

Lodestar

Pam - as requested

1) Affidavits

2) Rebuttal from
Sawyer / Slaney related
to Wefford & Coleman's
role in Lodestar

Merry Wilson
FROM AVS

RECEIVED

JAN 23 2004

DIV. OF OIL, GAS & MINING

File
of White Oak
Bankruptcy

DECLARATION OF TROY L. FRANCISCO

I, Troy L. Francisco make the following sworn declaration in lieu of affidavit as permitted by 28 U.S.C. § 1746:

1. I reside at 121 Oak Lane, Pikeville, Kentucky 41501, and am over 21 years of age. I have personal knowledge of the facts to which I testify in this declaration.

2. I was employed by Lodestar Energy, Inc. (Lodestar) and its predecessor companies for 18 years. I started as chief engineer for Chapperal Coal Corp. in 1985. I was Chief Engineer for Costain Coal, and later Vice President for Eastern Operations. I was Vice President of Lodestar for Marketing and Business Development, becoming interim President and CEO in November 2001. I was CEO of Lodestar Holdings, the shareholder of Lodestar, but was never an employee of that entity. I was not employed by any other Lodestar-related company.

3. My immediate supervisor was John Hughes prior to his departure, who was President and CEO, until November 2001, when he left the company. Mr. Hughes was President when the bankruptcy was filed in March 2001, and until November 2001. The finances of the company were controlled by Mike Dohahue, Chief Financial Officer.

4. The involuntary bankruptcy was forced by Valentis Investors, LLC, Wexford Spectrum Investors, LLC, and Solitair Corp. All those companies are controlled by Wexford Capital LLC (Wexford). The decision to consent to conversion to voluntary Chapter 11 bankruptcy protection was made by Mr. Hughes and the Lodestar Board of Directors.

5. After the filing, business continued as usual, as much as it can in bankruptcy. Contracts were restructured. Other sales persons from Lodestar and I went to each customer and asked to restructure contracts to increase realization to Lodestar, and change other terms to be more advantageous to Lodestar. Most were cooperative. Wexford personnel helped negotiate. They approved some of the changes beginning in June or July 2001. They began to get active in the decisions. Other people came in at the end of 2001 and the beginning of 2002, after Mr. Hughes left. Congress Financial (Congress) never got involved in the day-to-

TLF 

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day operations at that time in the process, that I am aware of. Tom Martin and Bob Strack, Tom's supervisor, were the custodians of the loan, the point men on the administration of the banking facility. Congress had the first position on the secured debt.

6. I participated in one meeting in New York in mid-2002 where both Wexford and Congress were there. Wexford's representatives were Mark Zand and Terry Coleman. Mr. Coleman was hired as a consultant early on in the process. Charles Davidson was also involved in several of the issues being discussed.

7. Wexford was an unsecured creditor and forced the bankruptcy. Their stated goal was to turn debt into equity. In 2002, they reviewed coal sales agreements and leases from the time the bankruptcy was filed. They were more involved when they became the second Debtor-in-Possession (DIP) lender. They became much more involved in contracts rejected or re-negotiated, as well as new contracts and new equipment. Mr. Coleman was an on-site business consultant. Mr. Zand and Mr. Coleman made rather involved comments about to whom coal was sold, and at what price. Wexford made decisions in a lot of instances by committee, not just one person.

8. Wexford was involved in some personnel decisions, and forced some resignations. Mr. Donahue resigned for health reasons. Mr. Coleman set up in Bill Potter's office in Lexington after Mr. Hughes and Mr. Potter were forced to resign by Wexford as a condition of financing. Mr. Coleman began to interact with employees day-to-day. Wexford brought other people into the organization. Arthur Thomas replaced Mr. Donahue at the suggestion of Mr. Coleman. They attempted to replace the Vice President of Eastern Operations, Blake Hall. A contract was negotiated with Jim Slater, who was then a Massey employee, but he decided at the last minute not to take the position offered.

9. Congress did not exercise direct control of Lodestar until late in the Chapter 11 process. Congress then became very active through their consultants, Norwest Corporation and Edward Hostmann, Inc. Decisions were then very much controlled by Congress.

TLF Tom

Wexford did have the ability to control Lodestar through the DIP financing. They looked at productivity, such as whether or not to shut down the operations in Utah. Mr. Coleman and I were involved in the decisions. Discussions resulted in the operations being shut down. All bills were paid out of the corporate office, not locally. Wexford was not involved in day-to-day activities. They were more into policy issues. They used money to control, as in whether or not to continue as DIP. The situation was complicated by the position of Frontier Insurance Co.

10. After the bankruptcy was filed, the bills were paid by the Controller, Marilyn Adamson. She was a full-time employee. After she was no longer an employee of Lodestar, the bills were paid by Pam Dillender, who was a contract employee. She was not a full-time employee, but was the Controller. Art Thomas also was involved while an employee of Lodestar.

11. Before and after bankruptcy, the same people decided how to deal with problems identified by regulators. The problems were handled on-site. In Utah, the Manager was Mark Wayment and the Engineer was David Miller. In Eastern Kentucky, the Manager was Blake Hall and the Engineer was Joe Tussey. In Western Kentucky, the Manager was Dennis Bryant and Engineer was Paul Kraus.

12. I am not sure what role Congress played in negotiating the two Agreed Orders with the surface mining regulatory authority for the State of Utah. I was involved but I do not recall all the details, and I do not have the records or know where they are. However, I do recall the Wexford attorneys negotiating with Utah the terms of the Orders, timeframes, and monetary compensation.

13. I did not observe or witness Wexford or Congress representatives instructing Lodestar's employees in such a manner where they performed work that would only benefit Wexford if Wexford's planned acquisition of Lodestar's assets occurred.

14. Wexford was an early proponent of a reorganization plan for Lodestar. Mr. Coleman was the man on the scene to develop the plan. I was to facilitate the plan. Lodestar could not single-handedly make the plan, or make it work. We had to have outside financing. Wexford's participation was necessary to make the plan work. Wexford promoted as its goal to reorganize Lodestar, bring it out of bankruptcy, and operate it. They were interested in the reorganization up to October of last year, then they realized there were cure claims which would be very difficult to deal with. They forgot or ignored curing the leases and contracts prior to this point. They evidently had not considered them and disregarded them. At this point, no changes were made unless they had a hand in it. Mr. Zand was the correspondent who told me there was no longer any interest in a reorganization plan. Things went into a tailspin when they pulled the rug out, in September and October 2002. It was at this point that we began to get serious on a sale of the assets. I do not know their exact reasons.

15. We began to try to separate the operations that were making money from the ones losing money. Wexford participated in the decisions. The Utah operations were shut down just before the trustee was appointed. We cut back at the Goosenock surface mine. It was trimmed 30% to 40%. We shut down one of the underground mines at Miller Creek, and the Stone Coal loading facility.

16. Central Appalachia Mining is the operating arm of Wexford. They bought Lodestar assets through sales of assets in bankruptcy. They bought the assets that they wanted. They were the stalking horse bidders on the mobile equipment, but were not the high bidders. They got the Colorado mine, Phelps operations, Chapperal, Transcontinental. They were not the stalking horse bidders on any of the assets that they purchased.

17. I had many face-to-face meetings with Ira Rennert. He was involved all the time he owned Lodestar. I probably had 40 to 50 meetings with him, about 8 or 9 times a year. There was a meeting every month, mostly in Lexington. Mr. Rennert attended the

meetings, except for a couple of months each year. We met over a 4 or 5-year period while Mr. Rennert owned the company, up to December 2002 or January 2003. There were very few meetings in New York. There were two meetings in Pikeville after we moved the corporate offices there.

18. Other people were involved with Mr. Rennert. Marvin Koenig was involved early on in the acquisition of Costain. Roger L. Fay was the financial person at Renco, and was involved all the way through. He attended nearly every meeting. Dennis A. Sadlowski was involved all the way through as General Counsel for Renco. He was involved much more after bankruptcy than before. John Segal worked on Lodestar issues (taxes, etc.) as an accountant. He made no decisions that I am aware of. Justin W. D'Atri had no involvement that I am aware of. I know his name. I believe he is retired. I am not aware of any one person who made a decision to cause the bankruptcy. Ira Rennert, being the sole stockholder and sole board member, had to authorize the voluntary filing, however.

