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LAW OFFICES  
FRUITT, GUSHEE & FLETCHER

SUITE 1650 BENEFICIAL LIFE TOWER

SALT LAKE CITY, UTAH 84111

(801) 531-8446

ROBERT G. PRUITT, JR.  
OLIVER W. GUSHEE, JR.  
F. ALAN FLETCHER  
ROBERT G. PRUITT, III  
THOMAS W. BACHTTELL  
FREDERICK M. MACDONALD

TELECOPIER (801) 531-8468

OF COUNSEL  
JAMES F. SHEPHERD

Mine file

ACT/007/001#

Bonding?

November 3, 1986

Mr. L. P. Braxton, Administrator  
Mineral Resource Development and  
Reclamation Program  
Division of Oil Gas and Mining  
Department of Natural Resources  
State of Utah  
355 West North Temple  
#3 Triad Center, Suite 350  
Salt Lake City, Utah 84180-1203

RECEIVED  
NOV 03 1986

DIVISION OF  
OIL, GAS & MINING

Re: United States Fuel Company,  
Hiawatha Complex,  
ACT/007/001, Carbon County,  
Utah

Dear Mr. Braxton:

Reference is made to your letter of August 5, 1986, in which you informed United States Fuel Company ("U.S. Fuel") that the total reclamation bond to be posted for U.S. Fuel's Hiawatha Mine Complex operation is \$3,779,000 and instructed U.S. Fuel to post the bond within 45 days. In response to my letter of August 29, 1986, to the Director of the Division of Oil, Gas & Mining on behalf of U.S. Fuel, an additional 45 days was granted to comply with the requirement.

U.S. Fuel presently has posted with the Division of Oil, Gas & Mining, Reclamation Bond No. K01733369, dated April 8, 1983 in the amount of \$1,450,000 issued on behalf of U.S. Fuel by Insurance Company of North America, as surety. The balance of the bonding requirement (\$2,329,000) is to be covered by a self bond in compliance with 43 C.F.R. 800.23 and Division of Oil, Gas and Mining Final Rule adopted June 20, 1985 part UMC 800.23 "self bonding".

For your information, U.S. Fuel presently has two long term coal supply agreements in effect:

1. A contract to supply a minimum of 350,000 tons per year to Nevada Power through 1994; and

2. A contract to supply Intermountain Power Agency a minimum of 135,000 tons and a maximum of 165,000 tons through

Mr. L. P. Braxton, Administrator  
October 31, 1986  
Page 2

1986; a minimum of 350,000 tons and a maximum of 385,000 tons during 1987; a minimum of 270,000 tons and a maximum of 330,000 tons during 1988; and a decrease in the minimum and maximum amounts to be delivered to 108,000 and 132,000 tons per year, respectively, in 1989 and through the duration of the contract in the year 2010.

Both of the contracts are at favorable prices to U.S. Fuel.

Enclosed are the following items, each in triplicate:

1. Form of Stipulation to Change Bond Amount executed on behalf of U.S. Fuel on October 29, 1986 to which are attached a copy of the existing surety bond K01733369 dated April 8, 1983, as Exhibit "A" and Self Bonding and Indemnity Agreement dated October 29, 1986, as Exhibit "B". Please note that the stipulation and the copy attached as Exhibit "B", Self Bonding and Indemnity Agreement, have only been executed by U.S. Fuel.

2. Form of Self Bonding and Indemnity Agreement dated October 29, 1986 executed on behalf of U.S. Fuel by the two corporate officers named therein.

3. Certificate of Resolutions dated October 29, 1986 designating the corporate officers authorized to execute the Self Bonding and Indemnity Agreement and other necessary documents.

4. Financial Statements for the year ending December 31, 1985, together with Accountants' Review Report, by Arthur Anderson & Company, dated October 17, 1986.

5. U.S. Fuel and subsidiary Financial Statements dated March 31, 1986, for the completed calendar quarter January 1-March 31, 1986.

6. U.S. Fuel and subsidiary Financial Statements dated June 30, 1986, for the completed calendar quarter April 1-June 30, 1986.

7. Completed Division of Oil, Gas & Mining form of Self Bonding Qualification Sheet reflecting the satisfaction of the criteria for self bonding described in part UMC 800.23B and 43 C.F.R. 800.23(b).

The enclosed items are filed to satisfy the bond requirement for issuance of the Mining and Reclamation Permit for the Hiawatha Mine Complex. Following execution by the Division of Oil, Gas and Mining on behalf of the State of Utah and the United States of the Stipulation to Change Bond Amount and the

Mr. L. P. Braxton, Administrator  
October 31, 1986  
Page 3

Self Bonding and Indemnity Agreement please return copies of those items for my file. Also, please furnish a copy of the document of approval of issuance of the Permit.

Very truly yours,

  
O. W. Gushee, Jr.

OWG:dc

cc: Alan Bell  
Jim Newcomb  
Errol Gardiner

FROM BUREAU OF LAND MANAGEMENT  
DATE 11/14/86 14:49 P. 4

**FEDERAL**  
Bond Number K01733369  
Permit Number ACT/007/011

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL GAS AND MINING  
355 West North Temple  
3 Triad Center, Suite 350  
Salt Lake City, Utah 84180-1203  
(801) 538-5340

**STIPULATION TO CHANGE BOND AMOUNT  
(OSM-co-obligee)**

STIPULATION attached to and forming part of Permit Number ACT/007/011, Hiawatha Complex, Carbon County, Utah.

By notice of August 5, 1986, the Division of Oil, Gas & Mining, State of Utah, informed United States Fuel Company that its total reclamation bond to be posted for the Hiawatha Mine Complex in respect to the Mining and Reclamation Permit issued to United States Fuel Company is \$3,779,000. By letter of August 7, 1986 addressed to the Division of Oil, Gas & Mining, State of Utah, the office of Surface Mining, United States Department of the Interior, concurred with the bond amount determination.

United States Fuel Company and the Division of Oil, Gas & Mining, Department of Natural Resources, State of Utah, hereby stipulate and agree that the reclamation bond in the total amount to be posted for the Hiawatha Complex operation of \$3,779,000.00 is complied with as follows:

1. Bond No. K01733369, issued on behalf of United States Fuel Company (principal) with an effective bond date of April 8, 1983, by Insurance Company of North America, as surety, in

the amount of \$1,450,000, copy of which is attached as Exhibit "A"; and

2. Self Bond in the amount of \$2,329,000 as provided in that certain Self Bonding and Indemnity Agreement dated October 29, 1986, copy of which is attached as Exhibit "B" to this Stipulation.

United States Fuel Company and the State of Utah, acting on its behalf and the United States of America, do hereby execute the foregoing stipulation.

UNITED STATES FUEL COMPANY

Date: October 29, 1986

By: [Signature] *Senior Vice President*  
Corporate Officer - Position

Date: October 29, 1986

By: [Signature] *Secretary*  
Corporate Officer - Position

STATE OF UTAH, Department of  
Natural Resources, Division of  
Oil, Gas & Mining

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Diane R. Nielsen

MR FORM 5

(Revised January 1983)

STATE OF UTAH  
 DEPARTMENT OF NATURAL RESOURCES AND ENERGY  
 DIVISION OF OIL, GAS AND MINING  
 4241 State Office Building  
 Salt Lake City, Utah 84114

## THE MINED LANDS RECLAMATION ACT

BOND  
 \*\*\*\*\*

The undersigned U.S. FUEL COMPANY  
 as principal, and INSURANCE COMPANY OF NORTH AMERICA as  
 surety, hereby jointly and severally bind ourselves, our heirs, administrators,  
 executors, successors and assigns unto the State of Utah, Division of Oil, Gas  
 and Mining, and the U. S. Department of the Interior, Office of Surface Mining  
 in the penal sum of ONE MILLION FOUR HUNDRED FIFTY THOUSAND  
 dollars (\$ 1,450,000). Such sum shall be payable to  
 one, but not both, of the above-named agencies.

