

operation of the Peter Mitchell Mine and primary crushing operations at Babbitt, Minnesota (the "Mine"), the E.W. Davis Works, a taconite processing plant and load-out facility at Silver Bay, Minnesota and a tailing disposal facility ("Milepost 7") inland from Silver Bay (collectively, the "Facilities"). A legal description and a map of Milepost 7 are attached hereto as Exhibits A and B. As used herein, Milepost 7 shall include all land and Facilities within the area described in Exhibits A and B.

- C. Permits. Reserve has been issued a number of environmental permits, licenses and approvals to conduct its taconite mining, processing and tailings disposal operations. The Reserve permits are listed on Exhibit C attached hereto and include any other environmental permits not listed but which are related to the operation of the Facilities (the "Permits"). Operation of the Facilities has been the subject of extensive state and federal judicial and state administrative proceedings. The Milepost 7 Permits were issued by the MPCA and DNR subject to the conditions which were accepted by Reserve, Armco and LTV Steel, including conditions related to the operation and closure of Milepost 7. Armco and First Taconite are co-permittees with Reserve and LTV Steel Company or Republic Reserve, Inc. on some of the MPCA and DNR Permits, including

Milepost 7 Permits, and therefore have certain rights and obligations with respect to the Permits' terms and conditions.

- D. Bankruptcy Proceedings. On July 17, 1986, LTV and its wholly-owned subsidiary, Republic Reserve, filed a voluntary petition for reorganization pursuant to 11 U.S.C. §1101 in the United States Bankruptcy Court for the Southern District of New York, Case Nos. 86 B 11273 and 86 B 11323, respectively. On August 7, 1986, First Taconite on behalf of Reserve, and on August 12, 1986, First Taconite, filed voluntary petitions for reorganization pursuant to 11 U.S.C. §1101 in the United States Bankruptcy Court for the Southern District of New York, Case Nos. 86 B 11506 and 86 B 11535, respectively. On August 13, 1986, the Reserve Trustee was appointed who is authorized to act for and on behalf of Reserve. As a result of these bankruptcy proceedings, Reserve's operations were suspended.
- E. Milepost 7 Closure Studies. Following suspension of Reserve's operations, a "Summary Report, Closure Alternatives Milepost 7 Tailings Basin, December 1987" was prepared for Reserve, which detailed four alternative closure schemes for Milepost 7, assuming no resumption of

mining operations. That Summary Report is incorporated herein by reference.

A "Tailings Basin Closure Consensus Plan for Reserve Mining Company" dated August 16, 1988 ("Consensus Plan") was prepared for Reserve, which is incorporated herein by reference. The Consensus Plan provides for the closure of Milepost 7 while operating the Facilities. Under the Consensus Plan, Milepost 7 can be closed within two years following the production of 15,000,000 tons of taconite pellets by the Facilities. (As used herein, a ton shall mean a long ton or gross ton and shall equal 2,240 pounds avoirdupois.)

F. Cyprus Purchase of the Facilities. On March 14, 1989, Cyprus offered to purchase the assets of Reserve, except the delta and Milepost 7, which offer was accepted by the Reserve Trustee. On April 21, 1989, a Purchase Agreement ("the Purchase Agreement") was entered into between Cyprus and the Reserve Trustee under which Cyprus and the Reserve Trustee reached a definitive agreement regarding the sale of these assets to Cyprus, the lease of Milepost 7 by the Reserve Trustee to Cyprus (the "Lease"), and the transfer of title to the delta by the Reserve Trustee to the State of Minnesota to be leased back to Cyprus. That Purchase

Agreement is conditioned upon a satisfactory agreement regarding the Permits, including closure of Milepost 7. At a hearing on June 12, 1989, the Bankruptcy Court approved Cyprus' bid as amended at the hearing for the purchase of the assets of Reserve.

G. Permit Transfer and Modifications. The parties hereto agree to the transfer of the Permits for the operation of the Facilities to Cyprus as the new owner and/or operator of the Facilities. The parties hereto also recognize that some of the Permits must be modified to incorporate the Consensus Plan and may require further modifications during the Operations Period. The parties hereto agree that the respective obligations of Cyprus and Armco for closure of Milepost 7 as set forth herein shall be identified in the MPCA and DNR Permits for Milepost 7 by reference to this Stipulation Agreement.

