



Northwest Arctic Borough

SERVING THE COMMUNITIES OF:

Ambler Buckland Candle Deering Kivalina Kiana
Kobuk Kotzebue Noatak Noorvik Selawik Shungnak

January 15, 2016

Update on PILT Agreement Negotiations (Red Dog Mine)

Kotzebue, Alaska

FOR IMMEDIATE RELEASE

The Northwest Arctic Borough's mission is to improve the living and economic conditions all residents. It has a legal mandate to generate revenue through taxation to provide public services to its residents. The Borough is committed to economic development and to working with businesses and industry in the Borough. The Borough has a demonstrated history of promoting and accommodating responsible resource extraction within its boundaries. In particular, the Borough has a long history of entering into payment in lieu of taxes (PILT) agreements with industry (Cominco and more recently Teck).

Moving forward, the Borough has an obligation to its residents to provide unmet public service needs. The Borough's position is simple: it's a regional, home rule municipality negotiating in good faith to arrive at a PILT agreement as an alternative to direct payment of the Borough's severance tax. The Alaska Constitution mandates "maximum local self-government" and vests home rule governments with all legislative powers not prohibited by law.

The Borough has attempted over the past six months to engage in good faith negotiations for a new PILT agreement with Teck Alaska (TSX: TCK.A, TCK.B, NYSE: TCK) in its capacity as operator of the Red Dog Mine. Unfortunately, Teck has refused to discuss the Borough's proposed term sheet despite the Borough's attempt to propose significantly better economic terms than Teck would otherwise pay under its severance tax. Teck's approach has been to question the Borough's authority, ignore the Borough's proposal, and to insist on maintaining the arrangement agreed upon years ago that was originally intended to offer fiscal certainty for a still unproven and developing mine. The Borough understands the risks and challenges of developing a new mine and offered the previous agreement to support mine development. Now the Red Dog deposit is a mature, proven mine, and one of the world's largest zinc mines.

Teck has indicated that the severance tax will cost it in excess of US \$40 million annually. In fact, at current zinc prices, the Borough tax would be closer to US \$20 million annually and, in comparison to the expired PILT, would reduce Teck's net profits by less than \$6 million after adjusting for reduced payments to downstream partners and taxing authorities. As part of Teck's strategy, it stated that the tax (or any PILT relating to the tax) would jeopardize the future of the Red Dog Mine. This is unfounded. The Red Dog Mine is one of the most profitable and significant zinc assets in the world. For first three quarters of 2015—even with lower commodity prices—the Red Dog Mine contributed US \$300 million gross profit to Teck

(according to its own publicly-available financial reports). The Red Dog Mine is the most significant contributor to Teck's profits.

Teck has now filed a lawsuit challenging the authority of the Borough to tax within its boundaries. The Borough does not believe that Teck's claims have any merit – these are matters of settled law.

Like any negotiation, the parties find themselves at opposite ends. As the Borough moves forward, the Borough will work diligently to find an arrangement that will maximize benefits to its residents – whether that's through direct implementation of its severance tax or a PILT agreement.