

Meeting of the Iron Range Resources Board

Thursday, September 6, 2007

10:00 a.m.

Iron Range Resources Board Room

Eveleth, MN

MEETING OF THE IRON RANGE RESOURCES BOARD
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MEETING OF THE IRON RANGE RESOURCES BOARD
Thursday, September 6, 2007
10:00 a.m.

Agenda

- 1) Roll Call
- 2) Approval of the July 19, 2007, Minutes
- 3) Update on Grant Guidelines and Programs
- 4) Taconite Area Environmental Protection Fund
Action required: Project approval requires 7 votes
 - a) Board Proposed Youth In Action Project Grants - Resolution No.: 08-002
 - b) Board Proposed Development Project Grants - Resolution No.: 08-003
- 5) Douglas J. Johnson Economic Protection Trust Fund
Action required: Project approval requires 8 votes
 - a) Aitkin Machine and Manufacturing
- 6) Douglas J. Johnson Economic Protection Trust Fund Corpus
Action required: Project approval requires 10 votes
 - a) Mesabi Nugget Delaware, LLC – Resolution No.: 08-004
- 7) Other
- 8) Adjournment

Approval of the July 19, 2007, Minutes

Meeting of the Iron Range Resources Board

Thursday, July 19, 2007
9:00 a.m.

Iron Range Resources Administration Building
Eveleth, Minnesota

I. Roll Call

Representative David Dill, Chair, called the meeting to order at approximately 9:00 a.m. Present: Representative Tom Anzelc, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson and Citizen Jack Ryan. Absent: None. Also present were: Sandy Layman, Commissioner; Brian Hiti, Deputy Commissioner; Gunnar Johnson, Assistant Attorney General; Matt Sjoberg, Development Strategies Director; Jean Dolensek, Administrative Services Director; Dave Hart, Loan Officer, Senior; Sheryl Kochevar, Executive Assistant; Laureen Hall, Executive Assistant; Annette Maki, Executive Assistant; Darrell Scott, Owner/Manager of Scott's Seaplane Base; Kevin Vadnais, Vice President of Sales, Superior Thermowood of Brainerd, Inc.; Howard Hilshorst, Executive Vice President, Minnesota Steel Industries, LLC; Eugene Beckman, Citizen; and Mark Rudningen, Crow Wing County Parks.

II. Approval of the June 14, 2007, Minutes

Representative Rukavina moved approval of the June 14, 2007, minutes. Motion carried.

III. Douglas J. Johnson Economic Protection Trust Fund

Action required: Project approval requires 8 votes

a. Crane Lake U.S. Customs Station

Motion by Representative Dill to approve the Crane Lake U.S. Customs Station project as presented for an amount not to exceed \$175,000. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson and Citizen Jack Ryan.

Voting Against the Motion: None.

Abstain: None.

Absent: None.

b. Superior Thermowood of Brainerd, Inc.

Motion by Representative Solberg to approve the Superior Thermowood of Brainerd, Inc. project as presented for an amount not to exceed \$225,000. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson and Citizen Jack Ryan.

Voting Against the Motion: None.

Abstain: None.

Absent: None.

IV. Douglas J. Johnson Economic Protection Trust Fund Corpus

Action required: Project approval requires 10 votes

a. Minnesota Steel Industries, LLC

Motion by Representative Anzelc to approve the amendment of the Minnesota Steel Industries, LLC, Loan as presented.

Motion by Representative Rukavina to amend condition # 6 of the amendment memo to require Iron Range Resources Board approval of any proposed security to replace the Assignment of Royalties. Motion carried to amend the motion.

Motion restated by Representative Anzelc to approve the amendment of the Minnesota Steel Industries, LLC, loan as amended by Representative Rukavina. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson and Citizen Jack Ryan.

Voting Against the Motion: None.

Abstain: None.

Absent: None.

V. FY 08 Agency Investment Plan

Action Required: Project approval requires 8 votes

Motion by Representative Sertich to approve Resolution No. 08-001 which approves the FY2008 Iron Range Resources Investment Plan, as presented, with the stipulation that Workforce Development Program grants will be brought back to the Iron Range Resources Board for approval as outlined in the Resolution. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson and Citizen Jack Ryan.

Voting Against the Motion: None.

Abstain: None.