H. Operations by Cyprus. With the Facilities, Cyprus intends to conduct taconite mining, processing and tailings disposal operations in Minnesota in accordance with this Stipulation Agreement from the date the Permits are transferred to it and Milepost 7 is closed under the Permits as modified by the Consensus Plan, or Cyprus receives a modification of the Permits allowing continued

operations beyond the production of 15,000,000 tons of pellets, or Cyprus, in its sole discretion, permanently terminates operations of the Facilities, whichever first occurs (the "Operations Period"). During the Operations Period, Cyprus will evaluate whether operation of the Facilities should be continued beyond 15,000,000 tons of pellet production and whether it will undertake such longer-term operation. During the Operations Period, Cyprus is willing to have the Permits transferred to it and to operate the Facilities in a manner consistent with the Permits and the Consensus Plan, but is not willing to assume liability for the closure and perpetual maintenance of Milepost 7 unless and until Cyprus receives a modification of the Permits in order to continue operations beyond the production of 15,000,000 tons of pellets or until Armco Steel Company, L.P. has purchased 7,500,000 tons of pellets from Cyprus. Cyprus is not willing to assume liability for the reclamation of all areas other than Milepost 7 not used or disturbed by Cyprus. When Armco Steel Company, L.P. purchases 7,500,000 tons of pellets from Cyprus, Cyprus agrees to assume the closure and perpetual maintenance obligations for Milepost 7. If Cyprus chooses to operate the Facilities beyond 15,000,000 tons of pellet production, it has agreed to purchase

Milepost 7 and assume the closure and perpetual maintenance obligations associated with Milepost 7.

I. Intent of the Parties/Resumption of Operations. The parties recognize that resumption of taconite mining will benefit the people of the State of Minnesota and that, in order to resume taconite mining and processing operations, it is necessary to agree on terms under which the Permits for Reserve will be transferred to Cyprus, to provide for modification of the Permits to require operation of the Facilities in accordance with the Consensus Plan and to specify the obligations of the parties hereto for the closure and perpetual maintenance of Milepost 7.

STIPULATION

NOW THEREFORE, in consideration of the foregoing and to ensure proper conduct of the operations by Cyprus during the Operations Period, to delineate the parties' respective obligations during the Operations Period, and to facilitate the sale and lease of the Facilities to Cyprus as contemplated by the Purchase Agreement, the parties hereto stipulate and agree as follows:

1. Transfer of the Permits; Termination of Permit

Obligations. The MPCA and DNR Permits for the Facilities shall be amended as appropriate and transferred to Cyprus in accordance with state law and procedure. Cyprus shall additionally request of the appropriate agencies transfer of all other Permits. Armco and First Taconite shall cooperate in the transfer of all the Permits to Cyprus. With transfer of the MPCA and DNR Permits to Cyprus, the obligations of Reserve, Armco and First Taconite under the MPCA and DNR Permits shall terminate and the only obligations of those parties with respect to the Facilities and the Permits shall be those specified or referenced in this Stipulation Agreement.

2. Modification of the Permits. The MPCA and DNR permits for Milepost 7 shall be modified to require operation of Milepost 7 in compliance with the Consensus Plan during the Operations Period. Cyprus further agrees to request modification of all other Milepost 7 Permits and to make application for any new permits so as to require operation of the Facilities in compliance with the Consensus Plan during the Operations Period. The MPCA and DNR Permits shall also identify the respective obligations of Cyprus and Armco for closure of Milepost 7 by reference to this Stipulation Agreement. Following transfer of the Permits

to Cyprus, the Permits may be modified pursuant to state law and procedure, provided however, such modifications shall not affect the terms and conditions of this Stipulation Agreement, including but not limited to, obligations with respect to closure and perpetual maintenance of Milepost 7. Cyprus, MPCA and DNR shall give notice to Reserve and Armco in accordance with the provisions of this Stipulation Agreement of any modifications requested by Cyprus or proposed by the MPCA and DNR with respect to the MPCA and DNR Permits during the Operations Period. Reserve and Armco may participate in the MPCA and DNR process regarding approval of any modification of the MPCA and DNR Permits during the Operations Period.