The principal estimated in a "Notice of Intention to Commence Mining  
 Operations and a Mining and Reclamation Plan," filed with the Division of Oil,  
 Gas and Mining on the 8TH day of APRIL,  
 19 83, that 290 acres of land will be affected by this mining  
 operation in the State of Utah. A description of the affected land is attached  
 hereto as Exhibit "A."

If the principal shall satisfactorily reclaim the above-mentioned lands  
 affected by mining by the said principal in accordance with the Mining and  
 Reclamation Plan and shall faithfully perform all requirements of the Mined  
 Land Reclamation Act, and comply with the Rules and Regulations adopted in  
 accordance therewith, then this obligation shall be void; otherwise it shall  
 remain in full force and effect until the reclamation is completed as outlined  
 in the approved Mining and Reclamation Plan.

If the approved plan provides for reclamation of the land affected on a  
 piecemeal or cyclic basis, and the land is reclaimed in accordance with such  
 plan, then this bond may be reduced periodically.

In the converse, if the plan provides for a gradual increase in the area  
 of the land affected or increased reclamation work, then this bond may  
 accordingly be increased with the written approval of the surety company.

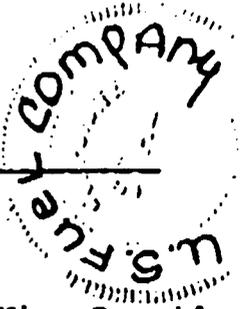
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 APR 10 1983

DIVISION OF  
 OIL, GAS & MINING

MR FORM 5  
Page Two

NOTE: Where one signs by virtue of Power of Attorney for a surety company, such Power of Attorney must be filed with this bond. If the principal is a corporation, the bond shall be executed by its duly authorized officers with the seal of the corporation affixed.

U.S. FUEL COMPANY  
Principal (Company)



By [Signature] Sr. Vice President  
Company Official - Position

Date: April 8, 1983

INSURANCE COMPANY OF NORTH AMERICA  
Surety (Company)

By Kathleen A Black  
Official of Surety - Position  
KATHLEEN A. BLACK, ATTORNEY-IN-FACT

DATE: April 5, 1983

# POWER OF ATTORNEY

## INSURANCE COMPANY OF NORTH AMERICA

PHILADELPHIA, PA.

589558

**Know all men by these presents:** That INSURANCE COMPANY OF NORTH AMERICA, a corporation of the Commonwealth of Pennsylvania, having its principal office in the City of Philadelphia, Pennsylvania, pursuant to the following Resolution adopted by the Board of Directors of the said Company on May 28, 1975, to wit:

"RESOLVED, pursuant to Articles 3.6 and 5.1 of the By-Laws, the following Rules shall govern the execution for the Company of bonds, undertakings, recognizances, contracts and other writings in the nature thereof:

- (1) That the President, or any Vice-President, Assistant Vice-President, Resident Vice-President or Attorney-in-Fact, may execute for and in behalf of the Company any and all bonds, undertakings, recognizances, contracts and other writings in the nature thereof, the same to be attested when necessary by the Secretary, an Assistant Secretary or a Resident Assistant Secretary and the seal of the Company affixed thereto; and that the President or any Vice-President may appoint and authorize Resident Vice-Presidents, Resident Assistant Secretaries and Attorneys-in-Fact to so execute or attest to the execution of all such writings on behalf of the Company and to affix the seal of the Company thereto.
- (2) Any such writing executed in accordance with these Rules shall be as binding upon the Company in any case as though signed by the President and attested by the Secretary.
- (3) The signature of the President or a Vice-President and the seal of the Company may be affixed by facsimile on any power of attorney granted pursuant to this Resolution, and the signature of a certifying officer and the seal of the Company may be affixed by facsimile on any certificate of any such power, and any such power or certificate bearing such facsimile signature and seal shall be valid and binding on the Company.
- (4) Such Resident Officers and Attorneys-in-Fact shall have authority to certify or verify copies of this Resolution, the By-Laws of the Company and any affidavit or record of the Company necessary to the discharge of their duties.
- (5) The passage of this Resolution does not revoke any earlier authority granted by Resolution of the Board of Directors on June 9, 1953."

does hereby nominate, constitute and appoint **LARRY R. MILES, RANDY L. LEININGER, KATHLEEN A. BLACK, SUE ANN CURRAN, DAVID L. DOUGLASS, JOHN E. ROGAN, and ROBERT L. DONNELLY,** all of the City of Pittsburgh, State of Pennsylvania -----

each individually if there be more than one named, its true and lawful attorney-in-fact, to make, execute, seal and deliver on its behalf, and as its act and deed any and all bonds, undertakings, recognizances, contracts and other writings in the nature thereof. And the execution of such writings in pursuance of these presents, shall be as binding upon said Company, as fully and amply as if they had been duly executed and acknowledged by the regularly elected officers of the Company at its principal office.

IN WITNESS WHEREOF, the said **MICHAEL B. PODOR** Vice-President, has hereunto subscribed his name and affixed the corporate seal of the said INSURANCE COMPANY OF NORTH AMERICA this **4th** day of **February** 19**83**



(SEAL)

INSURANCE COMPANY OF NORTH AMERICA  
*Michael B. Podor*  
**MICHAEL B. PODOR** Vice-President

STATE OF **PENNSYLVANIA**  
COUNTY OF **PHILADELPHIA**

} ss.

On this **4th** day of **February** A. D. 19**83**, before me, a Notary Public of the **COMMONWEALTH OF PA.** in and for the County of **PHILADELPHIA** came **MICHAEL B. PODOR** Vice-President of the INSURANCE COMPANY OF NORTH AMERICA to me personally known to be the individual and officer who executed the preceding instrument, and he acknowledged that he executed the same; that the seal affixed to the preceding instrument is the corporate seal of said Company; that the said corporate seal and his signature were duly affixed by the authority and direction of the said corporation, and that Resolution, adopted by the Board of Directors of said Company, referred to in the preceding instrument, is now in force.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of **PHILADELPHIA** the day and year first above written.

**LETTIA H. CLARK**  
Notary Public Phila. Phila County  
My Commission Expires August 22, 1983

*Letitia H. Clark*  
**LETTIA H. CLARK** Notary Public

(SEAL)

My commission expires

I, the undersigned, **AMERICAN** Secretary of INSURANCE COMPANY OF NORTH AMERICA, do hereby certify that the original POWER OF ATTORNEY, of which the foregoing is a full, true and correct copy, is in full force and effect. In witness whereof, I have hereunto subscribed my name as **AMERICAN** Secretary, and affixed the corporate seal of the Corporation, this **5th** day of **April** 19**83**

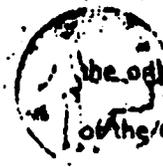


EXHIBIT "B"

(February 1986)

FEDERAL  
COAL

State of Utah  
Department of Natural Resources  
Division of Oil, Gas and Mining  
3 Triad Center, Suite 350  
355 West North Temple  
Salt Lake City, Utah 84180-1203  
(801) 538-5340

SELF BONDING AND INDEMNITY AGREEMENT

This Self Bonding and Indemnity Agreement (hereinafter referred to as "Agreement") entered into by UNITED STATES FUEL COMPANY and the state of Utah, Department of Natural Resources, Division of Oil, Gas and Mining (hereinafter referred to as "Division") and the U. S. Department of the Interior, Office of Surface Mining (hereinafter referred to as "OSM").