I have read this page and the preceding four pages, and I declare under penalty of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Date:

11/10/03

TROY L. FRANCISCO

TLF

TLF

DECLARATION OF MARK D. WAYMENT

I, Mark D. Wayment, make the following sworn declaration in lieu of affidavit as permitted by 28 U.S.C. § 1746:

1. I reside at 1380 South 980E, Spanish Fork, Utah 84660 and am over 21 years of age. I have personal knowledge of the facts to which I testify in this declaration.

2. I was employed by Lodestar Energy, Inc. (Lodestar) as a P.E. from the time Lodestar purchased the operations in Utah (July, 1999) until I was laid off on April 15, 2003. I was Manager of Mountain Operations in Colorado and Utah, referred to by Lodestar as the "Mountain Operations." I was not employed by any other Lodestar-related company.

3. Between July, 1999 and December, 2001, I reported to and took orders from Bill Potter, Vice President of Operations for Lodestar, and John Hughes. From December, 2001 until the time I was laid off I reported to and took orders from Mike Francisco and/or the bankruptcy trustee. In December, 2001, there was a change of power from John Hughes to Mike Francisco as President.

4. From my perspective, Lodestar's expenditures were controlled/approved from July, 1999 (when I became a part of the Lodestar operations) until the bankruptcy, based on the dollar level and purpose of the expenditure. For instance, when we became aware of the opportunity in Colorado for an additional mining site, that level of expenditure required Lodestar's staff to submit an "AFE" (a 20 +/- page document detailing the proposed expenditure) to management in New York. I believe Ira Rennert was one of the persons who reviewed such AFE's and approved the expenditure for the new mining site in Colorado. The document which approved the AFE for the acquisition of the new Colorado site included signatures from Lodestar's staff in Utah, Kentucky and finally New York. Depending on the amount, routine

MDW MDW

expenditures such as buying operating supplies, machine parts, etc., could be approved locally or by Bill Potter and/or John Hughes, assuming those purchases were already in the Lodestar budget.

5. Before the bankruptcy of Lodestar, I attended Management Review Meetings in Lexington, Kentucky, where I would tell Lodestar's upper-level management how Lodestar's Mountain Operations were doing. Typically those meetings included Ira Rennert, John Hughes, Roger Fay (one of Rennert's people), Mike Francisco and a few others. Decisions were made at these meetings involving numerous matters - land issues, etc. Either Ira Rennert or John Hughes made decisions about Lodestar at these meetings.

6. I was surprised to hear that John Hughes and Bill Potter left in December, 2001. After the bankruptcy, I still reported to Bill Potter or John Hughes. For me, there was no change in who I reported to after Lodestar's bankruptcy.

7. After the bankruptcy was filed and Wexford had come in, I was not asked to attend any meetings in Lexington, Kentucky. However, I did have phone conversations with Bill Potter, John Hughes or Mike Francisco on the status of the Mountain Operations in their preparation for the Management Review Meetings.

8. I assumed after the bankruptcy was filed that Wexford was involved. Also, there was an undertone within the company that Wexford was involved because they had made investments in the company.

9. After the bankruptcy, the only real change in my duties was that I had to do more work with the vendors to convince them to continue to do business with Lodestar in spite of the bankruptcy. No one directed me to do the additional work.

10. As for other officers or employees of Lodestar, I do not know what duties were added or changed after the bankruptcy. The only change I am aware of is that Mike Donahue, who was the financial person with Lodestar, left due to an illness.

MDW MDW

Lodestar promoted Marilyn Adamson to fill in as the financial person after Mike left. Pam Dillender also assisted with financial duties on a part time basis. Pam Dillender subsequently took over the financial duties when the office moved from Lexington to Pikeville. I am not sure who made these decisions about who to promote and the changes in duties.

11. I participated in a few meetings where representatives from Wexford were present. Terry Coleman, a consultant for Wexford, participated in some of those meetings. Terry visited Utah a couple of times to review the status of the Mountain Operations of Lodestar. Terry always referred to himself as a consultant for Wexford in conversations with me. On one trip he was with Mike Francisco and they were gathering information on the Horizon mine to be used in a decision to possibly shut the Horizon mine down. The Horizon mine subsequently was shut down but I do not know who made that decision. I was told to shut the operation down by Mike Francisco. I never had any other opportunity to meet other representatives of either Wexford or Congress.

12. I am not sure what role, if any, Wexford or Congress played in negotiating the two Agreed Orders with the surface mining regulatory authority for the State of Utah.

13. I do not know of any instance where Wexford or Congress ever exercised any control over the Lodestar operations in Utah. To my knowledge, no Lodestar employees in Utah were directed by Wexford or Congress. Similarly, I do not know of any instances when representatives of Wexford or Congress made final decisions on what sites the employees of Lodestar's Mountain Operations would mine, where coal was to be sold, or for how much.

14. I did not observe or witness Wexford or Congress representatives instructing Lodestar's employees in such a manner where they performed work that

would only benefit Wexford if Wexford's planned acquisition of Lodestar's assets occurred.

15. John Hughes and Bill Potter continued to make the day-to-day decisions on the business of Lodestar after bankruptcy until they left in December, 2001.

16. In Utah, the same people handled problems identified by the regulators after Lodestar's bankruptcy as before. Dave Miller and I generally handled problems identified by the regulators in the Mountain Operations. We made all the decisions on addressing problems at the site both before and after the bankruptcy. However, in the case of the bond problems, Mike Francisco and who ever he was working were involved with addressing these problems with the State.

17. At some point after the bankruptcy of Lodestar it became unclear to me who I was working for. For example, decisions were made to shut down the Horizon operation and to auction the Whiskey Creek equipment, both part of the Mountain Operations of Lodestar. I am not sure who made those decisions or why they were made. Bill Bishop, the eventual Trustee in Bankruptcy for Lodestar, told me that these actions were set in motion before he was involved.

18. The only effort that I am aware of to try to separate the money-making assets of Lodestar from those that were money-losers was the effort to sell the Horizon operation. Both Mike Francisco and I were involved in the effort to sell the Horizon operation. The Horizon operation was pitched to a lot of companies. It appeared Utah Coal Properties was interested in the Horizon site. However, Utah Coal Properties lost interest when they learned of the auction.

19. I assume Terry Coleman and Wexford were somehow involved in Lodestar's effort to sell the Horizon operation but I am not sure what the role was. My assumption about Terry Coleman's involvement is based upon the fact that he asked me questions on one or two occasions about Horizon.

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20. I had face-to-face meetings with Ira Rennert and some of his people at the monthly management meetings in Lexington. On a couple of occasions Ira Rennert and Roger Fay flew out to UT and I showed them the Mountain Operations. They did not make any operational decisions on these visits.

21. I had to provide detailed projections every week or vendors would not get paid. These projections would go to Marilyn Adamson or Gwen (not sure of her last name). It is my understanding that we needed to provide a daily cash flow sheet to get funding. I believe this was submitted to Congress for approval before checks could be cut.

I have read this page and the preceding four pages, and I declare under penalty of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Date: 10/6/03



MARK D. WAYMENT

MDW MDW

TELEFAX

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement
Applicant/Violator System Office
2679 Regency Road
Lexington, Kentucky 40503

Telefax Number: (859) 260-8418
Toll Free Telephone Number: 1-800-643-9748

Date: 10-15-03

5 Number of Pages to Follow

Sending to: Pam Grubagh-Littig & Steve Alder

Telefax Number: 801-359-3940

From: Sherry Wilson

Telephone Number: 800-643-9748

Subject or Message: Pam - could you provide
Steve a copy of Mark Wayment's
statement. I can't find his
fax #. Thanks

12530 Consumer Road, Helper Utah 84526
Phone 435 472 1313
Fax 435 472 1314

**Hidden Splendor
Resources, Inc.
Horizon Mine**

Fax

To: Sherry Wilson **From:** Mark Wayment

Fax: _____ **Pages:** 6

Phone: _____ **Date:** 10/6/03

Re: _____ **CC:** _____

Urgent For Review Please Comment Please Reply Please Recycle

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**Summary of Documents Related to Terry Coleman's Role
As Representative for Wexford in Lodestar Operations**

December 11, 2003

From December 5, 2003 letter to AVS/Earl Bandy from Mark Zand/Wexford Capital LLC and Summary of Activities:

- Wexford was asked to make an emergency loan under hostile circumstances while having no control of the debtor.
- The Wexford loan required that they have complete and open access to financial information about the company. This was necessary in order for Wexford to monitor its loan and be able to present a plan of reorganization.
- To accomplish the above, Wexford gave the role of overseeing the loan to Terry Coleman (a consultant for Wexford) and provided an office for that purpose.
- The office was located at the Debtor's headquarters in Lexington from October 2001 through August 2002. When the Debtors closed the Lexington office and moved its headquarters to Pikeville (August 2002), no office was provided for Coleman.
- Coleman used the office in Lexington approximately three (3) days per week during the ten (10) month period.
- Another requirement of the Wexford loan was that Wexford had the authority to review and approve disbursements by the Debtor in order for Wexford to understand where the money was going.