3. Facilities Operations. Notwithstanding the terms of the Lease between the Reserve Trustee and Cyprus, during the Operations Period, Cyprus agrees to use Milepost 7 for the purpose of disposal of tailings generated by the mining and processing of ore from the Facilities and the disposal of other materials as specified in the Permits. During the Operations Period, Cyprus further agrees to operate Milepost 7 in accordance with reasonable operating standards.

4. Operation in Compliance with Permits, Plan and Agreement; Indemnification. During the Operations Period, Cyprus agrees to operate the Facilities in full compliance with the Permits, as modified by the Consensus Plan and this Stipulation Agreement. Cyprus agrees to fully and completely indemnify the Reserve Trustee, Reserve, Armco and First Taconite from and against any and all liabilities, demands, penalties, claims, actions, suits, judgments, proceedings, expenses, including without limitation, attorney, consultant and expert fees, paid, incurred or asserted against them relating to or resulting from Cyprus' failure to operate the Facilities in accordance with the Permits, the Consensus Plan and this Stipulation Agreement, including but not limited to additional costs and expenses necessary to close and perpetually maintain Milepost 7.
5. Closure of Milepost 7. The Facilities shall be operated in accordance with the Permits as modified by the Consensus Plan during the Operations Period. If operation of the Facilities ceases before the production of 15,000,000 tons of taconite pellets, the parties agree that the closure and long-term maintenance of Milepost 7 shall be accomplished within a reasonable time by the draw down of the water level of Milepost 7 by 20 feet as described in alternative

3 of the "Summary Report, Closure Alternatives Milepost 7 Tailings Basin, December 1987" and consistent with relevant filtration requirements of the Consensus Plan, applicable terms and conditions of Permits issued to Cyprus and other applicable state laws and procedures.

6. Funding of Closure Obligations. Upon execution of this Stipulation Agreement, the State shall pay into a trust account Nineteen Million and no/100 Dollars (\$19,000,000) of funds received from LTV Steel pursuant to a settlement agreement between the State, LTV, Republic Reserve, Armco, First Taconite and Reserve. The trust account shall be an interest bearing account which shall be administered in accordance with the terms of this Stipulation Agreement and the escrow agreement attached hereto as Exhibit D. If Cyprus produces taconite pellets from the Facilities and so long as Cyprus continues to operate the Facilities, LTV shall be entitled to repayment from the trust account in accordance with the following schedule:

Time of Payment - Later of

<u>Amount of Payment</u>	<u>Cumulative Pellet Production</u>	<u>Date</u>
\$4 million	5.0 million tons	April 1, 1991
\$3 million	7.5 million tons	February 1, 1992

\$3 million	10.0 million tons	December 1, 1992
\$3 million	12.5 million tons	October 1, 1993
\$7 million	15.0 million tons	August 1, 1994

If Cyprus, in its sole discretion, permanently terminates all operations of the Facilities prior to the production of 15,000,000 tons of pellets, LTV shall be entitled to no further payments in accordance with the above schedule. Notwithstanding the foregoing, in the event operations are discontinued at the Facilities subsequent to the time a Cumulative Pellet Production milestone is reached but prior to the corresponding date for payment, such payment shall nevertheless be made to LTV on such payment date.

If Cyprus, in its sole discretion, permanently terminates all operations of the Facilities prior to the production of 15,000,000 tons of pellets, and before Armco Steel Company, L.P. has purchased (buyer takes delivery F.O.B. rail of vessel, Silver Bay, Minnesota) 7,500,000 tons of pellets, then Armco shall be solely responsible for closure and perpetual maintenance of Milepost 7 and shall receive all funds in the trust account, less any payments made to LTV under the schedule set forth herein, for the costs of closure and perpetual maintenance of Milepost 7 and Cyprus shall have no further obligation for Milepost 7 under this Stipulation Agreement. If Cyprus, in its sole discretion,