WITNESSETH

WHEREAS, United States Fuel Company has obtained Permanent Program Permit No. ACT/007/001 (hereinafter referred to as "Permit") from the Division to operate the Hiawatha Mine Complex in Carbon County, Utah as a(n) \_\_\_\_\_ coal mine under the Utah Coal Mining and Reclamation Act, Utah Code Annotated 40-10-1, et seq, 1953, as amended ("Act") and implementing regulations; on the premises specifically described in EXHIBIT A; and

WHEREAS, United States Fuel Company wishes to obtain a <sup>supplemental</sup> bond to a previously posted corporate surety bond to operate ~~now~~ its Hiawatha coal mine under Permit No. ACT/007/001 under Self Bonding Rule UMC 800.23; and

WHEREAS, United States Fuel Company, in compliance with UMC 800.23(B)(1) has designated  
Prentice-Hall Corp. Systems

(Name, Title, Address)

185 South State, Suite 600, Salt Lake City, Utah 84111

as its agent for Service of Process in the state of Utah, and

WHEREAS, United States Fuel Company, in compliance with UMC 800.23(B)(2) has been in continuous operation as a business entity for the last five years; and

WHEREAS, United States Fuel Company meets the financial criteria for self bonding as set forth in UMC 800.23(B)(3); and

WHEREAS, United States Fuel Company has submitted to the Division financial statements which meet the criteria set forth at UMC 800.23(B)(4) accompanied by <sup>a review</sup> ~~an audit~~ opinion prepared by Arthur Andersen & Co. and unaudited financial statements for completed quarters ending March 31, 1986 and June 30, 1986 in the current fiscal year.  
(Accountant's Name)

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, United States Fuel Company does hereby agree to be held and bonds to the Division and OSM for the sum of \$2,329,000 (such sum payable to one, but not both, of the above-named agencies) for the timely performance of

reclamation responsibilities for Hiawatha Mine, <sup>Complex</sup> Permit No. ACT/007/001 in lawful money of the United States. By the submission of this Agreement, United States Fuel Company will and truly binds itself, its successors and assigns, jointly and severally, by these presents.

The conditions of the above obligations are such that:

1. United States Fuel Company shall perform all duties and fulfill all requirements applicable to reclamation as set forth in the Act, the regulations adopted pursuant to the Act and the conditions of the permit to conduct Hiawatha Complex mining and reclamation operations, Permit No. ACT/007/001 issued by the Division.
2. The liability under the Agreement is conditioned upon successful reclamation of the permit area as provided in the reclamation plan for Permit No. ACT/007/001 for a period of time and in the manner specified in the Act, regulations adopted pursuant thereto, and the conditions set forth in Permit No. ACT/007/001 issued by the Division. At no time shall the liability or responsibility of United States Fuel Company hereunder exceed the sum of \$2,329,000. Provided, however, that the Division may adjust the amount of liability hereunder as provided in Section 6 hereof.

3. United States Fuel Company does hereby agree to indemnify and hold the Division harmless from any claim, demand, liability costs, charge or suit brought by a third party, as a result of United States Fuel Company failure to abide by the terms and conditions of the Reclamation Plan as set forth in the mining Permit No. ACT/007/001 and from any failure to comply with the terms of the Self Bond Agreement.
4. The Division shall give United States Fuel Company or its designated agent herein, notice of any claim and any legal proceedings within the scope of the indemnity set forth at Section 3.
5. Upon successful completion of part or all of the obligations secured hereby, United States Fuel Company may petition the Division for a final release of part or all of the obligations under this Agreement. Upon such petition, the Division shall conduct an inspection to ascertain whether the duties and obligations of United States Fuel Company under the Act, regulations adopted pursuant thereto, and mining Permit No. ACT/007/001 have been fulfilled. If such duties and obligations have been fulfilled, the Division shall release United States Fuel Company from

part or all of its obligations under this Agreement and shall file a notice of such release in the property records of \_\_\_\_\_  
Carbon County, Utah.

- 6. This Agreement shall be reviewed periodically by the Division, or reviewed upon petition by United States Fuel Company in accordance with the Act and implementing regulations and the amount of liability under this Agreement may be adjusted by Order of the Board of Oil, Gas and Mining or upon written agreement between United States Fuel Company and the Division if it is determined by the Division that the cost of future reclamation has materially changed.
- 7. This Agreement may be terminated upon 90 days prior written notice to the Division if terminated by United States Fuel Company or upon 90 days prior written notice to United States Fuel Company if terminated by the Division. Upon such written notification, United States Fuel Company will have 90 days as provided by UMC 800.23(g) to obtain an alternate form of bond satisfactory to the Division to secure reclamation obligations for Permit No. ACT/007/001 in the same amount as stated herein and amendments thereto.

Page 6  
FEDERAL COAL

- 8. Failure to provide a satisfactory alternative form of bond will result in the complete cessation of all mining operations and the complete reclamation of all disturbed areas within the Hiawatha Complex Mine permit area.
- 9. Any breach of the provisions of paragraph #8 of this agreement will result in the payment of \$ 2,329,000 (bond amount) liquidated damages to the Division.
- 10. This agreement will be governed and interpreted according to Utah law.

SO AGREED this 29th day of October,  
1986.

COMPANY NAME  
UNITED STATES FUEL COMPANY

October 29, 1986  
Date

By [Signature] Senior Vice President  
Corporate Officer - Position

October 29, 1986  
Date

By [Signature] Secretary  
Corporate Officer - Position  
STATE OF UTAH, Department of Natural  
Resources, Division of Oil, Gas & Mining

\_\_\_\_\_  
Date

By \_\_\_\_\_  
Division Director

APPROVED AS TO FORM:

\_\_\_\_\_  
Assistant Attorney General

STATE OF Florida )  
COUNTY OF Dade ) ss:

On the 29th day of October, 1986, personally appeared before me Jack Coppersmith and Edward A. Christensen who being by me duly sworn did say that he/she, the said Jack Coppersmith is the Senior Vice President of United States Fuel Company and said Edward A. Christensen is the Secretary of United States Fuel Company and said instrument was signed in behalf of said corporation by authority of its bylaws or a resolution of its board of directors and said Jack Coppersmith and Edward A. Christensen duly acknowledged to me that said corporation executed the same.

Deborah M. Palmer  
Notary Public  
Residing at: Miami Beach, Fl.

My Commission Expires:

Notary Public, State of Florida  
My Commission Expires July 12, 1987

BUNDED INTO THE FIRE INSURANCE, INC.



EXHIBIT "A"

Attached to and made a part of Self Bonding and Indemnity Agreement, dated October 29, 1986, Permanent Program Permit No. ACT/007/001.

Description of Premises:

290 acres of surface disturbance area  
as shown in Permit No. ACT/007/001

(February 1986)

FEDERAL  
COAL

State of Utah  
Department of Natural Resources  
Division of Oil, Gas and Mining  
3 Triad Center, Suite 350  
355 West North Temple  
Salt Lake City, Utah 84180-1203  
(801) 538-5340

SELF BONDING AND INDEMNITY AGREEMENT

This Self Bonding and Indemnity Agreement (hereinafter referred to as "Agreement") entered into by UNITED STATES FUEL COMPANY and the state of Utah, Department of Natural Resources, Division of Oil, Gas and Mining (hereinafter referred to as "Division") and the U. S. Department of the Interior, Office of Surface Mining (hereinafter referred to as "OSM").