Absent: None.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
FY 2008 INVESTMENT PLAN AND
WORKFORCE DEVELOPMENT PROGRAM**

Resolution No.: 08-001

BE IT RESOLVED that the Board hereby approves the FY 2008 Iron Range Resources Investment Plan, as presented, with the stipulation that the Workforce Development Program grants will be brought back to the Board for approval.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 19th DAY OF JULY, 2007.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk	X			
Senator Tom Saxhaug	X			
Senator Rod Skoe	X			
Senator Yvonne Prettner Solon	X			
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			

Representative Tom Rukavina	X			
Representative Tony Sertich	X			
Representative Loren Solberg	X			
Citizen Joe Begich	X			
Citizen Shelley Robinson	X			
Citizen Jack Ryan	X			
TOTAL	13			

Signed: _____
Representative David Dill, Chair

VI. Other

- a. Eugene Beckman appealed to the Board for a fair and equitable building demolition program.
- b. Mark Rudningen, Crow Wing County Parks, provided the Board with an update on the Milford Mine Memorial Park Project.

VII. Adjournment

Meeting adjourned at 10:20 a.m.

Taconite Area Environmental Protection Fund

Action required: Project approval requires 7 Votes

- a) Board Proposed Youth In Action Project Grants - Resolution No.: 08-002
- b) Board Proposed Development Project Grants - Resolution No.: 08-003

**BOARD PROPOSED YOUTH IN ACTION PROJECT GRANTS –
RESOLUTION NO.: 08-002**

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
BOARD PROPOSED YOUTH IN ACTION PROGRAM GRANT APPROVALS**

Resolution No.: 08-002

WHEREAS, the Commissioner is authorized to expend, upon approval of a majority vote of the members of the Board, the Taconite Area Environmental Protection Fund monies made available under Minnesota Statutes Section 298.223 (“**TEPF Funds**”) to promote the economic development of the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“TAA”), by investing in local development projects within the TAA; and,

WHEREAS, the Commissioner has received proposals for the expenditure of up to \$150,000 of TEPF Funds for certain Youth In Action Program community development projects generally described as the **Board Proposed Youth in Action projects** (collectively the “**Proposed Projects**”); and,

WHEREAS, the Board met in open session at 10:00 a.m. on September 6, 2007, in the Iron Range Resources Board Room located near Eveleth, Minnesota, to consider, among other matters, the Proposed Projects and has determined that the expenditure of the following amounts of TEPF Funds for the purposes and in the amounts specified below would be in the public interest and promote economic development within the Taconite Assistance Area.

NOW, THEREFORE, IT IS RESOLVED that the Board hereby approves the expenditure of TEPF Funds to provide grants in the following amounts for the following Proposed Projects:

- (1) **Chisholm Youth in Action project:** \$50,000 to the City of Chisholm for the proposed renovation of the two-story building on Main Street commonly known as the “Old Union Hall” to enable it to function as a youth center;
- (2) **Cook Youth in Action project:** \$50,000 to the City of Cook for the proposed construction of a new youth facility at the Doug Johnson recreational park in Cook that will include a deli-style restaurant, lounge area, warming area, and equipment storage area; and
- (3) **Ely Youth in Action project:** \$50,000 to the City of Ely for the proposed construction of a youth facility and associated recreational areas in the City’s new park.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 6th DAY OF SEPTEMBER, 2007.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk				
Senator Tom Saxhaug				
Senator Rod Skoe				
Senator Yvonne Prettner Solon				
Senator Dave Tomassoni				
Representative Tom Anzelc				
Representative Dave Dill				
Representative Tom Rukavina				
Representative Tony Sertich				
Representative Loren Solberg				
Citizen Joe Begich				
Citizen Shelley Robinson				
Citizen Jack Ryan				
TOTAL				

Signed: _____
 Representative David Dill, Chair

**BOARD PROPOSED DEVELOPMENT PROJECT GRANTS –
RESOLUTION NO.: 08-003**

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
BOARD PROPOSED DEVELOPMENT GRANT APPROVALS**

Resolution No.: 08-003

WHEREAS, the Commissioner is authorized to expend, upon approval of a majority vote of the members of the Board, the Taconite Area Environmental Protection Fund monies made available under Minnesota Statutes Section 298.223 (“**TEPF Funds**”) to promote the economic development of the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“TAA”), by investing in local development projects within the TAA; and,

WHEREAS, the Commissioner has received proposals for the expenditure of up to \$200,000 of TEPF Funds for certain community development projects generally described as the Board Proposed Development projects (collectively the “**Proposed Projects**”); and,

WHEREAS, the Board met in open session at 10:00 a.m. on September 6, 2007, in the Iron Range Resources Board Room located near Eveleth, Minnesota, to consider, among other matters, the Proposed Projects and has determined that the expenditure of the following amounts of TEPF Funds for the purposes and in the amounts specified below would be in the public interest and promote economic development within the Taconite Assistance Area.

