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INCOMING
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3/27/03

Re: AVS

Pam, DOGM

Good day, here is the sequence of events that led to this situation.

Lodestar files Bankruptcy owing Blue Ridge Services a great deal of money.

Blue Ridge buys, at auction Lodestar's Whiskey creek surface mining equipment with the hopes of resale to recoup some of the money that Lodestar owed to Blue Ridge. Federal judge approves sale.

A trustee is appointed (Bill Bishop) the afternoon of the auction, at the urging of Congress Capital, the dip financier the Trustee informs Blue Ridge that the equipment sale will be protested. The basis for the protest is that the Trustee and Congress wanted the revenue from the coal in inventory and they could not load this coal with out the equipment that Blue Ridge bought at auction.

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Reluctantly Blue Ridge agrees to purchase the coal in inventory.

An agreement is made and approved by the Federal Judge allowing Blue Ridge to operate on Lodestar's permit to load the inventory. Part of the proceeds from Blue Ridge to Lodestar was designated in the court order to pay the royalties, Blacklung excise tax and reclamation fees.

Blue Ridge goes to work loading the inventory.

Ten days later a CO is issued to Blue Ridge. Unknown to Blue Ridge, Lodestar had made an agreement with the State of Utah wrt operating Whisky Creek with out proper bonding in place. That was due to the failure of Frontier to continue to qualify as a surety. This agreement expired while the loading of inventory was taking place.

Blue Ridge failed to adequately notify the State of the arrangement made with Lodestar regarding the inventory.

Blue Ridge incorrectly assumed the local lawyer representing the State of Utah in Kentucky would have provided a copy of the court order to the appropriate DOGM people. (My mistake for not keeping DOGM informed)

The CO was resolved by naming Blue Ridge as an operator for Lodestar only for the purpose of loading the inventory and by setting up an escrow fund for the tonnage removed.

The last coal was loaded in April and the last shipment was made on May 22nd. At that time Blue Ridge ceased as an operator for Lodestar.

In the Court Order Lodestar was obligated to pay the reclamation fee on the first 24,000 tons out of the proceeds of the sale to Blue Ridge and Blue Ridge was obligated to pay on behalf of Lodestar, the fees on any coal in excess of 24,000 tons. Blue Ridge paid all amounts due on any tonnage in excess of 24,000 tons and provided funds to Lodestar to pay the amounts due on the first 24,000 tons. Lodestar did not follow the order of the Court and remit payment on those tons it was obligated to.

To summarize: Blue Ridge was an operator for Lodestar for a three-month period that stopped on May 22nd.

Blue Ridge paid the reclamation fees on all coal that it loaded.

Blue Ridge provided Lodestar funds to pay the fees through its purchase agreement

Lodestar did not pay the fees per the Court Order.

I trust that this spells out the situation. If I could trouble you to inform Amy Willoby of OSM/AYS (1800 643 9748, ex 465) that Blue Ridge is not an operator for Lodestar I would appreciate it.

Thank you for you time. ScottKiscaden, Mgr Blue Ridge