WITNESSETH

WHEREAS, United States Fuel Company has obtained Permanent Program Permit No. ACT/007/001 (hereinafter referred to as "Permit") from the Division to operate the Hiawatha Mine Complex in Carbon County, Utah as a(n) \_\_\_\_\_ coal mine under the Utah Coal Mining and Reclamation Act, Utah Code Annotated 40-10-1, et seq, 1953, as amended ("Act") and implementing regulations; on the premises specifically described in EXHIBIT A; and

WHEREAS, United States Fuel Company wishes to obtain <sup>supplemental</sup> a bond to a previously posted corporate surety bond to operate ~~its~~ its Hiawatha coal mine under Permit No. ACT/007/001 <sub>complex</sub> under Self Bonding Rule UMC 800.23; and

Page 2  
FEDERAL COAL

WHEREAS, United States Fuel Company, in compliance with UMC 800.23(B)(1) has designated Prentice-Hall Corp. Systems

---

(Name, Title, Address)

185 South State, Suite 600, Salt Lake City, Utah 84111

---

as its agent for Service of Process in the state of Utah, and

WHEREAS, United States Fuel Company, in compliance with UMC 800.23(B)(2) has been in continuous operation as a business entity for the last five years; and

WHEREAS, United States Fuel Company meets the financial criteria for self bonding as set forth in UMC 800.23(B)(3); and

WHEREAS, United States Fuel Company has submitted to the Division financial statements which meet the criteria set forth at UMC 800.23(B)(4) accompanied by ~~an audit~~ <sup>a review</sup> opinion prepared by Arthur Andersen & Co. and unaudited financial statements for completed quarters ending March 31, 1986 and June 30, 1986 in the current fiscal year.  
(Accountant's Name)

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, United States Fuel Company does hereby agree to be held and bonds to the Division and OSM for the sum of \$2,329,000 (such sum payable to one, but not both, of the above-named agencies) for the timely performance of

Page 3  
FEDERAL COAL

reclamation responsibilities for Hiawatha Mine, <sup>Complex</sup> Permit No. ACT/007/001 in lawful money of the United States. By the submission of this Agreement, United States Fuel Company will and truly binds itself, its successors and assigns, jointly and severally, by these presents.

The conditions of the above obligations are such that:

1. United States Fuel Company shall perform all duties and fulfill all requirements applicable to reclamation as set forth in the Act, the regulations adopted pursuant to the Act and the conditions of the permit to conduct Hiawatha Complex mining and reclamation operations, Permit No. ACT/007/001 issued by the Division.
2. The liability under the Agreement is conditioned upon successful reclamation of the permit area as provided in the reclamation plan for Permit No. ACT/007/001 for a period of time and in the manner specified in the Act, regulations adopted pursuant thereto, and the conditions set forth in Permit No. ACT/007/001 issued by the Division. At no time shall the liability or responsibility of United States Fuel Company hereunder exceed the sum of \$2,329,000. Provided, however, that the Division may adjust the amount of liability hereunder as provided in Section 6 hereof.

3. United States Fuel Company does hereby agree to indemnify and hold the Division harmless from any claim, demand, liability costs, charge or suit brought by a third party, as a result of United States Fuel Company failure to abide by the terms and conditions of the Reclamation Plan as set forth in the mining Permit No. ACT/007/001 and from any failure to comply with the terms of the Self Bond Agreement.
4. The Division shall give United States Fuel Company or its designated agent herein, notice of any claim and any legal proceedings within the scope of the indemnity set forth at Section 3.
5. Upon successful completion of part or all of the obligations secured hereby, United States Fuel Company may petition the Division for a final release of part or all of the obligations under this Agreement. Upon such petition, the Division shall conduct an inspection to ascertain whether the duties and obligations of United States Fuel Company under the Act, regulations adopted pursuant thereto, and mining Permit No. ACT/007/001 have been fulfilled. If such duties and obligations have been fulfilled, the Division shall release United States Fuel Company from

Page 5  
FEDERAL COAL

- part or all of its obligations under this Agreement and shall file a notice of such release in the property records of \_\_\_\_\_  
Carbon County, Utah.
6. This Agreement shall be reviewed periodically by the Division, or reviewed upon petition by United States Fuel Company in accordance with the Act and implementing regulations and the amount of liability under this Agreement may be adjusted by Order of the Board of Oil, Gas and Mining or upon written agreement between United States Fuel Company and the Division if it is determined by the Division that the cost of future reclamation has materially changed.
7. This Agreement may be terminated upon 90 days prior written notice to the Division if terminated by United States Fuel Company or upon 90 days prior written notice to United States Fuel Company if terminated by the Division. Upon such written notification, United States Fuel Company will have 90 days as provided by UMC 800.23(g) to obtain an alternate form of bond satisfactory to the Division to secure reclamation obligations for Permit No. ACT/007/001 in the same amount as stated herein and amendments thereto.

Page 6  
FEDERAL COAL

- 8. Failure to provide a satisfactory alternative form of bond will result in the complete cessation of all mining operations and the complete reclamation of all disturbed areas within the Hiawatha Complex Mine permit area.
- 9. Any breach of the provisions of paragraph #8 of this agreement will result in the payment of \$ 2,329,000 (bond amount) liquidated damages to the Division.
- 10. This agreement will be governed and interpreted according to Utah law.

SO AGREED this 29th day of October,

1986.

COMPANY NAME  
UNITED STATES FUEL COMPANY

October 29, 1986  
Date

By [Signature] Senior Vice President  
Corporate Officer - Position

October 29, 1986  
Date

By [Signature] Secretary  
Corporate Officer - Position  
STATE OF UTAH, Department of Natural Resources, Division of Oil, Gas & Mining

\_\_\_\_\_  
Date

By Division Director

APPROVED AS TO FORM:

\_\_\_\_\_  
Assistant Attorney General

Page 7  
FEDERAL COAL

STATE OF Florida )  
COUNTY OF Dade ) ss:

On the 29th day of October, 1986, personally appeared before me Jack Coppusmith and Edward A. Christensen who being by me duly sworn did say that he/she, the said \_\_\_\_\_  
Jack Coppusmith is the Senior Vice President of \_\_\_\_\_  
United States Fuel Company and said Edward A. Christensen is the Secretary of United States Fuel Company and said instrument was signed in behalf of said corporation by authority of its bylaws or a resolution of its board of directors and said Jack Coppusmith and Edward A. Christensen duly acknowledged to me that said corporation executed the same.

Deborah M. Palmer  
Notary Public  
Residing at: Miami Beach, Fl

My Commission Expires:

Notary Public, State of Florida  
My Commission Expires July 12, 1987



EXHIBIT "A"

Attached to and made a part of Self Bonding and Indemnity Agreement, dated October 29, 1986, Permanent Program Permit No. ACT/007/001.

Description of Premises:

290 acres of surface disturbance area  
as shown in Permit No. ACT/007/001

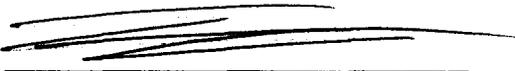
UNITED STATES FUEL COMPANY

CERTIFICATE OF RESOLUTIONS

The undersigned hereby certifies that he is the Secretary of United States Fuel Company, a Nevada Corporation (the "Corporation"), and that annexed hereto as Exhibit "A" is a true and correct copy of resolutions duly adopted by the Board of Directors of the Corporation at a meeting duly held on October 29, 1986 and that such resolutions have not been modified or rescinded and remain in full force and effect on the date hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the seal of the Corporation as of this 29th day of October, 1986.