NOW, THEREFORE, IT IS RESOLVED that the Board hereby approves the expenditure of TEPF Funds to provide grants in the following amounts for the following Proposed Projects:

- (1) **B’nai Abraham Cultural Center project:** \$75,000 to the City of Virginia or a Virginia community-based public or nonprofit corporation for the preservation of that certain National Register of Historic places building known as the “B'nai Abraham Synagogue” in Virginia, of which \$50,000 shall be for renovation of such facility and \$25,000 for a permanent endowment for the preservation of such facility during such period of time as it is open to the public and functioning as a cultural center and museum, subject to repayment obligations if the property is sold to a person other than a public or non-profit corporation within 10 years;
- (2) **Iron Range Retriever Club project:** \$50,000 to the Minnesota Iron Range Retriever Club, a Minnesota nonprofit corporation, for pond and field construction on the property owned by the corporation in Mt. Iron, subject to repayment obligations if the facility within 10 years is no longer used for dog field trial or dog training events that are open to the general public; and
- (3) **Chisholm Ballfield project:** \$75,000 to the city of Chisholm to improve infrastructure at the city-owned baseball field.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 6th DAY OF SEPTEMBER, 2007.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk				
Senator Tom Saxhaug				
Senator Rod Skoe				
Senator Yvonne Prettner Solon				
Senator Dave Tomassoni				
Representative Tom Anzelc				
Representative Dave Dill				
Representative Tom Rukavina				
Representative Tony Sertich				
Representative Loren Solberg				
Citizen Joe Begich				
Citizen Shelley Robinson				
Citizen Jack Ryan				
TOTAL				

Signed: _____
 Representative David Dill, Chair

Douglas J. Johnson Economic Protection Trust Fund

Action required: Project approval requires 8 votes

AITKIN MACHINE AND MANUFACTURING

Bank Participation Loan

APPLICANT:

Aitkin Machine and Manufacturing

PRINCIPAL(S):

Robert Leiviska, James Leiviska, Travis Leiviska

BRIEF PROJECT DESCRIPTION:

Aitkin Machine and Manufacturing (AMM) is a start-up machine shop to be located in 2,000 square feet of space at the Aitkin County Growth facility in Aitkin, MN. AMM is a partnership between Robert Leiviska and his sons James and Travis Leiviska. The proposed financing will allow AMM to purchase equipment, inventory and tooling, as well as provide initial working capital.

PROJECT COST: \$360,000

PROJECT BREAKDOWN:

First National Bank of Milaca (negotiated term and rate)	\$102,500
Iron Range Resources (up to 8 years, formula rate)	\$102,500
Aitkin County Growth (negotiated term and rate)	\$ 50,000
ARDC (negotiated term and rate)	\$ 50,000
Equity from Partners	\$ 55,000

COLLATERAL:

Collateral will consist of a shared first lien with the bank on machinery and equipment, inventory, tooling, and accounts receivable of AMM. In addition, Robert, James and Travis Leiviska will provide personal guarantees for the financing.

JOBS:

6 new jobs created with a starting wage of \$14 plus benefits including medical insurance.

CONTINGENCIES:

Alternate structures to the financing package will be considered as long as Iron Range Resources' position is not materially compromised.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Approved July 11, 2007

FUNDING AUTHORIZATION:

Douglas J. Johnson Economic Protection Trust Fund: This project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.298) pertaining to expenditures of Douglas J. Johnson Economic Protection Trust Fund monies for economic development projects in that these statutes authorize small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341.

PROJECT DESCRIPTION:

Aitkin Machine and Manufacturing (AMM) is a start-up machine shop to be located in 2,000 square feet of space at the Aitkin County Growth facility in Aitkin, MN. AMM is a partnership between Robert Leiviska and his sons James and Travis Leiviska. The proposed financing will allow AMM to purchase used equipment from the former Malmo Machine (3 lathes, 1 horizontal milling center and various tools), new equipment (2 lathes and an additional milling machine) and inventory.