permanently terminates all operations of the Facilities prior to the production of 15,000,000 tons of pellets, and after Armco Steel Company, L.P. has purchased (buyer takes delivery F.O.B. rail or vessel, Silver Bay, Minnesota) 7,500,000 tons of pellets, then Cyprus shall be solely responsible for closure and perpetual maintenance of Milepost 7 and shall receive all funds in the trust account, less any payments made to LTV under the schedule set forth herein, for the costs of closure and perpetual maintenance, and Armco shall have no further obligations under this Stipulation Agreement. If Cyprus produces 15,000,000 tons of pellets and closes Milepost 7 in accordance with the Permits as modified by the Consensus Plan, Cyprus shall receive all funds in the trust account less payments made to LTV. If Cyprus at any time determines to continue operations beyond 15,000,000 tons of pellet production, upon Cyprus' receipt of modified Permits from the MPCA and DNR to continue production beyond 15,000,000 tons, and after all payments owing LTV in accordance with the schedule set forth herein have been made, the funds remaining in the trust account shall be distributed to the State and Cyprus as follows:

(a) The State shall retain \$2,000,000 in the trust account for use as the agencies deem reasonable and necessary in

connection with monitoring, investigations, special studies, reclamation, or any other activities associated with the Facilities, provided however that Cyprus shall be entitled to reimbursement of up to \$1,000,000 from the trust account for reclamation activities performed by it relating to past operations of Reserve (which it otherwise does not agree to perform) on a basis to be negotiated in good faith with the DNR, and Cyprus shall be entitled to reimbursement of up to \$1,000,000 from the trust account for costs of funding MPCA monitoring and analytical studies under such modified Permits, on a basis to be negotiated in good faith with the MPCA.

(b) All other funds in the trust account shall be paid to Cyprus.

7. Funding of Reserve Trustee's Administrative and Operating Expenses. Up to Two Million and no/100 Dollars (\$2,000,000) of the above referenced Nineteen Million and no/100 Dollars (\$19,000,000) trust account shall be directly available to the Reserve Trustee by wire transfer for interim (prior to the assumption by Armco or Cyprus of closure responsibilities) Milepost 7 administrative and operating expenses in the event operations of the Facilities do not resume or Cyprus gives notice to the

parties hereto that it will cease operations and terminate the Lease of Milepost 7 and provided that the interim administration and operation of Milepost 7 is not undertaken by Armco or Cyprus. In the event the Reserve Trustee has not been required to assume the interim administration and operation of Milepost 7 and the responsibility for said interim administration and operation is undertaken by Armco or Cyprus in conjunction with closure of Milepost 7, then all amounts in the trust account made available to the Reserve Trustee shall be distributed to that party undertaking interim administration, operation and closure of Milepost 7.

8. Closure Obligations. During the Operations Period, Cyprus reserves the right, in its sole discretion, to completely and finally terminate all operations of the Facilities or to request a modification of the Consensus Plan in order to continue operations of the Facilities beyond the 15,000,000 tons of pellet production required to close Milepost 7 under the Consensus Plan. Subject to the provisions of paragraph 4, until Armco Steel Company, L.P. purchases (buyer takes delivery F.O.B. rail of vessel, Silver Bay, Minnesota) 7,500,000 tons of taconite pellets from Cyprus pursuant to a pellet contract between Armco Steel Company, L.P. and Cyprus, or until Cyprus receives approval of a

modification of the Consensus Plan allowing continued operations of the Facilities beyond 15,000,000 tons of pellet production, Armco shall be solely responsible for closure and perpetual maintenance of Milepost 7 in accordance with the terms and conditions of this Stipulation Agreement. Thereafter, Cyprus shall be solely responsible for closure and perpetual maintenance of Milepost 7 in accordance with the Permits and the terms and conditions of this Stipulation Agreement.

9. Reclamation. Except as otherwise provided herein, Cyprus shall be responsible for reclamation requirements resulting from the mining, processing and disposal operations associated with the Facilities from the date the Permits are transferred to it, provided however, that Cyprus is responsible only for reclamation of areas used and disturbed by it. Reserve, Armco and First Taconite are hereby released from any reclamation obligations associated with the Facilities, save and except these obligations for closure and perpetual maintenance of Milepost 7 set forth in this Stipulation Agreement.

10. Proceeds of Sale. The State shall take no action of any kind whatsoever to impound, escrow, or otherwise set aside any of the purchase price or the tax credit described in

the Purchase Agreement for closure and perpetual maintenance of Milepost 7.