UNITED STATES FUEL COMPANY

By: 

Edward A. Christensen  
Secretary

RESOLVED: That the company is required to post a Reclamation Bond in connection with its Mining and Reclamation Permit for Operation of its Hiawatha Complex, Carbon County, Utah in the form of an existing surety bond between United States Fuel Company as principal and Insurance Company of North America, as surety, and a Self Bond in the amount of not less than \$2,329,000 by means of a Self Bonding and Indemnity Agreement to be entered into by and between United States Fuel Company and the State of Utah, Department of Natural Resources, Division of Oil, Gas & Mining, and the U.S. Department of the Interior, Office of Surface Mining, which Self Bonding and Indemnity Agreement be and hereby is approved; and be it further

RESOLVED: That the officers of the Company, or any of them, including, without limitation, the following persons:

<u>Name</u>	<u>Title</u>
Jack Coppersmith	Senior Vice President
Edward A. Christensen	Secretary

be and hereby are authorized to execute and deliver all agreements, stipulations, certificates, amendments, instruments and documents and to do all such further acts and things as such officer or officers may approve in connection with the transactions contemplated by the foregoing resolution, the authority of such officer or officers to execute and deliver the same on behalf of the Company and to do such further acts and things to be conclusively evidenced by the execution and delivery thereof by such officer or officers or the taking of any such action.

**UNITED STATES FUEL COMPANY AND SUBSIDIARY**

**FINANCIAL STATEMENTS**

**MARCH 31, 1986**

UNITED STATES FUEL COMPANY AND SUBSIDIARY  
Balance Sheet  
March 31, 1986  
(thousands of dollars)

Unaudited

Assets

Current assets:	
Cash	\$ ( 4)
Short-term investments, at cost	156
Accounts receivable, less allowance for doubtful accounts of \$443	1,293
Inventories	5,240
Prepaid expenses	<u>98</u>
Total current assets	<u>6,783</u>
Properties, at cost	39,875
Less - accumulated depreciation	<u>20,389</u>
Net properties	19,486
Other assets	<u>1,069</u>
Total assets	<u>\$ 27,338</u>

Liabilities and Stock holder's equity

Current liabilities:	
Accounts payable	\$ 2,770
Current portion of capitalized lease obligations	570
Accrued wages and other employee costs	390
Other accrued liabilities	<u>1,782</u>
Total current liabilities	<u>5,512</u>
Capitalized lease obligations	239
Deferred income taxes	450
Due to affiliates	<u>5,747</u>
Total liabilities	<u>11,948</u>
Stockholder's equity:	
Common stock, \$10 par value, 700,000 shares authorized and 640,000 shares issued	6,400
Capital in excess of par	2,927
Retained earnings	<u>6,063</u>
Total stockholder's equity	<u>15,390</u>
Total liabilities and stockholder's equity	<u>\$ 27,338</u>

UNITED STATES FUEL COMPANY AND SUBSIDIARY  
Statement of Income and Retained Earnings  
Three Months Ended March 31, 1986  
(thousands of dollars)

Unaudited

Net sales and operating revenues	<u>\$ 3,761</u>
Cost of goods sold	2,589
Depreciation and depletion	600
Selling, general and administrative expenses	<u>794</u>
	<u>3,983</u>
Loss from operations	( 222)
Other income (expense), net	<u>( 6)</u>
Loss before taxes on income	( 228)
Provision for income taxes	<u>-</u>
Net loss	( 228)
Retained earnings, beginning of period	<u>6,291</u>
Retained earnings, end of period	<u>\$ 6,063</u>

UNITED STATES FUEL COMPANY AND SUBSIDIARY  
Statement of Changes in Financial Position  
Three Months Ended March 31, 1986  
(Thousands of dollars)

Unaudited

FUNDS PROVIDED:

Net Loss	\$ ( 228)
Charges not affecting working capital:	
Depreciation and depletion	<u>600</u>
Total funds provided	<u>372</u>

FUNDS USED:

Additions and improvements to properties	53
Reduction in capitalized lease obligations	<u>396</u>
Total funds used	<u>449</u>

Decrease in working capital	<u>\$ ( 77)</u>
-----------------------------	-----------------

CHANGES IN WORKING CAPITAL:

Increase (decrease) in current assets:	
Cash	\$ ( 601)
Short-term investments	( 34)
Receivables	756
Inventories	1,802
Prepaid expenses	<u>( 149)</u>
	<u>1,774</u>

Decrease (increase) in current liabilities:

Leases payable - current	-
Accounts payable	719
Accrued wages and other employee costs	( 109)
Other accrued liabilities	<u>1,241</u>
	<u>1,851</u>

Decrease in working capital	<u>\$ ( 77)</u>
-----------------------------	-----------------

**UNITED STATES FUEL COMPANY AND SUBSIDIARY**

**FINANCIAL STATEMENTS**

**JUNE 30, 1986**

UNITED STATES FUEL COMPANY AND SUBSIDIARY  
Balance Sheet  
June 30, 1986  
(thousands of dollars)

Unaudited

Assets

Current assets:	
Cash	\$ 338
Short-term investments, at cost	55
Accounts receivable, less allowance for doubtful accounts of \$473	1,163
Advance to parent	7,225
Inventories	3,750
Prepaid expenses	<u>116</u>
Total current assets	<u>12,647</u>
Properties, at cost	36,377
Less - accumulated depreciation	<u>( 20,762)</u>
Net properties	15,615
Other assets	<u>115</u>
Total assets	<u>\$ 28,377</u>

Liabilities and Stock holder's equity:

Current liabilities:	
Accounts payable	\$ 3,010
Current portion of capitalized lease obligations	668
Accrued wages and other employee costs	470
Other accrued liabilities	<u>849</u>
Total current liabilities	<u>4,997</u>
Capitalized lease obligations	222
Deferred income taxes	5,050
Due to affiliates	<u>5,747</u>
Total liabilities	<u>16,016</u>
Stockholder's equity:	
Common stock, \$10 par value, 700,000 shares authorized and 640,000 shares issued	6,400
Capital in excess of par	2,927
Retained earnings	<u>3,034</u>
Total stockholder's equity	<u>12,361</u>
Total liabilities and stockholder's equity	<u>\$ 28,377</u>

UNITED STATES FUEL COMPANY AND SUBSIDIARY  
Statement of Income and Retained Earnings  
Six Months Ended June 30, 1986  
(thousands of dollars)

Unaudited

Net sales and operating revenues	<u>\$ 6,514</u>
Cost of goods sold	5,655
Depreciation and depletion	1,188
Selling, general and administrative expenses	<u>2,772</u>
	<u>9,615</u>
Income (loss) from operations	( 3,101)
Other income (expense)	
Gains on sales of property	24,576
Other expense, net	<u>( 1,032)</u>
	<u>23,544</u>
Income before income taxes	20,443
Provision for income taxes	<u>8,700</u>
Net income	11,743
Retained earnings, beginning of period	6,291
Cash dividends	<u>( 15,000)</u>
Retained earnings, end of period	<u>\$ 3,034</u>

UNITED STATES FUEL COMPANY AND SUBSIDIARY  
Statement of Changes in Financial Position  
Six Months Ended June 30, 1986  
(Thousands of dollars)

Unaudited

**FUNDS PROVIDED:**

Net income	\$ 11,743
Charges not affecting working capital:	
Depreciation and depletion	1,188
Deferred taxes	<u>4,600</u>
	17,531
Disposals of properties	3,424
Reduction in deferred charges	<u>954</u>
Total funds provided	<u>21,909</u>

**FUNDS USED:**

Additions and improvements to properties	194
Reduction in capitalized lease obligations	413
Dividends paid	<u>15,000</u>
Total funds used	<u>15,607</u>
Increase in working capital	<u>\$ 6,302</u>

**CHANGES IN WORKING CAPITAL:**

Increase (decrease) in current assets:	
Cash	\$ ( 259)
Short-term investments	( 135)
Receivables	626
Advance to Parent	7,225
Inventories	312
Prepaid expenses	<u>( 131)</u>
	7,638
Decrease (increase) in current liabilities:	
Leases payable - current	98
Accounts payable	959
Accrued wages and other employee costs	( 29)
Other accrued liabilities	<u>308</u>
	1,336
Increase in working capital	<u>\$ 6,302</u>

COAL  
(August 1985)

Mine Name Hiawatha Complex  
Permit No. ACT/007/001  
Date October 29, 1986  
Checked By \_\_\_\_\_

SELF BONDING QUALIFICATION SHEET

Applicant Required to Meet One of the Following Criteria:

UMC 800.23(b)(3)

1. Current rating for most recent bond issuance ("A" or higher) (Moody's Investor Service or Standard and Poor's Corporation)

or

2.