AMM will be a production job shop specializing in Computer Numerical Control (CNC) machined parts. The company will continue to serve existing customers of the former Malmo Machine as well as seek out relationships with new customers.

Initially, the three members of the Leiviska family will be the only employees. As growth occurs the company will look to add new machinists at a competitive hourly wage of approximately \$14.00 per hour plus a participating health care plan.

MANAGEMENT TEAM:

Robert Leiviska is the lead partner for AMM. He has been in the machining industry for nearly 40 years, with nearly all of that time spent with Aitkin Iron Works or its related companies. Over the years Mr. Leiviska received extensive training on CNC machines and has been the trainer at Aitkin Iron Works. He has also worked as the machine shop supervisor and has been involved in all aspects of the operation, from quoting jobs, ordering materials and setting up the shop for production. Robert will do the marketing, purchasing and scheduling for AMM.

James Leiviska has worked at Aitkin Iron Works or its related companies since 1987 when he was still in high school. He is trained in complete job set up including programming of the CNC machines.

Travis Leiviska has worked at Aitkin Iron Works or its related companies since 1997 when he as still in high school. He is trained in complete job set up including programming of the CNC machines.

Based on the work histories of the three partners, it appears that AMM will have the technical skills to compete in this industry.

MARKET OPPORTUNITY:

With the retirement of the owner of Malmo Machine, the Leiviska's saw an opportunity to become owners of their own machining business. AMM will continue to provide services to Malmo's customer base and seek out new contracts with others. Bob Leiviska, by virtue of his 40 years in the machining business, has developed a vast network of contacts with potential customers and has developed a target list to which he will market. AMM will also work closely with Temco, an Aitkin-based welding and fabrication shop, who will assist them with sourcing out new contracts with their customers. Temco does not currently offer machining services to their customers.

COLLATERAL REVIEW:

Collateral will consist of a shared first lien with the bank on machinery and equipment, inventory, tooling, and accounts receivable of AMM. In addition, Robert and James Leiviska will provide personal guarantees for the financing.

The bank and Iron Range Resources will share \$205,000 of debt on equipment and tooling valued at approximately \$300,000, approximately 70% loan-to-value. Aitkin County Growth and ARDC will be in subordinated collateral positions.

PAST IRON RANGE RESOURCES HISTORY:

None.

Douglas J. Johnson Economic Protection Trust Fund Corpus

Action required: Project approval requires 10 votes

MESABI NUGGET DELAWARE, LLC – PROJECT SUMMARY Direct Loan

APPLICANT: Mesabi Nugget Delaware, LLC, a Delaware Limited Liability Corporation (MND)

BRIEF PROJECT DESCRIPTION:

Mesabi Nugget Delaware, LLC (MND, a new company consisting of Steel Dynamics and Kobe Steel) is proposing to build a 500,000 metric tonne per year large-scale nugget demonstration plant (LSDP) using the Kobe Steel ITmk3 iron nugget process. The plant will be built at the Cliffs Erie property near Hoyt Lakes, Minnesota.

Iron Range Resources and the Department of Employment and Economic Security (DEED) provided \$16 million in low-interest loans to Mesabi Nugget, LLC (MNC), the development company, that helped finance the construction and successful operation of an ITmk3 pilot demonstration plant at Northshore Mining Company in Silver Bay. These results, validated by an independent third party, cleared the way for commercial development that now will be undertaken by MND.

The expenditure of \$10,000,000 was approved by the Board at its September 23, 2004, meeting and amended at its October 20, 2005, meeting. The expenditure of the additional \$6,488,000 was approved by the Board at its February 10, 2006, meeting and amended at its June 15, 2006, meeting. Some of the prior approvals listed MNC, the development company, as the borrower; however, MND, the new commercial company, through a project restructuring, has emerged as the new company that will carry the project forward. Therefore, MND will be the borrower.

PROJECT COST:

Capital Costs	\$225,000,000
Working Capital	<u>10,000,000</u>
Total Project Cost	\$235,000,000

PROJECT FINANCING:

Mesabi Nugget Delaware, LLC Members(cash)	\$85,000,000
Iron Range Resources (direct loan)	16,488,000
21 st Century Fund (direct loan)	10,000,000
Bank Line of Credit	10,000,000
Senior Debt	<u>113,512,000</u>
Total Project Financing	\$235,000,000

COLLATERAL:

An unencumbered assignment of surface and mineral rights in the lands to be owned by MND known as the “Stephens & Douglas Properties.” Shared subordinate position in all LSDP assets including fixed assets, accounts receivable inventory and other intangibles.