Terry Coleman(s);

- oversight of disbursements was for monitoring purposes only.
- had access to financial reports, operations reports, disbursement summaries showing vendor, division and amount, copies of checks being issued and, budgets and projections that were the sole product of management.
- never directed the Debtor to make or not make a single expenditure.
- never stopped a payment from being made or pulled a check written by Debtor. The only input Wexford had was to inform the Debtor that no payments were to be made to law firms for professional fees incurred in the prosecution of the bankruptcies without a court order directing the payment.
- attended some staff meetings of the debtor but did not attend monthly management meetings with senior management of the debtor and Ira Rennert.
- has never met Mr. Rennert even though Mr. Rennert was in the office numerous times when Mr. Coleman was there.
- did express his opinion of certain matters being considered by the Debtors, but his advice was rarely followed and he had no authority to, and did not, direct the Debtors' operations.
- was never involved in the Debtor's mining operations.
- and Wexford were scrupulous about not interfering with or, in any way, controlling the debtors operations.
- never made any decisions concerning what properties were to be sold, transferred, or abandoned.

SUMMARY OF DOCUMENTS RELATED TO ACTIONS WEXFORD
REQUIRED OF LODESTAR FOR DIP LOANS

December 11, 2003

Lodestar;

- Was required to file a motion with the court seeking to reject a purchase/sale contract between Lodestar and TVA. Any agreements concerning rejection of the contract required consent of Wexford.
- Disbursements were required to be approved by Wexford in its sole discretion. Wexford provided letters stating they would only provide recommendations on corporate overhead and professional fees related to the bankruptcy.
- Was required to withdraw w/prejudice their motion for approval of an employee retention plan.
- Was required to furnish to all pre-petition lenders (including Wexford) daily, weekly, and monthly reports, and other reports on demand. These reports included production, sales, shipment, borrowing availability, aging and summary reports, balance sheets, inventories, raw materials, and cash flow forecasts, among others.
- Was prevented from materially changing the nature of its coal business in any manner or replacing any of its senior operating management without prior written consent of Wexford.
- With their own consent, was required to terminate the employment of John W. Hughes and Bill Potter without severance and insert Mike Francisco as interim CEO at the same time.
- Agreed to immediately withdraw with prejudice all challenges to Wexford or Mark Zand (Wexford's representative on the Unsecured Creditors Committee) regarding their involvement with the committee.
- Was required to produce copies to Wexford of all documents provided to Renco and/or Ira Rennert.
- Agreed to terms of the Supplemental Financing with Wexford to pay twelve percent (12%) interest with a default rate of sixteen (16%) percent.
- Will grant to Wexford second-priority liens, mortgages and security interests on all assets that secure the financing provided by Congress Financial Corp. and CIT (pre-petition lenders).
- Shall maintain fire, extended coverage, and liability insurance covering all its present and future real and personal property, including the collateral, with Lender's loss payable and noncontributory mortgagee clauses in Lender's favor.
- Agreed to the recognition of Wexford's intent to propose a debt for equity conversion.
- Will not assume or reject any material lease executory contract, or fail to maintain the right to assume same, without first consulting with Wexford and Wexford shall have the right to participate directly and actively in decisions related to any such assumption or rejection of any lease or contract.

Wexford;

- Was granted the right to inspect debtors records, collateral, financial condition, and to inspect/examine inventory and equipment.
- Was granted the right of first refusal with respect to any definitive proposal to purchase substantially all of the assets of Lodestar and were required to notify Wexford of any such proposals. This right was inferior to any existing liens and to any other party's right of refusal.
- Along with the Official Committee of Unsecured Creditors and no other party were granted the exclusive right to file a plan or plans of reorganization of Lodestar.
- Along with the Committee were permitted to participate in coal supply contract negotiations and negotiations with Frontier Insurance Group, Inc. for replacement of the debtors surety as required by the KY SRA.
- Was allowed, along with the Committee, and other consultants of Wexford including Terry Coleman and the Weir Group, to have open access to all mines and other operations of the Debtor as well as any other records reasonably required to make recommendations or develop plans concerning the business operations of Debtor.
- Would not be responsible for any of Debtors pre-petition obligations or indebtedness.
- May, in its sole discretion, on thirty days written notice, require Debtor to obtain additional or different insurance coverages as lender may reasonably request.
- Shall have the final opportunity to match the last bid on the Debtors assets if the Debtors assets are sold by private sale or as the result of an auction conducted by the Bankruptcy Court.

12. In its objection, Wexford appears to argue that Applicants' fees are not reasonable and should be disallowed because the chapter 11 case was unsuccessful, an outcome for which Wexford blames Debtors' counsel. The striking irony and plain illogic of Wexford blaming Debtors' counsel for an allegedly administratively insolvent estate¹ and an unsuccessful reorganization effort cannot be overstated, for if Wexford had done what it unequivocally and repeatedly said it would do from day one of this case through late October 2002 – reorganize the Debtors under a plan – all administrative expenses would have been paid and the parties would have realized the other benefits of a confirmed plan.

13. More objectively, the Trustee requests that Applicants show that their services were reasonably likely to benefit the estates *when the services were rendered*.

Wexford's position wholly ignores the following key facts:

SSD and FMB did not operate the Debtors' business. (On the other hand, Wexford literally and intimately knew, understood and impacted the Debtors' business inside and out, having acquired a high degree of control through extraordinary postpetition financing provisions, including a right of virtually unlimited access for its consultants.² Pursuant thereto, Mr. Terry Coleman, a Wexford consultant, acquired an office at the Debtors' headquarters where he maintained daily contact with and influenced the Debtors' management.)

? More importantly, and as more fully set forth below, it is clear *from the existing record* that Wexford, after filing the involuntary chapter 11 petitions against the Debtors with the express and unabashed purpose of filing a plan of reorganization whereby it would acquire the Debtors, *repeatedly and unequivocally* represented in open Court and in its pleadings as early as May 2001 and as late as October 10, 2002, and thereafter through October 21, 2002 in communications to the Debtors and the Creditors' Committee, that it would file a reorganization plan (which, by necessity, would have paid all administrative expenses and

¹ We are without knowledge or information to determine whether the estates are, in fact, administratively insolvent. We understand that while significant unpaid administrative expenses exist, there appear to be assets remaining to be liquidated.

² Interim Order Authorizing (1) Debtors, Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure, to (A) Obtain Supplemental Post-Petition Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and the CIT Business Group/Business Credit, Inc. As Co-Agent, filed September 28, 2001 (doc. no 537) at ¶14(i).

This was what lawyers always were trying to accomplish - Coleman's role?

SAWYER & GLANCY PLLC
3120 Wall Street
Suite 310
Lexington, Kentucky 40513

NICHOLAS R. GLANCY

(859) 223-1500 Phone
(859) 223-1583 Fax

December 5, 2003

U.S. Department of the Interior
Office of Surface Mining
Reclamation and Enforcement
Applicant/Violator System Office
2679 Regency Road
Lexington, Kentucky 40503
Attn: Earl Bandy

Dear Mr. Bandy:

This letter is in response to your fax to me dated November 17, 2003 asking for Wexford's response to the following two inquiries:

- 1) Provide response to item #14 of the filing by Squire, Sanders & Dempsey.
- 2) What actions did Wexford require of Lodestar in exchange, or as a condition of, the 15 million in DIP loans.

In order to effectively respond to your inquiries we have developed a series of attachments, consisting of the following:

- a) A letter from Mark Zand of Wexford Capital explaining the background of the bankruptcies and the DIP financing (Attachment 1).
- b) A summary of the activities of Wexford's consultant, Terry Coleman, during the relevant period (Attachment 2). This summary is based on discussions with Mr. Coleman and Wexford.
- c) A summary of Lodestar's post-petition financing agreements with Wexford (Attachment 3).