- A. Tangible Net Worth = (at least \$10 million) (Net worth minus intangibles [Goodwill and rights to patents or royalties])

\$15,618,000

- B. Total Liabilities/Net Worth = Obligations to transfer to other assets or provide services to other entities/Total assets minus total liabilities and is equivalent to owner's equity (2.5 times or less).

.67/1

- C. Current Assets/Current Liabilities = Cash or other assets or resources which are reasonably expected to be converted to cash or sold or consumed within one year/Obligations which are reasonably expected to be paid or liquidated within one year (1.2 times or greater).

1.37/1

Reference: Balance Sheet for year ending 12/31/85

or

3.

- A. Fixed assets in the United States (at least \$20 million) = \_\_\_\_\_

B. Total Liabilities/Net Worth =  
(2.5 times or less) \_\_\_\_\_

Current Assets/Current  
Liabilities (1.2 times or  
greater) = \_\_\_\_\_

Reference: \_\_\_\_\_

UMC 800.23(b)(1)

Suitable agent (resident within the state of Utah)

Prentice-Hall Corp. Systems  
185 South State, Suite 600  
Salt Lake City, Utah 84111

UMC 800.23(b)(2)

Been in continuous operation of not less than five (5) years  
(immediately preceding the time of application) (~~submitted five~~  
~~annual reports~~--Yes  No )

UMC 800.23(b)(4)

(i) Financial statements prepared by an independent certified  
public accountant in conformity with generally accepted accounting  
principles. Yes  No

(ii) Unaudited financial statements for completed quarters in  
the current fiscal year. Yes  No

(iii) Additional unaudited information as requested by the  
Division.

---

ARTHUR  
ANDERSEN  
& CO.

**RECEIVED**  
NOV 03 1986

DIVISION OF  
OIL, GAS & MINING

**UNITED STATES FUEL COMPANY  
AND SUBSIDIARY**

FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1985  
TOGETHER WITH ACCOUNTANTS' REVIEW REPORT

---

ARTHUR ANDERSEN & Co.  
PITTSBURGH, PENNSYLVANIA

To the Board of Directors

Sharon Steel Corporation:

We have reviewed the accompanying balance sheet of UNITED STATES FUEL COMPANY (a Nevada corporation and a 100% owned subsidiary of Sharon Steel Corporation—a Pennsylvania corporation) and subsidiary as of December 31, 1985 and the related statements of income and retained earnings and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Company.

The Company is a subsidiary of Sharon Steel Corporation (Sharon) and has material transactions with Sharon and certain other affiliated companies, as described in Notes 3 and 8.

Sharon has reported that it incurred net losses in each of the last three years and at December 31, 1985 had a deficit in shareholders' equity of \$162,119,000. Sharon has also reported that its ability to continue in existence is dependent on the consummation of its exchange offers and certain other events, as further described in Note 2. The majority of Sharon's assets, including its shares of the Company's stock owned by Sharon, are pledged to secure Sharon's debt. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should Sharon be unable to continue in existence.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

This report is being furnished and is intended solely for the use of management in connection with their application for self-bonding of reclamation costs in the State of Utah, and is not to be used for any other purposes.

A handwritten signature in cursive script, which appears to read "Arthur Anderson Co.", is positioned to the right of the main text block.

Pittsburgh, Pennsylvania,

October 17, 1986.

UNITED STATES FUEL COMPANY AND SUBSIDIARY

BALANCE SHEET

DECEMBER 31, 1985

(Notes 1 and 2)

(thousands of dollars)

ASSETS:

Cash	\$ 597
Short-term investments, at cost	190
Accounts receivable, less allowance for doubtful accounts of \$443	537
Inventories	3,438
Prepaid expenses	247
	-----
Total current assets	5,009
	-----
Properties, at cost (Notes 3, 5 and 7)	39,822
Less- accumulated depreciation	(19,789)
	-----
Net properties	20,033
	-----
Other assets	1,069
	-----
Total assets	\$ 26,111
	=====

LIABILITIES AND STOCKHOLDER'S EQUITY:

Accounts payable	\$ 2,051
Current portion of capitalized lease obligations (Note 7)	570
Accrued wages and other employee costs (Note 4)	499
Other accrued liabilities	541
	-----
Total current liabilities	3,661
	-----
Capitalized lease obligations (Note 7)	635
Deferred state income taxes	450
Due to affiliates (Note 8)	5,747
	-----
Total liabilities	10,493
	-----

STOCKHOLDER'S EQUITY (Note 11):

Common stock, \$10 par value, 700,000 shares authorized and 640,000 shares issued	6,400
Capital in excess of par	2,927
Retained earnings	6,291
	-----
Total stockholder's equity	15,618
	-----
Total liabilities and stockholder's equity	\$ 26,111
	=====

The accompanying accountants' review report and the notes to financial statements are an integral part of this statement.

UNITED STATES FUEL COMPANY AND SUBSIDIARY

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1985

(Notes 1 and 2)

(thousands of dollars)

Net sales and operating revenues	\$21,403
Cost of goods sold	14,716
Depreciation and depletion	2,378
Selling, general and administrative expenses	6,930
Income (loss) from operations	<u>(2,621)</u>
Other income (expense):	
Gains on sales of property	3,102
Other expense, net	(198)
	<u>2,904</u>
Income before income taxes	283
Provision for income taxes (Note 6)	-
Net income	<u>283</u>
Retained earnings, January 1, 1985	6,008
Retained earnings, December 31, 1985	<u>\$ 6,291</u> <u>=====</u>

The accompanying accountants' review report and the notes to financial statements are an integral part of this statement.

UNITED STATES FUEL COMPANY AND SUBSIDIARY

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1985

(Notes 1 and 2)

(thousands of dollars)

FUNDS PROVIDED:	
Net income	\$ 283
Charges not affecting working capital-	
Depreciation and depletion	2,378
	-----
	2,661
	-----
Disposals and retirements of properties	897
	-----
Total funds provided	3,558
	-----
FUNDS USED:	
Additions and improvements to properties	337
Reduction in capitalized lease obligations	506
Reduction in due to affiliates	2,232
	-----
Total funds used	3,075
	-----
Increase in working capital	\$ 483
	=====
CHANGES IN WORKING CAPITAL:	
Increase (decrease) in current assets-	
Cash	\$ 534
Short-term investments	190
Receivables	(598)
Inventories	(1,579)
Prepaid expenses	67
	-----
	(1,386)
	-----
Decrease (increase) in current liabilities-	
Leases payable- current	5
Accounts payable	1,804
Accrued wages and other employee costs	189
Other accrued liabilities	(129)
	-----
	1,869
	-----
Increase in working capital	\$ 483
	=====

The accompanying accountants' review report and the notes to financial statements are an integral part of this statement.