JOBS:

This project will result in the creation of an estimated 50 new jobs at the Hoyt Lakes facility, and 50 additional at the source of the taconite concentrate supply. The project also will create up to 500 construction jobs over a 16-month period.

CONTINGENCIES:

See attached term sheet.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

\$10,000,000 was approved on September 17, 2004

\$6,488,000 was approved on February 6, 2006.

FUNDING AUTHORIZATION:

\$10,000,000 of funding for this project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.294) pertaining to expenditures of DJJ monies for economic development projects in that these statutes authorize the agency, upon prior approval by the affirmative vote of at least eight members of the Board, to make small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341. More specifically, Minnesota Statutes Section 298.296, Subdivision 4 (a-d) provides temporary loan authority for construction and equipping of value-added iron products facilities.

\$6,488,000 of funding for this project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.294) pertaining to expenditures of DJJ monies for economic development projects in that these statutes authorize the agency to make small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341. More specifically, Minnesota Statutes Section 298.296, Subdivision 2 (c) authorizes the agency to expend, upon prior approval by the affirmative vote of at least ten members of the Board, up to 20% of the corpus of the Douglas J. Johnson Economic Protection Trust Fund (the “DJJ Fund”), valued as of the date of May 18, 2002, due to the fact that the project is one that:

- a. is designed to create and maintain productive, permanent, skilled employment, including employment in technologically innovative businesses; and,
- b. encourages diversification of the economy of the Taconite Assistance Area and promotes the development of minerals.

**MESABI NUGGET DELAWARE, LLC – IRON RANGE RESOURCES
TERM SHEET
LARGE-SCALE NUGGET DEMONSTRATION PLANT (LSDP)
DRAFT – FOR DISCUSSION PURPOSES ONLY**

This term sheet is meant to broadly define proposed terms for discussion of a financial package including a new loan. No investment will be made until both parties complete due diligence, obtain any and all necessary approvals, and enter into a formal loan agreement and amendment. All aspects of the transaction and credit documents will be in a form and substance acceptable to Iron Range Resources.

Lender: Iron Range Resources (“IRR”).

Borrower/Company: Mesabi Nugget Delaware, LLC (“MND”), a Delaware limited liability corporation.

Amount: \$16,488,000 in debt (the “Loan”).

Project: The Project is the construction of a 500,000 metric tonne per year large-scale nugget demonstration plant (“LSDP”) using the Kobe Steel ITmk3 iron nugget process. The plant will be built at a site at the Cliffs-Erie property near Hoyt Lakes, Minnesota. The Loan funds are to be used only for approved capital purchases, including hard construction costs. The Loan funds will not be used for operating purposes or funding the activity relating to obtaining permits.

Loan Term: Any outstanding principal and interest shall be due and payable in full on the 15th anniversary of the Amortization Date, as defined below.

Loan Fund Availability: The Loan proceeds will be available on the Loan Closing Date, which shall occur within twenty-five business days of receipt of evidence that conditions 1 through 6 listed under Loan Disbursement have been met. Iron Range Resources will disburse loan proceeds in increments within 30 days of receipt of invoices substantiating the payment. Amount disbursed shall be calculated pro rata based on the Loan’s relative percentage of the overall budgeted capital costs of the project.

Loan Repayment And Interest Rate: Simple interest at three and one-half percent (3.5%) per annum from the date that Loan funds are disbursed until the eighth anniversary of the Loan

Closing Date, after which simple interest will accrue at five percent (5.0%) per annum until all sums due have been paid in full. In the case of an uncured Event of Default the loan will accrue interest at the greater of five percent (5.0%) or the Prime Rate per annum. Interest will be capitalized to the principal balance on the Amortization Date.

Amortization Date shall be deemed to be the earlier of the first day of the month after the month that the LSDP meets both steps of the operational performance guarantees of the technology supplier, or 42 months after the Loan Closing Date, or an earlier date at the option of MND. Commencing one month after the Amortization Date, the Loan shall be repaid with equal monthly payments of principal and interest in an amount sufficient to fully amortize the principal balance of the Loan over an amortization period of fifteen years. Payments will be adjusted at the eighth anniversary of the Loan Closing Date to reflect the increase in the interest rate.

