

UNITED STATES BANKRUPTCY COURT
EASTERN DIVISION OF KENTUCKY
LEXINGTON DIVISION

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IN RE:

LODESTAR ENERGY, INC.
LODESTAR HOLDINGS, INC.
INDUSTRIAL FUELS MINERALS CO.

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JUN 28 2004

DIV. OF OIL, GAS & MINING

CASE NO. 01-50969
CASE NO. 01-50972 and
CASE NO. 03-70015

DEBTORS

CHAPTER 7

**NOTICE OF FILING OF MOTION TO APPROVE SETTLEMENT AGREEMENT AND RELATED
11 U.S.C. §363 SALE OF ASSETS**

The Chapter 7 Trustee, William D. Bishop ("Trustee"), by counsel, hereby gives NOTICE to all parties in interest that the Trustee has filed a Motion requesting the Court to approve a Settlement Agreement with various settling parties, including the above-captioned Debtors and their Estates, the Trustee, The Renco Group, Inc., Irapco, Inc., Ira Leon Rennert, Frontier Insurance Co., Congress Financial Corp., Wexford Capital LLC, Valentis Investors, LLC, Solitair Corp., Wexford Spectrum Investors, LLC, the Kentucky Environmental and Public Protection Cabinet, the West Virginia Dept. of Environmental Protection, the Utah Division of Oil, Gas & Mining and the United States of America on behalf of the Office of Surface Mining Reclamation and Enforcement (the "Settling Parties") which seeks to resolve a number of issues, disputes and claims as summarized below. **PLEASE TAKE NOTICE that the following is only a summary of the main points of the Settlement Agreement, which affects all the creditors of the above-captioned Debtors. As set forth below, you are urged to consult the full text of the Motion and Settlement Agreement for more information regarding the proposed Settlement Agreement. THE TERMS OF THE SETTLEMENT AGREEMENT CONTROL OVER ANY SUMMARY STATEMENTS CONTAINED HEREIN.**

Due to the voluminous nature of the Settlement Agreement and in an effort to preserve the Estates' assets and minimize costs, the Trustee has made available a true and correct copy of the Settlement Agreement, as executed by the Settling Parties, as well as the Trustee's Motion to Approve the Settlement Agreement, both of which may be accessed via the internet by logging on to <http://ftp.wwwatty.com>. There is no cost to view these documents.

PLEASE TAKE FURTHER NOTICE that all objections to the Motion To Approve The Settlement Agreement must be made in writing, filed with the Court and served on the counsel for Trustee named below, so as to be received on or before 5:00 p.m. E.D.T. on Wednesday, July 7, 2004. All objections shall come on for hearing before the Honorable Joseph M. Scott, Jr., United States Bankruptcy Judge, in the United States Bankruptcy Court for the Eastern District of Kentucky, 100 East Vine Street, 2nd Floor, Lexington Kentucky on Monday, July 12, 2004 at the hour of 1:30 p.m., prevailing time.

A summary of certain primary points of the Settlement Agreement is as follows:

1. Reclamation obligations related to Debtors' mining operations and permits are settled by the creation of a Reclamation Fund outside of the bankruptcy process, which has been funded by the Settling Parties in excess of \$12 million, so that reclamation work can be satisfactorily completed in the States of Kentucky, Utah and West Virginia. ✓
2. Substantially all of the remaining assets in the bankruptcy Estates will be sold to The Renco Group, Inc. ("Renco") for \$5.55 million plus a portion of the proceeds received from the sale of the assets in excess of \$5.5 million, free and clear of all liens, claims, interests and encumbrances (except as stated in paragraph 6 below), and the purchase price received by the Trustee from the sale of such assets will be paid by the Trustee, free and clear of all liens, claims and

encumbrances, into the General Reclamation Fund (as defined in the Settlement Agreement) to be used to defray the cost of reclaiming the Debtors' mining properties, all as set forth more particularly in the Settlement Agreement. ✓

3. Wage claims of former employees which were earned and became due during the time period of December 11, 2002 through July 13, 2003 are the responsibility of Congress Financial in accordance with the Settlement Agreement.

4. The Settling Parties waived their right to receive distribution from the Estates and the remaining monies in the Bankruptcy Estates will be distributed to creditors and professionals according to the Bankruptcy Code and the Settlement Agreement, by (1) first, paying pro rata up to 100% the allowed chapter 7 administrative claims that arose after July 15, 2003; (2) second, paying pro rata up to 100% the allowed chapter 11 administrative claims that arose between the time of December 12, 2002 through July 15, 2003; and (3) third, paying pro rata up to 100% the allowed chapter 11 administrative claims that arose between the time of April 27, 2001 through December 11, 2002. It is not expected that any funds will be available for distribution to pre-petition claims.

5. The Debtors and their respective Estates, and all those persons claiming by or through them, and each other Settling Party release all others from all claims they have or may have against another Settling Party, including claims of improper payment of dividends, surcharge, preference and fraudulent transfer claims and reclamation claims. ✓

6. The Court must determine as part of approving the Settlement Agreement that (1) the assets which are sold to Renco are sold free and clear of all liens, claims, interests and encumbrances, other than any valid ad valorem property taxes and that no other liens exist; **any creditors who assert any other liens must come forward prior to the Settlement hearing to assert such liens or be forever barred**; and (2) any cash bonds of the Debtors are being deposited into the Reclamation Fund, free and clear of any liens, claims, interests and encumbrances and that no such liens exist.

7. The Court must determine as part of approving the Settlement Agreement that the statutory Priming Wage Lien of any former employees is for the six-month period from January 13, 2003 through July 13, 2003 in accordance with KRS 376.150 *et seq.*

8. The Court must determine as part of approving the Settlement Agreement that rights of entry onto any of Debtors' properties, fee-owned or leased, are preserved for the purpose of undertaking and performing the reclamation work contemplated by the Settlement. ✓

All creditors will receive a separate notice with regard to the bar date for filing of an administrative claim. The Motion seeking approval of the Settlement Agreement does not seek to adjudicate the allowance of any particular claim of any creditor who is not a party to the Settlement Agreement, other than as set forth herein regarding lien claims and Priming Wage Liens.

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