instruments as we deem necessary to enable us to express the opinions set forth below, including, without limitation, the Resolution and executed Bond numbered R-1.

The tax exemption of the interest on the Bonds depends on and is subject to the accuracy of the certifications of the Authority and to present and continuing compliance with the requirements of the Code. A failure to comply with these requirements could cause interest on the Bonds to be deemed not exempt from Federal income tax as of the date hereof.

Based on the foregoing, it is our opinion that:

1. The Authority has the right and power to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority in accordance with its terms, and no other authorization for the Resolution is required.

2. The Resolution creates the valid pledge which it purports to create of the proceeds of the Bonds, all right, title and interest of the Authority in, to and under the Agreement (except for indemnification payments to be made to the Authority pursuant thereto), the Guaranty, the Primary Letter of Credit and the Standby Letter of Credit, the Revenues and the Funds (other than the Excess Investment Earnings Fund), including the investments, if any, thereof, held or set aside under the Resolution, subject to the provisions of the Resolution permitting the application and release thereof for the purposes and on the terms and conditions set forth in the Resolution.

3. The Bonds are valid and binding obligations of the Authority as provided in the Resolution and entitled to the benefits of the Resolution and of the Act, and such Bonds have been duly and validly authorized and issued in accordance with law and in accordance with the Resolution.

4. Assuming the accuracy of the certifications of the Authority and continuing compliance with the requirements of the Code, interest on the Bonds is exempt from Federal income tax under existing laws as enacted and construed on the date hereof (except as provided in the Code with respect to any Bond held by a "substantial user" of the Project or by a "related person" within the meaning of Section 147 of the Code). Interest on the Bonds may be subject to the alternative minimum tax imposed on individuals and corporations (other than S corporations, regulated investment companies, real estate investment trusts or real estate mortgage investment conduits) and an environmental tax imposed on corporations, because of its status as an item of tax preference. Also, interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

5. Under the laws of the State of Alaska as enacted and construed on the date hereof, interest on the Bonds is exempt from taxation by the State of Alaska except for inheritance and estate taxes and taxes on transfers by or in contemplation of death; interest on Bonds held by corporations which are subject to the Federal alternative minimum tax may also be subject to the Alaska net income tax.

The opinions set forth above are subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws in effect from time to time affecting the enforcement of creditors' rights generally and judicial discretion. No opinion is being rendered as to the availability of any particular remedy.

Ownership of the Bonds may result in collateral Federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Bonds. We offer no opinion as to such collateral tax consequences.

Very truly yours,



## MUNICIPAL BOND GUARANTY INSURANCE POLICY

**Municipal Bond Investors Assurance Corporation**  
White Plains, New York 10601

Policy No. \_\_\_\_\_

Municipal Bond Investors Assurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to

or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with Citibank, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to Citibank, N.A., Citibank, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 445 Hamilton Avenue, White Plains, New York 10601 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed and attested on its behalf by its President and its Secretary, this

\_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_

### MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Secretary