Loan Prepayment: There will be no penalties or restrictions for early repayment of the Loan.

Loan Default: The Loan agreement will provide for conditions of default, cross-default with other State debt, notice of default, reasonable cure opportunity and remedies.

Loan Disbursement: The Loan proceeds will be available for disbursement after the following conditions have been met:

1. MND has secured debt and equity financing to complete construction of the LSDP, including debt financing of no less than \$10,000,000 from the Minnesota Department of Employment & Economic Development (“DEED”) and cash equity of no less than \$85,000,000 from MND partners;
2. MND has secured the project agreements including ore supply, coal supply, utilities supply, and off-take agreements to support the LSDP;
3. MND secures agreements, reasonably satisfactory to IRR, to acquire all lands and facilities necessary to carry out the Project;
4. MND receives permits necessary for the LSDP at the Cliffs-Erie Hoyt Lakes site;
5. MND shall cause its major construction contractors to enter into a Project Construction Labor Agreement with the Iron Range Building and Construction Trades Council; and
6. MND is not otherwise in default under the Loan agreement.

Security: The Loan will be secured by a shared security interest with DEED in the following:

1. A security interest in all LSDP assets owned or acquired by MND in the project, which will be subordinated to other fixed asset debt, if such debt is required for the project;
2. An unencumbered assignment of surface and mineral rights in the lands owned or to be owned by MND as set forth in the attached Exhibit A “Stephens & Douglas Properties”; and
3. A security interest in MND accounts receivable and inventory and other intangibles in the plant, which may be subordinated to a revolving working capital debt facility, if so requested.

Representations,
Covenants and
Warranties:

The Loan agreement will contain representations, covenants and warranties of MND and IRR, acceptable to both parties including, but not limited to, the following:

1. MND recognizes that production taxes levied under chapter 292 are not included in state tax exemptions offered under the JOBZ program, and that production taxes will be levied for nugget production from the LSDP;
2. Prevailing wages will be paid to workers and laborers during the plant construction;
3. The LSDP will be kept in good repair, condition, and working order over the term of the Loan;
4. Not counting any personnel who worked directly or indirectly for MND at the Silver Bay pilot plant, at least 80% of any additional hourly employees hired by MND for the LSDP shall be residents of the Taconite Tax Relief Area of one of the following counties in Minnesota: Lake, Itasca, or St. Louis; and
5. The definitive loan agreements for the new DEED loan and this Loan shall not contain any covenants that restrict MND from worldwide expansion.

Confidentiality: IRR will maintain the confidentiality of business plan information to the fullest extent permitted by the Minnesota Government Data Practices Act.

Information Rights: IRR shall receive annual audited financial statements, internally prepared quarterly financial reports, and any other information reasonably requested, including information related to the intellectual property used and developed in the course of the Project. IRR will also receive standard inspection and visitation rights. The foregoing will be subject to a mutually agreeable non-disclosure agreement between the parties.

Fees: Each party shall be responsible for its own legal and other fees related to these transactions.

This draft term sheet is subject to similar consideration being given to MND by the State of Minnesota acting through its Department of Employment and Economic Development.

**The offer set forth in this term sheet shall remain open
until December 31, 2007**

**MESABI NUGGET DELAWARE, LLC – DEED TERM SHEET
LARGE-SCALE NUGGET DEMONSTRATION PLANT (LSDP)
DRAFT – FOR DISCUSSION PURPOSES ONLY**

This term sheet is meant to broadly define proposed terms for discussion of a financial package including a new loan. No investment will be made until both parties complete due diligence, obtain any and all necessary approvals, and enter into a formal loan agreement and amendment. All aspects of the transaction and credit documents will be in a form and substance acceptable to the State of Minnesota acting through the Minnesota Department of Employment and Economic Development.

Lender: State of Minnesota acting through the Minnesota Department of Employment and Economic Development (“DEED”)

Borrower: Mesabi Nugget Delaware, LLC (“MND”), a Delaware limited liability corporation.

Amount: \$10,000,000 from the Minnesota Minerals 21st Century Fund (the “Loan”).

Project: The Project is the construction of a 500,000 metric tonne per year large-scale nugget demonstration plant (“LSDP”) using the Kobe Steel ITmk3 iron nugget process. The plant will be built at a site at the Cliffs-Erie property near Hoyt Lakes, Minnesota. The Loan funds are to be used only for approved capital purchases, including hard construction costs. The Loan funds will not be used for operating purposes or funding the activity relating to obtaining permits.