11. State Release of Claims Against Reserve Estate and Trustee, Indenture Trustee and Bondholders. The State and/or its agencies hereby forever release and discharge the Reserve Trustee, the Reserve Estate, the Reserve Bondholders and the Indenture Trustee from all liabilities, claims, obligations and litigations arising out of or related to the operations of Reserve, which the state and/or its agencies ever had, now have, or may hereafter have whenever such claims, liabilities, obligations and litigations arise or may have arisen or accrued, including but not limited to all claims arising out of or related to all permits, licenses, leases, contracts, and other authorizations issued to Reserve or its predecessors in interest by the State or its agencies. This release shall expressly extend to and include without exception all claims, liabilities, obligations and litigations which may arise on behalf of the State and/or its agencies against the Trustee, the Reserve Estate, the Indenture Trustee and the Bondholders as a result of the Trustee's continuation as the fee owner of Milepost 7, the necessity for the Trustee to resume operating responsibility for Milepost 7 for any reason and any actual operation of Milepost 7 by the Trustee. As used

herein, the Indenture Trustee means LaSalle National Bank as Indenture Trustee for the Reserve Mining Company First Mortgage Bonds issued pursuant to an Indenture dated as of December 1, 1952 as Amended and Supplemented. All parties hereto agree that any release granted by the State and/or its agencies in this Paragraph 11 does not constitute a waiver of any right of action or claim of any amount against any other party not receiving such release unless such waiver or release is specifically provided for in this Stipulation Agreement or elsewhere, including the Settlement Agreement between Reserve, LTV Steel, Republic-Reserve, Inc., Armco, First Taconite and the State of Minnesota.

12. Amendment and Waiver. This Stipulation Agreement may be amended, and any provision of this Agreement may be waived, provided that any such amendment or waiver will be binding only if such amendment or waiver is set forth in a writing and executed by all the parties hereto.

13. Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Stipulation Agreement will be in writing and will be deemed to have been given when mailed by first class mail, return receipt requested, Federal Express or Express

Mail. Notices, demands and communications to the parties will, unless another address is specified in writing, be sent to the addresses indicated below:

STATE: Minnesota Attorney General
102 State Capitol
St. Paul, Minnesota 55112

MPCA: Commissioner
Minnesota Pollution Control Agency
520 Lafayette Road
St. Paul, Minnesota 55155

DNR: Commissioner
Minnesota Department of Natural Resources
500 Lafayette Road
St. Paul, Minnesota 55155

RESERVE: Bruce D. Scherling
Scherling, Davidson & Rech
6 East 45th Street
New York, New York 10017

ARMCO: Gary R. Hildreth
Assistant General Counsel
Armco Inc.
300 Interpace Parkway
Parsippany, New Jersey 07054

FIRST
TACONITE: First Taconite Company
Legal Department
680 Curtis Street
Middletown, Ohio 45043

CYPRUS: Cyprus Northshore Mining Corporation
Attn: General Counsel
P.O. Box 3299
Englewood, Colorado 80155

14. Assignment. This Stipulation Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this

Stipulation Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party without the written consent of all other parties hereto.

15. Severability. Whenever possible, each provision of this Stipulation Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Stipulation Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Stipulation Agreement.

16. No Strict Construction. The language used in this Stipulation Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any person.

Date: August 17, 1989

STATE OF MINNESOTA

By John H. Turkheim, CHIEF DEPUTY
Attorney General

MINNESOTA POLLUTION CONTROL AGENCY

By *Daniel D. Foley*
Daniel D. Foley, M.D.
Chair, Minnesota Pollution
Control Agency Board

By *Gerald L. Willet*
Gerald L. Willet,
Commissioner

MINNESOTA DEPARTMENT OF NATURAL
RESOURCES

By *Joseph Alexander*
Joseph Alexander,
Commissioner

RESERVE MINING COMPANY

By *Bruce D. Scherling*
Bruce D. Scherling
Trustee-in-Bankruptcy

ARMCO INC.

By *Robert W. Kent*

FIRST TACONITE COMPANY, INC.

By *Sam R. Hildreth*

CYPRUS MINERALS COMPANY

By 

CYPRUS NORTHSHORE MINING CORPORATION

By 