In addition to the information in the attachments, it is important to note that the allegations set out in the Squire Sanders pleading has essentially been recanted by Squire Sanders

Earl Bandy
December 5, 2003
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in a settlement agreement being entered into this week. Squire Sanders has now stated that paragraph 14 of their pleading "was intended to characterize by argument Wexford's knowledge of the Debtors' operations. Paragraph 14 was not a statement of fact as to whether Wexford actually controlled the Debtors..."

I trust this information is responsive to your inquiries. Please let me know if you need anything further.

Very truly yours,



Nicholas R. Glancy

Attachments

WEXFORDSM

Wexford Capital LLC

Wexford Plaza
411 West Putnam Avenue
Greenwich, CT 06830
www.wexford.com
(203) 862-7000

Direct Dial: 862-7412
Direct Fax: 862-7452
mzand@wexford.com

December 5, 2003

U.S. Department of the Interior
Office of Surface Mining
Reclamation and Enforcement
Applicant/Violator System Office
2679 Regency Road
Lexington, Kentucky 40503
Attn: Earl Bandy

Dear Mr. Bandy:

I understand that you have asked for certain information about the Wexford DIP loan to Lodestar, and clarification of Terry Coleman's role overseeing this loan. In addition to the response from Nick Glancy, I thought it would be helpful to provide a brief summary regarding the circumstances of the DIP loan, and Wexford's involvement with the Debtor.

When Lodestar requested an emergency loan from Wexford, the company was within days of shutting down. It had determined that it had no other better options. This came as a complete surprise to all members of the Unsecured Creditors Committee (UCC), including us. The Debtor and its counsel had repeatedly stated in its filings and statements to the Court that its financial condition was improving.

From the time of the bankruptcy filing in April 2001 until Wexford made the emergency loan in September 2001, the Debtor refused to provide meaningful information to the UCC. Wexford, in particular, was singled out for exclusion. The management of Lodestar was told not to communicate with Wexford, and Debtor's counsel tried to have us removed from the UCC.

From the outset, we were concerned that the Debtor was controlled by the out of the money equity holder, Ira Rennert. Our proposal to convert our unsecured debt to equity would have significantly reduced or eliminated Mr. Rennert's equity ownership. We were concerned that Mr. Rennert would use his position of control of the company to protect himself from having to disgorge the substantial amount of money he took out of the company, and we were concerned that he would try to use his control position to retain value for himself in the bankruptcy. We objected to the retention of Squire Sanders as Debtor's counsel because they had worked for

December 5, 2003

Page 2

other Rennert controlled companies. We expressed concern that they would not vigorously pursue recoveries from Mr. Rennert, which in fact, they did not do.

In this atmosphere of mistrust, Wexford was asked to make an emergency loan to the company. We had almost no access to information that a lender would normally have when asked to make a loan. We did not have the opportunity to do normal due diligence, and the relationship between the Debtor, its counsel, its owner, and us, was hostile.

We had no ability to control the Debtor or to influence it to take any actions. The only time that we ever had any leverage with the Debtor was when they were asking for money. Our DIP loan, which was presented to all parties and approved by the Court, provides a transparent record of the conditions to us advancing them money.

An illustration of our lack of control over the Debtor is the absurd fact that in order to get the Debtor to admit that it was insolvent (despite its having a negative net worth of \$237 million at the time of the bankruptcy filing), this had to be made a condition of our initial DIP loan. The fact that the Debtor and its counsel refused to even acknowledge insolvency illustrates the bias in favor of Mr. Rennert. Insisting that the company was not insolvent amounted to an assertion that Mr. Rennert was entitled to a return on his equity.

One of the key requirements of our loan was that we have complete and open access to financial information about the company. This was necessary for us to monitor our loan, and for us to be able to present a plan of reorganization. To accomplish this, Terry Coleman had the role of overseeing our loan to the Debtor, and for this purpose an office was made available to him. Another condition of the loan was that Wexford had the authority to review and approve disbursements by the Debtor. The point of this was for us to understand where the money was going. The debtor generated average positive cash flow per month of \$3 million between May 2001 and July 2001. In August, it was negative \$236 thousand. In October, less than a month after the initial draw on our DIP loan, cash flow was negative \$7 million. In November, it was negative \$3 million. Within weeks of lending money to the company, it was going down the drain.

Terry Coleman's oversight of disbursements was for monitoring purposes, and never for anything else. He never directed the Debtor to make a single expenditure, and he never directed the Debtor not to make a single expenditure. No one has ever alleged otherwise. The oversight of disbursements was of so little consequence that on August 14, 2002, I sent a letter to Mike Francisco (which I have included) that reminded him that we had this right, and told him we should establish procedures to implement it. I made it clear in this and a subsequent letter (also attached) that our oversight would be limited to corporate overhead and professional expenses. The fact that we complained about administrative expenses particularly rankled Squire Sanders. The August 14th letter was written because the Debtor was insistent on hiring a financial advisor on terms that would have required a large up front payment, which we told them we would oppose.

By November 2001, within weeks of the initial loan, the company's financial condition had worsened dramatically. It was clear that John Hughes was having difficulty identifying the

December 5, 2003

Page 3

problems and was at a loss as to how to deal with them. As a condition to providing additional funding, we requested that Mr. Hughes step aside. Again, the company did not have to borrow the money from us, yet this is the course the company chose, with the full knowledge and approval of all parties.

In order for us to get the Debtor to do anything, it had to be made a condition to us lending them money. If they weren't asking for money, we had no ability to get them to do anything. An illustration of our lack of control was the fact that we could never get an achievable budget from the Debtor. The Debtor never came close to hitting its budget numbers, and without a realistic budget, we insisted that the Debtor could not be reorganized. Mike Francisco was almost single-minded in his pursuit of getting a severance and retention package for himself and the other managers. In an attempt to get a realistic budget from Mike Francisco, we made it a condition to us approving the severance/retention program. I have attached the letter. Despite this, we still never got a realistic budget. Another indication that we had no control over the Debtor was that despite repeated requests, we could not get them to pay us the overdue interest on our DIP loan.

Wexford and Terry Coleman were scrupulous about not interfering with or in any way controlling the Debtor's operations. Terry Coleman had absolutely no involvement in any decisions regarding how the Debtor ran its operations. We were acutely aware that we were simply a lender, and all our activity and correspondence supports this.

Sincerely,


Mark Zand

SUMMARY OF ACTIVITIES

1. Until the debtor in possession financing order was entered, Wexford Capital, LLC, on behalf of its participants could not get meaningful information from the Debtors, beyond the cursory information provided in the required court filings. The debtor in possession financing was used as an opportunity to get access to meaningful information to help determine whether a plan of reorganization could be proposed by Wexford, the second lien secured creditor of the Debtors.
2. Following entry of the DIP financing order and to facilitate oversight of its loan, an office was provided for Wexford's consultant at the Lexington, Kentucky corporate office of the Debtors. This office was available from around October, 2001 through August, 2002, when the Debtors closed the Lexington office and moved it corporate headquarters to Pikeville. No office was provided at the Pikeville office for the Wexford consultant.
3. Terry Coleman was the Wexford consultant designated to obtain information about the Debtors and monitor the Debtors' operations in order to oversee its DIP loan and to enable it to propose a plan of reorganization.
4. Mr. Coleman used the Lexington office approximately three (3) days per week, during the 10 month period. The main Debtors have been in bankruptcy for 32 months.
5. During the period, Mr. Coleman was given access to (i) financial reports, (ii) operations reports, (iii) disbursement summaries showing vendor, division and amount (iii) copies of checks being issued and (iv) budgets and projections that were the sole product of management.
6. Mr. Coleman never initiated a payment by the Debtors. In fact, the Debtors refused to pay interest due Wexford under the DIP financing.
7. Mr. Coleman never stopped a payment from being made or pulled a check written by Debtors. The only input Wexford had regarding payments was to inform the Debtors that no payments were to be made to law firms for professional fees incurred in the prosecution of the bankruptcies absent a specific court order directing the payment. Letters dated 8/14/02, 11/15/02(attached) verify this position.
8. Mr. Coleman sat in on some staff meetings at the corporate office, but did not attend, and was not invited to attend, the monthly management meetings between the senior management of the Debtors and Ira Rennert, who controlled the Debtors through stock ownership and acting as corporate director.
9. Mr. Coleman has never met Mr. Rennert, even though Mr. Rennert was in the office numerous times when Mr. Coleman was there.