UNITED STATES FUEL COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation--United States Fuel Company (U.S. Fuel) is a 100% owned subsidiary of Sharon Steel Corporation (Sharon). The U.S. Fuel financial statements include the accounts of U.S. Fuel and its 100% owned subsidiary, King Coal Company (which is presently inactive). All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements. U.S. Fuel has significant transactions with Sharon (see Notes 3 and 8). Sharon is an 86% owned subsidiary of NVF Company (NVF).

The accompanying financial statements are prepared on an historical cost basis. Realization of the U.S. Fuel assets and the amount and classification of its liabilities may be dependent upon future events related to Sharon as further described in Note 2. The eventual outcome of these matters cannot be determined at this time.

Description of Operations--U.S. Fuel mines steam coal using the deep mine process at its coal properties located in Carbon and Emery counties, near the town of Price, Utah. U.S. Fuel's coal properties consist of approximately 9,800 acres containing multi-seam deposits, of which approximately 6,300 acres are owned and approximately 3,500 acres are leased. Based upon the Company's update to a study prepared by the John T. Boyd Company, it is estimated that raw recoverable coal reserves at December 31, 1985 totalled approximately 95.1 million tons (which is based on a recovery rate of 65%). Over the last five years, the majority of U.S. Fuel's coal production has been sold under long-term supply contracts to United States domestic utility customers and in the coal export market (see Note 9).

Inventories--Inventories are valued at the lower of cost or market which approximates a first-in, first-out (FIFO) basis. Inventory costs include materials, labor costs and overhead expenses, excluding depreciation. At December 31, 1985, inventories were comprised of the following:

	<u>(thousands)</u>
Coal	\$1,292
Material and supplies	2,146
	-----
	\$3,438
	=====

Depreciation and Depletion--Depreciation of building, machinery and equipment is provided on the straight-line method over the estimated useful lives of depreciable properties, principally 5 to 10 years. Capitalized land development costs are depleted over the estimated production life of the related mining property.

Maintenance and Repairs--Routine maintenance, repairs and replacements are charged to operations. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Capitalized renewals or replacements are charged to the property accounts, in which event the properties that were renewed or replaced are removed from the property accounts.

Pensions--Pensions for hourly employees are provided under United Mine Workers of America (UMWA) multi-employer pension plans. There is no pension plan for salaried employees of U.S. Fuel.

Income Taxes--Taxable income (loss) of Sharon and its subsidiaries, including U.S. Fuel, is included in the consolidated Federal income tax return of its parent, NVF Company. Taxes are provided and paid to NVF as if Sharon and its subsidiaries were to file a separate consolidated return. As further described in Note 6, Sharon is in a net operating loss carryforward position for both financial reporting and tax return purposes, therefore, there are no tax liabilities, assets or tax provision reflected in the accompanying financial statements.

Black Lung Claims--The Company is self-insured for a portion of its Coal Worker's Pneumoconiosis (black lung) claims. The provision for black lung claims was \$43,000 for the year ended December 31, 1985. The estimated liability for black lung claims of \$102,000, at December 31, 1985, is based on the estimated future payments.

Workers' Compensation Claims--The Company is self-insured for a portion of its workers' compensation claims and provides amounts believed to be sufficient to satisfy outstanding awards. The provision for workers' compensation claims was \$113,000 for the year ended December 31, 1985.

Reclamation--Management believes that the current costs of mining include continuous reclamation of disturbed properties as an integral part of current mining efforts. Actual costs vary for each property for which a mining permit has been issued.

## 2. LIQUIDITY AND CAPITAL RESOURCES OF SHARON STEEL CORPORATION:

Sharon has reported that it incurred substantial losses in each of the last three years, and at December 31, 1985 had a deficit in stockholders' equity of \$162,119,000. Sharon has further disclosed that it (1) has experienced insufficient cash flow to meet its cash requirements and debt service requirements, (2) did not make the interest payments due March 1 and September 1, 1985 and 1986, which aggregate \$89,200,000, on its \$330,539,000 of 13-1/2% Subordinated Sinking Fund Debentures, and did not make the interest payments due on April 15 and October 15, 1985 and April 15, 1986, which aggregate \$12,900,000, on its \$60,000,000 of 14-1/4% Subordinated Sinking Fund Debentures, and (3) has indebtedness of approximately \$10,800,000 (as of October 17, 1986), represented by participations in Sharon's bank indebtedness which have been purchased by NVF and which have been pledged to secure obligations of NVF to such bank lenders incurred in connection with the purchase of such

participations, that currently mature on November 15, 1986. The nonpayment of interest due on Sharon's 13-1/2% and 14-1/4% Subordinated Sinking Fund Debentures constitute Events of Default which would allow the acceleration of substantially all of Sharon's indebtedness, including NVF's participations. Sharon has pledged its 100% ownership of the common stock of U.S. Fuel to secure the participations referred to above and certain other indebtedness. Sharon has made exchange offers to the holders of its outstanding Subordinated Debentures, however, no assurance can be given that such exchange offers will be successful. Sharon has reported that its ability to meet its cash requirements in 1986 and thereafter is dependent on the completion of its pending exchange offers to sell certain assets or to borrow additional funds to provide funds required for the completion of its exchange offers, including obtaining a proposed \$85 million asset based loan, and to meet its working capital requirements and/or to generate sufficient cash flow from operations. No assurance can be given that such requirements will be met. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should Sharon be unable to continue in existence.

### 3. SALE OF COAL RESERVES:

In 1985, U.S. Fuel sold approximately 5.3 million tons of coal reserves and recorded a gain of approximately \$3.1 million. In April, 1986, U.S. Fuel, through Sharon, concluded a sale of approximately 49 million tons of its coal reserves to Intermountain Power Agency, a political subdivision of the State of Utah (IPA), for \$28 million. This transaction will result in a gain of approximately \$23.5 million being recognized in 1986. Sharon had previously granted to its bank lenders an assignment of Sharon's right to receive the proceeds of the sale and such proceeds were paid directly to the banks by Sharon. U.S. Fuel recorded the \$28 million payment as follows:

- \$15.0 million - dividend to Sharon
- 4.1 million - payment of applicable income taxes payable
- 1.7 million - payment on 1986 borrowings from Sharon
- 7.2 million - advance to Sharon

### 4. PENSION PLAN:

U.S. Fuel makes contributions to UMWA plans based on tons of coal produced and hours worked. The collective bargaining agreement between the UMWA and the Bituminous Coal Operators Association, Inc., of which U.S. Fuel is a member, contains a provision which commits the employer's signatory to guarantee the payment of the benefits provided by the UMWA plans during the term of the agreement. U.S. Fuel pension expense under the UMWA pension plans was \$1,381,000 in 1985.

In addition to providing pension benefits, U.S. Fuel provides certain health care benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working. Those benefits, and similar benefits for active employees, are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing those benefits for retired employees by expensing the annual insurance premiums, which were approximately \$118,000 in 1985.

During 1985, the Financial Accounting Standards Board issued new standards on employers' accounting for pensions, which for U.S. plans, must be adopted no later than 1987 and, in certain circumstances, to reflect a minimum pension liability no later than 1989; early adoption is permitted. These new standards will be adopted prospectively, and thus the financial statements included herein will not be restated. Sharon has not decided when it will implement the new standards. The effects this change in accounting may have on the financial position and results of operations of U.S. Fuel have not been determined.