Loan Term: Any outstanding principal and interest shall be due and payable in full on the 15th anniversary of the Amortization Date, as defined below.

Loan Fund Availability: The Loan proceeds will be available on the Loan Closing Date, which shall occur within twenty-five business days of receipt of evidence that conditions 1 through 5 listed under Loan Disbursement have been met. DEED will disburse loan proceeds in increments within 30 days of receipt of invoices substantiating the payment. Amount disbursed shall be calculated pro rata based on the Loan’s relative percentage of the overall budgeted capital costs of the project.

Loan Repayment And Interest Rate: Simple interest at three and one-half percent (3.5%) per annum from the date that Loan funds are disbursed until the eighth anniversary of the Loan Closing Date, after which simple interest will accrue at five percent

(5.0%) per annum until all sums due have been paid in full. In the case of an uncured Event of Default the loan will accrue interest at the greater of five percent (5.0%) or the Prime Rate per annum. Interest will be capitalized to the principal balance on the Amortization Date.

Amortization Date shall be deemed to be the earlier of the first day of the month after the month that the LSDP meets both steps of the operational performance guarantees of the technology supplier, or 42 months after the Loan Closing Date, or an earlier date at the option of MND. Commencing one month after the Amortization Date, the Loan shall be repaid with equal monthly payments of principal and interest in an amount sufficient to fully amortize the principal balance of the Loan over an amortization period of fifteen years. Payments will be adjusted at the eighth anniversary of the Loan Closing Date to reflect the increase in the interest rate.

Loan Prepayment: There will be no penalties or restrictions for early repayment of the Loan.

Loan Default: The Loan agreement will provide for conditions of default, cross-default with the Iron Range Resources debt, notice of default, reasonable cure opportunity and remedies.

Loan Disbursement: The Loan proceeds will be available for disbursement after the following conditions have been met:

1. MND has secured debt and equity financing to complete construction of the LSDP, including debt financing of no less than \$10,000,000 in the form of debt from Iron Range Resources (“IRR”) and cash equity of no less than \$85,000,000 from MND partners;
2. MND has secured the project agreements including ore supply, coal supply, utilities supply, and off-take agreements to support the LSDP;
3. MND secures agreements, reasonably satisfactory to DEED, to acquire the lands and facilities necessary to carry out the Project;
4. MND receives permits necessary for the LSDP at the Cliffs-Erie Hoyt Lakes site; and
5. MNC is not otherwise in default under the Loan agreement.

Security: The Loan will be secured by a shared security interest with IRR in the following:

1. A security interest in all LSDP assets owned or acquired by MND in the project, which will be subordinated to other fixed asset debt, if such debt is required for the project; and

2. A security interest in MND accounts receivable and inventory and other intangibles in the plant, which may be subordinated to a revolving working capital debt facility, if so requested.

Representations,
Covenants and
Warranties:

The Loan agreement will contain representations, covenants and warranties of MND and DEED, acceptable to both parties including, but not limited to, the following:

1. MND recognizes that production taxes levied under chapter 292 are not included in state tax exemptions offered under the JOBZ program, and that production taxes will be levied for nugget production from the LSDP;
2. Prevailing wages will be paid to workers and laborers during the plant construction;
3. The LSDP will be kept in good repair, condition, and working order over the term of the Loan; and
4. The definitive loan agreements for the new IRR loan and this Loan shall not contain any covenants that restrict MND from worldwide expansion.

Confidentiality: DEED will maintain the confidentiality of business plan information to the fullest extent permitted by the Minnesota Government Data Practices Act.

Information Rights: DEED shall receive annual audited financial statements, internally prepared quarterly financial reports, and any other information reasonably requested, including information related to the intellectual property used and developed in the course of the Project. DEED will also receive standard inspection and visitation rights. The foregoing will be subject to a mutually agreeable non-disclosure agreement between the parties.

Fees: Each party shall be responsible for its own legal and other fees related to these transactions.

This draft term sheet is subject to similar consideration being given to MND by Iron Range Resources.