10. Mr. Coleman did give his opinion of certain matters being considered by the Debtors, but his advice was rarely followed and he had no authority to, and did not, direct the Debtors' operations. Mr. Coleman was never involved in any with the the Debtor's mining operations. He never directed the Debtor to take any action or refrain from taking any actions regarding its mining or reclamation activities.

11. Mr. Coleman was at no time involved in any decisions regarding what properties were to be sold, which permits would be transferred to buyers, and which permits and properties were to be abandoned. These decisions were made by the court-appointed trustee, William Bishop, after his appointment in February, 2003.

WEXFORDSM

Wexford Capital LLC

Wexford Plaza
411 West Putnam Avenue
Greenwich, CT 06830
www.wexford.com
(203) 862-7000

Direct Dial: 862-7412
Direct Fax: 862-7452
mzand@wexford.com

November 15, 2002

Michael Francisco, CEO
Lodestar Holdings, Inc.
Lodestar Energy, Inc.
251 Tollage Creek
Pikeville, KY 41501

By Facsimile

Dear Mike:

In light of the events in court yesterday, the Debtor must quickly decide whether it is willing to find common grounds with Wexford for us to proceed along the lines of the proposal we made to purchase assets. When you initially declined our proposal, you said that it would be considered along with other offers that you anticipated would be received in a sales process to dispose of substantially all the assets of the Debtor. It should be clear to you that this is not how events will unfold: the Debtor does not have the time to conduct a desultory auction. In light of the alternatives available to the debtor, it is time for you to reconsider your decision to ignore our offer.

To reiterate, our proposal will bring approximately \$45 million of value into the Debtor's estate. It will solve the bulk of the bonding problems in East Kentucky, and depending on the Debtor's choice, would solve the bonding issue in Utah as well. Finally, the assets that are sold would be exposed to the market through the standard bankruptcy process of selecting a stalking horse bidder.

The second issue I need to address is that given the company's dire financial condition, Wexford must redouble its efforts to avoid having funds unnecessarily leave the estate. Wexford will continue to exercise its right to review every disbursement made by the Debtor, in particular those that are not directly related to mining activities. I remind you that Judge Scott again affirmed this right. At this point, you are under strict instructions to not pay any professional fees without our express permission. As I have stated in the past, Wexford does not want our

November 15, 2002

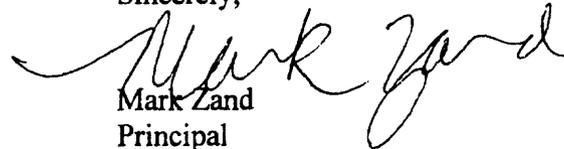
Page 2

oversight of the Debtor's disbursements of funds to interfere in any way with the payment of employee wages, taxes related to wages, or any safety related expenses.

Wexford has stressed throughout the case that the Debtors have faced real deadlines, and without demonstrating progress, the company would face inevitable liquidation. We have maintained that while the proposal that we initially made in July would not make every party happy, it would represent significant progress in the case. It had the potential to lead to the resolution of the rest of the issues in the case. Instead of cooperating with us, you chose to go down your own path. The result is that none of the major issues in the case have been resolved. Each passing day brings the company closer to the expiration of its renegotiated coal sales contracts. These are a significant part of the going concern value of the company, and that diminishes each day.

It is finally time for you to decide whether you will work cooperatively with us to achieve the best result in what is admittedly a bad situation. The alternative will be a liquidation that will be overseen by a third party, possibly under circumstances much worse for the estate. I look forward to your immediate response.

Sincerely,


Mark Zand
Principal

Cc: Terry Coleman
Robert Sartin, Esq.
John Sawyer, Esq.

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August 14, 2002

Mike Francisco
Lodestar Energy
333 West Vine Street
Suite 1700
Lexington KY 40507

By fax

Dear Mike:

Given the financial condition of the company, it is important that all expenditures be carefully scrutinized and evaluated to determine the benefit they provide to the estate. When we spoke on Friday, I told you that we are particularly concerned about the level of corporate overhead and professional fees. I repeated this message when we met in New York, where I specifically said that Wexford would not allow the payment of upfront fees to retain Houlihan. I also told Steve Lerner and Jeff Marks that we would oppose reimbursement for any fees they might seek relating to the retention of Houlihan.

It has been difficult for us to impose discipline on the debtor to avoid unnecessary expenses. The reason is that the company has been operating without realistic budgets throughout the case. Without realistic budgets, we are hard pressed to challenge outlays before they are made, or to hold management accountable after the fact. This requires adequate performance benchmarks that have been mutually agreed upon in advance. While we recently received budgets for the last four months of fiscal year 2002, and a budget for fiscal year 2003, these are at best drafts. While I know you feel otherwise, we are convinced that corporate overhead is an area that is ripe for additional savings.

Under the terms of the DIP order (the appropriate page is attached), Wexford "must approve all Debtors' disbursements after Debtors' have submitted disbursement requests to Wexford in a format acceptable to Lender." We need to implement a system to accomplish this. Our concern is with corporate overhead and professional expenses. We do not want to be involved in reviewing expenses incurred in the ordinary course of mining and selling coal. In

particular, we do not want our oversight to in any way interfere with the payment of employee wages, taxes related to wages, or any safety related expenses.

Understanding that we want to focus on corporate overhead and professional fees, we need to immediately establish a procedure for Wexford to approve disbursements by the company. I would like Paul Jacobi to be the point person at Wexford who will oversee this. Please let us know who his contact person will be at the company, and please outline for us what you think is the most efficient and least burdensome way to implement this.

If you need to discuss this further, please contact me immediately. It is the duty of all of us to insure that the company does not waste money. I thank you for your cooperation and assistance in this matter.

Best regards,



Mark Zand

Cc: Terry Coleman
John Hamilton, Esq.
Steven Lerner, Esq.
Robert Sartin, Esq.

- h. Mike Francisco, at his current compensation package, shall become, with the Debtors' consent, interim Chief Executive Officer effective as of November 1, 2001.**
- i. Debtors shall continue until November 8, 2001 their Motion for an Order (1) Authorizing LEI to Enter into the Amendments to Contracts for Purchase and Sale of Coal between LEI and the Tennessee Valley Authority to Increase Debtors' Sale Price of Coal, and (2) Permitting the Amendments and the Original Contracts to be filed under Protective Seal.**
- j. Debtors shall move to Reject Contracts for Purchase and Sale of Coal between LEI and the Tennessee Valley Authority (the "TVA Contract"), and shall file an emergency motion to reject the TVA Contract which shall be noticed for hearing on November 8, 2001. Agreements concerning rejection of the TVA Contract, if any, shall require the consent of Wexford, which may be withheld at its sole discretion.**
- k. Lender, in its sole discretion, must approve all Debtors' disbursements after Debtors' have submitted disbursement requests to Wexford in a format acceptable to Lender. In exercising its discretion to approve disbursements of Debtors, Lender acknowledges the obligations of the Debtors to remain in compliance with all applicable laws regarding the payment of wages and taxes related to wages.**

DEBTORS' POST-PETITION FINANCING AGREEMENTS WITH WEXFORD

On or about September 24, 2001, the Debtors filed an Emergency Motion (Exhibit A) seeking court approval of the supplemental post-petition financing agreements agreed to between the Debtors and Wexford. On October 18, 2001, the Bankruptcy Court entered a final Order (the "Final Order") permitting the Debtors to obtain post-petition financing on the terms agreed to by the Debtors and Wexford which incorporated certain terms, conditions and covenants into the Final Order. A copy of the Final Order is attached hereto as Exhibit B. Thereafter, on November 2, 2001, the Bankruptcy Court entered an Agreed Order Amending the Final Order (the "Amended Final Order") that modified certain of the terms, conditions and covenants contained in the Final Order and added additional negotiated terms. This Amended Final Order was necessary due to the Debtors' need for more money. A copy of the Amended Final Order is attached hereto as Exhibit C. Thereafter, there were two further amendments increasing the financing loan to a maximum of \$16,100,000. Those amendments are attached as Exhibits D and E.