5. PROPERTIES:

At December 31, 1985, the U.S. Fuel properties consisted of the following:

	<u>(thousands)</u>
Land and land improvements	\$ 9,467
Buildings, machinery and equipment	29,876
Construction in progress	479
	-----
Total properties, at cost	\$39,822
	=====

6. TAXES ON INCOME:

U.S. Fuel is a subsidiary of Sharon and is included in its consolidated Federal income tax return and, accordingly, does not file its own separate tax return. For the reasons stated below, there are no tax liabilities, assets or tax provision reflected in the accompanying financial statements.

For financial reporting purposes at December 31, 1985, Sharon has net operating loss carryforwards of \$208 million of which \$61.3 million will expire in 1998, \$84.6 million will expire in 1999 and \$62.1 million will expire in 2000. For Federal income tax reporting purposes at December 31, 1985, Sharon had net operating loss carryforwards of approximately \$194.1 million of which \$67.6 million will expire in 1997, \$63.2 million will expire in 1998 and \$63.3 million will expire in 1999.

The consolidated Federal income tax returns of NVF, the parent company and 86% owner of Sharon, for the years 1969 through 1978 have been examined by the Internal Revenue Service; years 1979 through 1985 have not yet been examined. Management of Sharon believes that adequate provision has been made for all tax liabilities and interest thereon that may arise when all of Sharon's open tax years (years 1969 through 1985) are settled.

7. CAPITALIZED LEASE OBLIGATIONS:

At December 31, 1985, U.S. Fuel had capitalized lease obligations payable of \$1,205,000, related to various equipment. The leases are payable in various monthly installments through 1990. The leases are secured by the equipment financed by the leases, which has a net book value of \$1,162,000, at December 31, 1985.

Minimum scheduled lease payments (principal and interest) are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount Due</u> <u>(thousands)</u>
1986	\$ 743
1987	530
1988	145
1989	30
1990	2
	-----
	\$1,450
Less- Amount representing interest and executory costs	(245)
	-----
	\$1,205
	=====

#### 8. TRANSACTIONS WITH RELATED PARTIES:

The United States Smelting Refining and Mining Company, a 100% owned subsidiary of Sharon, acts as a sales representative for U.S. Fuel and other companies in the coal export market (such sales totaled \$1,365,000 in 1985).

Sharon and its subsidiaries maintains certain insurance coverage, principally health, accident and sickness coverage with Chesapeake Insurance Company Limited (Chesapeake), an affiliated company registered in Bermuda. Premiums attributable to such insurance coverage amounts to approximately \$22,641,000 in 1985, of which \$1,167,000 was allocated to U.S. Fuel. In addition, Sharon and its subsidiaries maintain certain insurance coverage with unaffiliated insurance companies for which Chesapeake reinsures a portion of the risk. Net premiums attributable to such reinsurance were approximately \$5,934,000 in 1985, of which \$517,000 was allocated to U.S. Fuel. In addition, Insurance and Risk Management, Inc., an affiliated company, acts as agent or broker in connection with insurance coverage obtained by Sharon and provides claims processing services and placement services for Sharon. The commissions paid to such company were \$3,559,000 in 1985. Sharon allocated \$314,000 of such insurance charges to U.S. Fuel in 1985.

U.S. Fuel leases certain equipment from NPC Leasing Corporation (which may be deemed to be an affiliate of the Company) for which lease payments of \$841,000 were made in 1985.

In addition, Sharon pays for the majority of U.S. Fuel's purchases and payroll transactions, and receives almost all of U.S. Fuel's cash receipts such as collections on trade accounts receivable, which are recorded by U.S. Fuel as accounts receivable or payable to affiliates (Sharon). The payable to affiliates balance of \$5,747,000 at December 31, 1985 was owed primarily to Sharon and is due 400 days after demand.

## 9. LONG-TERM CONTRACTS:

For the past five years the majority of U.S. Fuel's coal production has been sold under a contract which requires U.S. Fuel to deliver 400,000 net tons of coal per year through 1994 and gives the customer the right to increase or decrease such purchases by 50,000 net tons per year. As previously reported the customer under such contract has recently disputed certain charges under the contract and has suspended purchases. On April 19, 1986, the customer informed U.S. Fuel that it considered the contract terminated. In April, 1986, U.S. Fuel commenced an action against the customer seeking, among other things, a declaratory judgment that the charges made by U.S. Fuel pursuant to the contract were proper; specific performance by the customer of the contract or, in the alternative, actual damages of in excess of \$50,000,000 or such amount as determined at trial or other disposition of the matter; punitive damages in the amount of \$25,000,000 and other relief, including payment of invoices previously rendered to the customer aggregating approximately \$650,000. In May, 1986, the customer filed a motion to dismiss, answer and counterclaim denying the allegations in U.S. Fuel's complaint, asserting certain affirmative defenses, and counterclaiming against U.S. Fuel seeking, among other things, recovery of alleged excess payments in the amount of approximately \$702,000, audit costs and punitive damages aggregating \$11,000,000. In July, 1986, U.S. Fuel obtained a preliminary injunction requiring the customer to purchase 258,000 tons of coal for the remainder of 1986 and thereafter, until otherwise ordered by the Court, to purchase its contractual tonnage in approximately equal monthly quantities at an initial price of \$42.58 per ton, subject to adjustment as provided in the contract. 98% of the payments received by U.S. Fuel on account of such sales are provided to be paid to U.S. Fuel and the remainder are to be paid into deposit with the Court. U.S. Fuel has pledged coal reserves, estimated to have not less than 13 million in place tons of coal, as security in connection with such preliminary injunction. U.S. Fuel intends to continue to prosecute such action vigorously and to contest the claims asserted by such customer.

U.S. Fuel also had an agreement to supply coal under a contract that called for approximately 220,000 net tons per year through March, 1986, with an option by the purchaser to renew the contract for an additional five years. Legal action has been commenced against the customer under such contract for its failure to purchase the required amount of coal under such contract. No coal shipments were made under such contract in the contract year ended March 31, 1986, and only minor shipments were made in the contract year ended March 31, 1985. Both of the foregoing coal contracts contain price escalation provisions.

In September, 1982, U.S. Fuel entered into a long-term agreement with IPA to supply coal to a coal fired generating facility being constructed in Utah. Under the terms of the original agreement, coal deliveries were scheduled to commence in 1986 and continue through the year 2010, with deliveries totaling 500,000 tons a year by 1988. The contract contains price escalation provisions and provisions for the dedication of certain coal reserves to the contract. In 1986, U.S. Fuel entered into a contract with IPA providing for

the sale by U.S. Fuel to IPA of certain coal reserves for a price of \$28 million and for a modification of the original agreement. These transactions were consummated in April, 1986 (see Note 3) and the original agreement was modified to provide, among other things, for a decrease in the base price of coal delivered under the agreement and for coal deliveries of a minimum of 135,000 tons and a maximum of 165,000 tons during 1986; a minimum of 315,000 tons and a maximum of 385,000 tons during 1987; a minimum of 270,000 tons and a maximum of 330,000 tons during 1988; and a decrease in the minimum and maximum amounts to be delivered to 108,000 and 132,000 tons per year, respectively, in 1989 and through the duration of the contract.

10. LEGAL MATTERS:

U.S. Fuel is involved in other litigation as either plaintiff or defendant as a result of claims that arise generally in the ordinary course of business. U.S. Fuel does not believe any of the litigation will have a material adverse effect on its financial position.

11. STOCKHOLDER'S EQUITY:

U.S. Fuel's common stock is 100% owned by Sharon. U.S. Fuel has authorized 3,000,000 shares of \$1 par value preferred capital stock with no shares issued or presently contemplated to be issued.