**The offer set forth in this term sheet shall remain open
until December 31, 2007.**

MESABI NUGGET DELAWARE, LLC – RESOLUTION NO.: 08-004

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA**

Resolution No.: 08-004

WHEREAS, Iron Range Resources has been instrumental in the development of the ITmk3[®] iron nugget technology; and

WHEREAS, in 2001, Iron Range Resources provided the initial funding to Mesabi Nugget, LLC in the form of a \$500,000 Convertible Debenture; and

WHEREAS, in 2002, Iron Range Resources provided funding for an iron nugget pilot demonstration plant in Silver Bay, Minnesota, in the form of a \$7,500,000 Convertible Debenture; and

WHEREAS, Iron Range Resources has continued to support efforts to commercialize the iron nugget process, which will provide new economic benefits and opportunities for Minnesota's Iron Range; and

WHEREAS, in partnership with Mesabi Nugget Delaware, LLC; Mesabi Nugget, LLC; Ferrometrics, Inc.; Iron Units LLC, Kobe Iron Nugget LLC; Ferrous Resources, LLC; the Minnesota Department of Employment and Economic Development; Larry Lehtinen; Kobe Steel, Ltd.; Cleveland-Cliffs Inc. and Steel Dynamics, Inc., Iron Range Resources has entered into a Master Agreement to construct and operate a commercial iron nugget plant near Hoyt Lakes, Minnesota; and

WHEREAS, the construction of the commercial iron nugget plant is expected to cost in excess of \$235,000,000; and

WHEREAS, to facilitate the construction of the commercial iron nugget plant near Hoyt Lakes and to promote the further commercialization of the technology in northeastern Minnesota, Iron Range Resources has agreed to restructure the repayment of its previous assistance to Mesabi Nugget, LLC, which includes the right to share in a portion of the worldwide ITmk3[®] royalties, a release of Iron Range Resources' security interest in the pilot demonstration plant, the option for Kobe Steel, Ltd. to repay the previous assistance in exchange for Iron Range Resources' royalty rights and other provisions to assist in the wind-up of Mesabi Nugget, LLC; and

WHEREAS, to facilitate the construction and development of the commercial iron nugget plant near Hoyt Lakes, Iron Range Resources also has agreed to provide \$16,488,000 in financing to Mesabi Nugget Delaware, LLC to acquire land and develop and construct the commercial plant, as further detailed on the attached Mesabi Nugget Delaware, LLC Large-Scale Nugget Demonstration Plant Term Sheet ("Term Sheet"); and

WHEREAS, the \$16,488,000 was previously authorized to fund Mesabi Nugget, LLC by Board action of September 23, 2004, October 20, 2005, February 10, 2006, and June 15, 2006, but changes to the structure of the project financing and ownership have necessitated certain modifications to the proposed financing from Iron Range Resources.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Iron Range Resources and Rehabilitation Board has concluded that it would be in the best interest of the economy and of the people of the Taconite Assistance Area to loan \$16,488,000 to Mesabi Nugget Delaware, LLC, on the terms specified on the attached Term Sheet.

\$10,000,000 of funding for this project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.294) pertaining to expenditures of DJJ monies for economic development projects in that these statutes authorize the agency, upon prior approval by the affirmative vote of at least eight members of the Board, to make small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341. More specifically, Minnesota Statutes Section 298.296, Subdivision 4 (a-d) provides temporary loan authority for construction and equipping of value-added iron products facilities.

\$6,488,000 of funding for this project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.294) pertaining to expenditures of DJJ monies for economic development projects in that these statutes authorize the agency to make small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341. More specifically, Minnesota Statutes Section 298.296, Subdivision 2 (c) authorizes the agency to expend, upon prior approval by the affirmative vote of at least ten members of the Board, up to 20% of the corpus of the Douglas J. Johnson Economic Protection Trust Fund (the "DJJ Fund"), valued as of the date of May 18, 2002, due to the fact that the project is one that:

- a. is designed to create and maintain productive, permanent, skilled employment, including employment in technologically innovative businesses; and,
- b. encourages diversification of the economy of the Taconite Assistance Area and promotes the development of minerals.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 6th DAY OF SEPTEMBER, 2007.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk				
Senator Tom Saxhaug				
Senator Rod Skoe				
Senator Yvonne Prettner Solon				
Senator Dave Tomassoni				
Representative Tom Anzelc				
Representative Dave Dill				
Representative Tom Rukavina				
Representative Tony Sertich				
Representative Loren Solberg				
Citizen Joe Begich				
Citizen Shelley Robinson				
Citizen Jack Ryan				
TOTAL				

Signed: _____
 Representative David Dill, Chair