The Final Order and Amended Final Order (collectively the "Orders") contained various terms, conditions and covenants imposed upon the Debtors in consideration of Wexford supplying the needed supplemental financing. This document is a summary and reference is made to the Orders for a complete recitation of terms. The Orders collectively provided, in relevant part:

1. Any loan provided in accordance with the Orders would be made in conformity with a weekly budget and/or updates prepared by the Debtors with the prior written reasonable approval of Wexford. The Amended Final Order modified existing and added additional terms, conditions and covenants as follows:
 - a. Debtors were required to file a Motion with the Bankruptcy Court seeking to Reject Contracts for Purchase and Sale of Coal between Lodestar and the Tennessee Valley Authority (the "TVA") and file an emergency motion with the Bankruptcy Court to reject the TVA contract. Any agreements concerning rejection of the TVA contract, if any, required the consent of Wexford, which could be withheld at Wexford's sole discretion.
 - b. Debtor's disbursements were required to be approved by Wexford in its sole discretion, after Debtors' submitted disbursement requests to Wexford in a format acceptable to Wexford. This covenant was supplemented by letters from Wexford to the Debtor providing that Wexford would only give input on corporate overhead and professional fees related to the bankruptcy.
 - c. The Debtors were required to withdraw with prejudice their motion for approval of an employee retention program and were required to file a Motion with the Bankruptcy Court seeking to reject (a) certain letter agreements each dated on or around December 15, 2001 regarding severance for certain of the Debtors' employees and (b) such other pre-petition severance programs or agreement as may be designated by Lender

after consultation with the Debtors. To that end, the Debtors were required to file a Motion with the Bankruptcy Court seeking Court approval of Debtors' rejection of the severance programs.

2. The Debtors were required to furnish to all prepetition lenders, including Wexford, in such form(s) and detail as Wexford reasonably requested:
 - a. On a daily basis, all internally prepared production, sales and/or shipment data, and an updated borrowing availability roll-forward analysis.
 - b. By the 15th of each month, as of the last day of the preceding month, aging and summary reports of accounts.
 - c. With each request for a loan in accordance with the Orders, but no less frequently than the last business day of each week, certificates indicating as of the close of business of the preceding day, what amounts have been spent and remain to be spent in conformity with the DIP Budget.
 - d. A weekly listing of all inventories of Debtors, including raw material and processed inventory.
 - e. Within five business days of Wexford's request, a physical inventory report listing Debtors' entire inventory, wherever located.
 - f. Within 30 calendar days after the end of each of the first eleven months of each fiscal year, a balance sheet of the Debtors as of the close of each such month and of the comparable month in the preceding fiscal year, and statements of income and surplus of the Debtors for each month and for that part of the fiscal year ending with each such month and for the corresponding period of the preceding fiscal year, all in reasonably detail and certified as true and correct (subject to audit and normal year-end adjustments) by the chief financial officer of the Debtors.
 - g. Within 45 calendar days after the end of each quarter of each fiscal year, a balance sheet of Debtors as of the closing of such quarter and statements of income and surplus of Debtors for such quarter and for the corresponding period of the preceding fiscal year, on cumulative basis, all in reasonable detail and certified as true and correct (subject to audit and normal year-end adjustments) by the chief financial officer of Debtors.
 - h. Within 90 calendar days after the end of each fiscal year, pro forma cash flow forecasts for the succeeding 12 month period.
 - i. All other reports, documents and information that Wexford reasonably requested.
3. The following conditions and covenants applied during the terms of the Orders:
 - a. Wexford was granted the right at any time during the Debtors' usual business hours to inspect the Debtors' records in order to verify the amount or condition of, or any other matter relating to, the collateral securing the supplemental financing or Debtors' financial condition, and to verify compliance with the Orders and all corresponding loan documents, and to inspect and examine inventory and the equipment and to check and test the same as to quality, quantity, value and condition.
 - b. Debtors were prohibited from materially changing the nature of its coal business in any manner or replace their senior operating management

consisting of John W. Hughes, R. Eberley Davis, Michael E. Donohue, Mike Francisco, and William M. Potter, without the prior written consent of Wexford. These terms were modified by the Amended Final Order wherein, subject to the Debtors' consent, John W. Hughes and Bill Potter were to be terminated, with their consent, and without severance from their respective positions with the Debtors effective November 1, 2001, with their respective employment agreements with the Debtors rejected as of November 1, 2001. Further, the Amended Final Order required Debtors, with their consent, to insert Mike Francisco, at his then current compensation package, as Interim Chief Executive Officer effective November 1, 2001.

- c. Wexford was granted a right of first refusal with respect to any definitive proposal to purchase substantially all of the assets of the Debtors, and Debtors were required to promptly notify Wexford of any such proposal. This grant of a right of first refusal to Wexford was inferior to any existing liens and inferior to any other party's right of refusal.
 - d. The Debtors were required to produce immediately, upon Wexford's written request, such information about Debtors' financial condition, properties and operations as Wexford reasonably requested.
 - e. The Debtors granted the Official Committee of Unsecured Creditors (the "Committee") and/or Wexford, and no other party in interest, the exclusive right to file a plan or plans of reorganization for the Debtors in the Debtors' chapter 11 case, together with a disclosure statement or statements, and to seek confirmation of such plan or plans either alone or together with any plan of reorganization prepared and filed by Debtors.
 - f. Debtors agreed to immediately withdraw with prejudice all challenges to Wexford or Mark Zand (representative for Wexford on the Committee) regarding their involvement with the Committee.
 - g. The Debtors permitted the Committee and Wexford to participate in (1) coal supply contract negotiations and (2) negotiations with Frontier Insurance Group, Inc. addressing the impact on the Debtors of the financial problems of and the requirement imposed by the Commonwealth of Kentucky to replace the Debtors' surety.
 - h. The Debtors permitted all existing mining and other consultants of Wexford and the Committee, including but not limited to Terry Coleman and the Weir Group, as well as other representatives of the Committee and Wexford to have open access at reasonable hours to all mines and other operations of the Debtors, as well as any other records and information concerning the Debtors which was reasonably required to make recommendations or develop plans concerning the business operations of the Debtors.
 - i. The Debtors were required to produce copies to Wexford of all documents provided to Renco and/or Ira Rennert.
4. The Orders contained further general provisions as follows:
- a. Wexford was not to be deemed, for any purpose, the owner or operator of the any of the subject collateral or of Debtors' premises or a successor to

any of Debtors or an employer of any of Debtors' employees, and would not be liable for any of Debtors' prepetition obligations or indebtedness.

- b. In order to effectuate the terms of this Order, Wexford and the other prepetition lenders, and their respective financial consultants, were granted the right to directly contact the Debtors at reasonable hours and such would not violate the automatic stay provisions of 11 U.S.C. Section 362(a).

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF KENTUCKY
(LEXINGTON DIVISION)

IN RE

LODESTAR ENERGY, INC.
LODESTAR HOLDINGS, INC.

DEBTORS.

CHAPTER 11 PROCEEDING

CASE NOS. 01-50969 and
01-50972

Jointly Administered Under
Case No. 01-50969

Judge Joseph M. Scott, Jr.

**EMERGENCY MOTION FOR (1) ENTRY OF INTERIM AND FINAL ORDERS
PURSUANT TO SECTION 364 OF THE BANKRUPTCY CODE AND RULE 4001 OF
THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AUTHORIZING DEBTORS
TO (A) OBTAIN SUPPLEMENTAL POST-PETITION FINANCING FROM WEXFORD
CAPITAL LLC, (B) GRANT SENIOR LIENS, PRIORITY ADMINISTRATIVE
EXPENSE STATUS AND ADEQUATE PROTECTION TO WEXFORD CAPITAL LLC
AND (C) MODIFY THE AUTOMATIC STAY, AND (2) ENTRY OF ORDER
APPROVING AMENDMENTS TO FINANCING AGREEMENTS WITH CONGRESS
FINANCIAL CORPORATION, AS AGENT, AND THE CIT BUSINESS
GROUP/BUSINESS CREDIT, INC., AS CO-AGENT**

Lodestar Energy, Inc. ("LEI") and Lodestar Holdings, Inc. ("LHI"), debtors and debtors-in-possession in the above-captioned jointly administered Chapter 11 cases (collectively, the "Debtors"), hereby move this Court (as defined below) pursuant to Sections 363, 364(c)(1) and 364(d) of the Bankruptcy Code and Rule 4001(c) of the Federal Rules of Bankruptcy Procedure, for entry of (1) interim and final orders authorizing Debtors to (A) obtain supplemental post-petition financing from Wexford Capital LLC ("Wexford"), (B) grant senior liens, priority administrative expense status and adequate protection to Wexford and (C) modify the automatic stay and (2) an order approving amendments to certain financing agreements with

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Congress Financial Corporation, as Agent ("Congress Financial"), and The CIT Business Group/Business Credit, Inc. as Co-Agent ("CIT").

In support of this Motion, Debtors respectfully state and represent as follows:

BACKGROUND

Jurisdiction and Venue

1. The cases were commenced by the filing of an involuntary petition against the Debtors on March 30, 2001 (the "Petition Date"). On April 27, 2001 (the "Relief Date"), the Court entered an order granting the Debtors relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1330 (the "Bankruptcy Code"). The Debtors continue to operate their businesses and manage their property and affairs as debtors in possession in accordance with Bankruptcy Code §§ 1107 and 1108.

2. This Court has jurisdiction over these Chapter 11 cases under 28 U.S.C. §§ 157 and 1334. This matter constitutes a core proceeding under 28 U.S.C. § 157(b)(2).

3. The Debtors maintain their principal place of business in Lexington, Kentucky. Accordingly, venue for the Debtors' Chapter 11 cases is proper in this District under 28 U.S.C. §§ 1408 and 1409.

4. On April 27, 2001, the Court entered its Order Directing Joint Administration and Procedural Consolidation, whereby the Court directed the Debtors' Chapter 11 cases to be procedurally consolidated and to be jointly administered by the Court and the Office of the United States Trustee.

The Debtors and Their Business and Operations

5. The Debtors are both Delaware corporations. LHI is a holding company that owns 100% of the common stock of LEI. LEI owns 100% of the common stock of Eastern Resources, Inc., a Kentucky corporation, and Industrial Fuels Minerals Company, a Michigan corporation (collectively, the "Subsidiaries").

6. The principal operations of the Debtors (including the Subsidiaries) consist of surface and underground coal mining operations in Kentucky and underground coal mining operations in Utah and Colorado. The Debtors also have preparation plants, loading facilities, offices and warehouses associated with the mines. The Debtors employ approximately 850 people, 407 of whom are union members at the Baker Mine in Western Kentucky.

7. Coal shipments are made to a wide variety of utilities, primarily in the Midwestern United States. The Debtors have demonstrated coal reserves of 228 million tons: 177 million tons in Kentucky, 43 million tons in Colorado and 8 million tons in Utah. For the fiscal year ended October 31, 2000, the Debtors had gross sales of \$234 million.

Post-Petition Financing

8. On the Relief Date, the Court entered the Emergency Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, and (4) Prescribe Form and Manner of Notice and Time for Interim Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (the "Emergency Order"), pursuant to which, inter alia, LEI was

authorized to obtain, on an emergency basis effective during the "Emergency Financing Period" (as defined in the Emergency Order), post-petition loans, advances and other credit and financial accommodations from Congress and CIT, in their capacity as agents and lenders secured by first priority liens and security interests upon and in the "Collateral" (as defined in the Emergency Order) and Congress and CIT were granted a super-priority administrative expense claim against Debtors for all "Post-Petition Obligations" (as defined in the Emergency Order).

9. On May 3, 2001, the Court entered the Interim Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent and (5) Prescribe Form and Manner of Notice and Time for Final Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (the "Interim Financing Order"), pursuant to which, inter alia, LEI was authorized to obtain, on an interim basis, post-petition loans, advances and other credit and financial accommodations from Congress and CIT, in their capacity as agents and lenders pursuant to the terms and conditions of the Existing Loan Agreement and the other Existing Financing Agreements (as such terms are defined in the Interim Financing Order), as ratified and amended by the Ratification Agreement (as defined in the Interim Financing Order), secured by first priority liens and security interests upon and in the "Collateral" (as defined and set forth in the Interim Financing Order) and Congress and CIT were granted a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Ratification Agreement).

10. On June 21, 2001, the Court entered the Final Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay and (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent (the "Final Financing Order"), pursuant to which, inter alia, LEI was authorized to obtain, on a final basis, post-petition loans, advances and other credit and financial accommodations from Congress and CIT, in their capacity as agents and lenders pursuant to the terms and conditions of the Amended and Restated Ratification Agreement and the other Financing Agreements (as such terms are defined in the Final Financing Order), secured by first priority liens and security interests upon and in the "Collateral" (as defined and set forth in the Final Financing Order) and Congress and CIT were granted a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Amended and Restated Ratification Agreement).

11. At the time of the entry of the Final Financing Order, the Debtors believed the financing approved thereby would provide them with sufficient capital and liquidity during their Chapter 11 cases to effectively continue their business operations and conduct their reorganization. As a result of a number of factors, the Debtors have determined that the financing provided by Congress and CIT under the Financing Agreements is not sufficient to enable them to have the capital and liquidity required to maintain current business operations.

12. The Debtors' urgent need for additional financing is based on a number of reasons that have caused a lack of availability under the Financing Agreements. These reasons include,

among others, (a) a substantial decrease in the appraised liquidation value of LEI's machinery and equipment, (b) a significant reduction in coal production arising from operational problems at LEI's long-wall mine in western Kentucky, (c) significant increases in the amounts of the Debtors' insurance premiums and (d) the inability to conclude negotiations with certain third parties concerning modifications to long-term coal supply contracts.

13. Upon determining that the existing financing was not sufficient and that an urgent need for supplemental financing existed, the Debtors contacted Congress and other lenders to explore supplemental financing and informed the Committee and Wexford. As a result of these discussions, Congress has agreed to increase its advance rate against machinery and equipment from sixty percent (60%) to sixty-five percent (65%). This modification is embodied in Amendment No. 1 to the Amended and Restated Ratification and Amendment Agreement dated as of September __, 2001 (the "Amendment to Ratification Agreement"), a copy of which is attached hereto as Exhibit A.

14. While the availability increase that will result from the Amendment to Ratification Agreement is helpful, it is not sufficient to alleviate the Debtors' liquidity needs. The only satisfactory way to resolve the current financing requirements of the Debtors is to obtain supplemental financing in an amount not less than \$6 million. The Debtors obtained proposals for such supplemental financing from Wexford and Ableco Finance LLC, an affiliate of Cerberus Capital Management, L.P. Copies of the proposals were provided to the Committee.

15. After exploring their available options and discussing the terms of the supplemental financing with both potential lenders, the Debtors have determined that the best alternative is to enter into the Amendment to Ratification Agreement with Congress and CIT and

to obtain supplemental financing from Wexford upon the terms and conditions for such financing agreed to by the Debtors and Wexford. This combination will provide the greatest overall benefit to the Debtors and their estates and creditors and is expected to meet the Debtors' current financing needs.

RELIEF REQUESTED AND BASIS THEREFOR

16. The Debtors seek entry of (1) interim and final orders authorizing the Debtors to obtain supplemental post-petition financing from Wexford (the "Supplemental Financing") on the terms and conditions described herein and in the documents attached hereto as Exhibit B (the "Supplemental Financing Documents") and (2) an order approving the Amendment to Ratification Agreement.

17. The Debtors, in their business judgment, have determined that approval of the Supplemental Financing and the Amendment to Ratification Agreement will provide them with sufficient capital and liquidity to continue their business operations. The Amendment to Ratification Agreement will allow the Debtors to have greater borrowing availability under the Financing Agreements with Congress and CIT, and the Supplemental Financing will provide the Debtors with additional post-petition financing to supplement that provided by Congress and CIT.

18. As described above, the Debtors' need for the relief sought herein is urgent and essential to the success of the Debtors' Chapter 11 cases. Without the additional financing sought, the Debtors cannot continue to pay bills, royalties and other ongoing obligations, including payroll. The Debtors will be unable to continue to operate after September 28, 2001

without additional financing. Accordingly, the Debtors' continuing viability and their ability to reorganize require the Court's approval of the requested relief.

19. Section 364 of the Bankruptcy Code distinguishes between: (a) obtaining unsecured credit in the ordinary course of business; (b) obtaining unsecured credit out of the ordinary course of business; (c) obtaining credit with specialized priority or with security; and (d) obtaining credit secured by priming or replacement liens. If a debtor-in-possession cannot obtain post petition credit on an unsecured basis, the Court may grant authority for the debtor to obtain credit entitled to superpriority administrative expense status or by a lien on unencumbered property, or some combination of these devices. *See* 11 U.S.C. 364(c).

20. The Debtors were unable to obtain the additional financing amounts they currently require on an unsecured basis or by granting Congress, CIT and Wexford superpriority administrative expense status.

Summary of the Terms of the Amendment and the Wexford Financing Agreement

21. For the Court's convenience, the Debtors briefly have summarized certain terms of the Amendment to Ratification Agreement and the Supplemental Financing below. These summaries are qualified, however, in that they are not intended to be complete summaries. To the extent that the provisions below conflict with the Amendment to Ratification Agreement, the Supplemental Financing Documents or any other operative documents relating to the Financing Agreements or the Supplemental Financing, such documents shall control.

The Amendment to Ratification Agreement

22. According to the terms of the Amended and Restated Ratification Agreement, Debtors' borrowing availability under the Revolving DIP Credit Facility (as defined therein) ("Availability") is based, at least in part, on a specified percentage of the appraised orderly liquidation value of the Debtors' machinery and equipment (the "Advance Rate"). This means any decrease in the appraised value causes a corresponding decrease in Availability and, therefore, in Debtors' available cash flow. The terms of the Amendment to Ratification Agreement, however, mitigate this problem by increasing the Advance Rate from sixty percent (60%) to sixty-five percent (65%) during the period beginning on the date of the Amendment to Ratification Agreement and ending on January 31, 2002. Such increase will provide Debtors with a larger amount of Availability than they otherwise would be able to obtain, based on the decreased appraised value, under the current terms of the Amended and Restated Ratification Agreement.

23. Prior to the Amendment to Ratification Agreement, the Debtors had Availability based on an Advance Rate of sixty percent (60%) of the previously appraised orderly liquidation value of approximately \$42 million, less a reserve intended to reflect monthly depreciation. Under the recent appraisal, the gross orderly liquidation value of the machinery and equipment declined to approximately \$30 million. Without the change in the Advance Rate provided in the Amended and Restated Ratification Agreement, the Availability with respect to machinery and equipment would be approximately \$18 million (i.e. sixty percent (60%) of \$30 million), less any depreciation reserve amount. Under the Amended and Restated Ratification Agreement, as amended by the Amendment to the Ratification Agreement, the Advance Rate is increased to sixty-five percent (65%) and, Availability with respect to machinery and equipment will be approximately \$19.5 million, less any depreciation reserve amount, an increase of approximately \$1.5 million.

The Supplemental Financing to be Provided by Wexford

24. Pursuant to the Supplement Financing Documents, Wexford has agreed to provide a working capital financing facility in the maximum amount of \$6 million dollars, subject to an additional \$___ million at the sole discretion of Wexford without further Court approval, for the Debtors' continued operations and reorganization efforts. The parties will determine the actual amount of financing available to the Debtors under the Wexford Facility at any given time pursuant to an agreed budget prepared by the Debtors and approved by Wexford (the "Budget").

25. The interest rate for the Supplemental Financing will be equal to twelve percent (12%), with a default rate of sixteen percent (16%). The Debtors will repay in full all amounts

borrowed on the earlier of (a) April 30, 2002 or (b) the date of confirmation of a plan or plans of reorganization.

26. The Debtors will grant to Wexford (a) second-priority liens, mortgages and security interests on all assets of the Debtors that secure the financing provided by Congress and CIT under the Financing Agreements, including post-petition accounts receivable, junior in all respects to the liens, mortgages and security interests granted to Congress and CIT and (b) superpriority claims pursuant to Section 364(c)(1) of the Bankruptcy Code over expenses of the kind specified in Sections 503(b), 506(c), 507(b) and 726(b) of the Bankruptcy Code, junior in priority only to the similar superpriority claims of Congress and CIT. The liens and superpriority claims granted to Wexford also shall be subject to the Permitted Liens (as defined in the Final Financing Order), the fees of the Clerk of the Bankruptcy Court for the Eastern District of Kentucky, the fees of the Office of the United States Trustee, the Professional Fee Carveout (as defined in the Final Financing Order) and the carveouts granted to certain utilities pursuant to an order of the Court amending the Final Financing Order.

27. The Debtors shall pay Wexford a commitment fee equal to two percent (2%) of the amounts outstanding under the Supplemental Financing (i.e. \$120,000), payable from the Supplemental Financing. The Debtors will reimburse Wexford \$100,000 from the Supplemental Financing for the costs and expenses (including the fees of inside and outside counsel) Wexford has incurred or will incur in connection with preparation, review, negotiation, execution and delivery of the Supplemental Financing Documents. The Debtors shall grant Wexford a right of first refusal with respect to any sale of the assets of the Debtors during the term of the Supplemental Financing.

28. Events of default shall include, without limitation:
- (a) nonpayment of any amounts due under the Supplemental Financing;
 - (b) breach of any covenant contained in the Supplemental Financing Documents;
 - (c) the (i) dismissal of the Debtors' Chapter 11 cases, (ii) conversion of Debtors' Chapter 11 cases to Chapter 7 cases, (iii) appointment of a trustee or examiner in Debtors Chapter 11 cases, without the consent of Wexford, or (iv) granting of any priming lien or superpriority expense claim other than those specifically allowed under the Supplemental Financing Documents;
 - (d) any stay or modification of order approving the Supplemental Financing or any other order of the Court approving the Supplemental Financing Documents; or
 - (e) Debtors' failure to observe the Budget in any material respect.

29. The willingness of Wexford to provide the Supplemental Financing is predicated on the agreement of the Debtors to certain conditions, all of which will become effective upon entry of an interim order approving the Supplemental Financing. These conditions, which are agreeable to the Debtors, include, among others:

- (a) The agreement by the Debtors to the immediate termination of the Debtors' exclusive right to file a plan or plan of reorganization and solicit acceptances thereto upon entry of an interim order¹;
- (b) The recognition by Debtors of Wexford's intent to propose a debt for equity conversion;
- (c) The grant to the Official Committee of Unsecured Creditors (the "Committee") of the right to participate directly and actively in coal supply contract renegotiations with the full assistance and cooperation of the Debtors, with any dispute relating thereto being subject to submission to the Court for resolution;
- (d) The grant to the Committee of the right to participate directly and actively, with the full assistance and cooperation of the Debtors, in addressing the

¹ On September 21, 2001, Wexford filed Wexford Capital LLC's Renewed Motion for an Order Terminating the Exclusivity Periods (the "Termination Motion"). Upon entry of the interim order approving the Supplemental Financing, which contains the termination of exclusivity by agreement of the Debtors, Wexford shall withdraw the Termination Motion.

impact on the Debtors of the financial problems of Frontier Insurance Group, Inc. ("Frontier") and the requirement imposed by the Commonwealth of Kentucky to replace the Debtors' surety bonds issued by Frontier, with any dispute thereto being subject to submission to the Court for resolution;

- (e) The grant of complete and open access, on a reasonable basis, to consultants of Wexford and the Committee to (i) all of the mines and operations of the Debtor and (ii) all of the relevant business information of LEI;
- (f) The entry by the Court of an order granting approval of the Supplemental Financing Documents (i) on an interim basis by no later than September 28, 2001, and (ii) on a final basis by no later than October 15, 2001;
- (g) The provision by Debtors of financial forecasts for their businesses and of budgeted cash flow requirements, in form satisfactory to Wexford; and
- (h) The execution of the Supplemental Financing Documents, including an intercreditor agreement with Congress and CIT, which documents shall be satisfactory in form and substance to Debtors and Wexford.

Investigation of Alternatives and Negotiation of the Amendment and the Wexford Financing Agreements

30. The Debtors negotiated the terms of the Amendment to Ratification Agreement and the Supplemental Financing Documents with, respectively, Congress and CIT, and Wexford, in good faith and at arms' length. As stated above, at the same time as the Debtors considered entering into these agreements it also reviewed and considered alternative sources of financing. However, given the Debtors' immediate need to obtain additional working capital to fund their ongoing operations, the Debtors alternatives were limited.

31. In these circumstances, "[t]he statute imposes no duty to seek credit from every possible lender before concluding that such credit is unavailable." *In re Snowshoe Co.*, 789 F.2d

1085, 1088 (4th Cir. 1986). Where there are few lenders likely to be able or willing to extend the necessary credit to the debtor, "it would be unrealistic and unnecessary to require [the debtor] to conduct an exhaustive search for financing." *In re Sky Valley, Inc.*, 100 B.R. 107, 113 (Bankr. N.D. Ga. 1988), *aff'd sub nom, Anchor Savings Bank FSB v. Sky Valley, Inc.*, 99 B.R. 117, 120 n.4 (N.D. Ga. 1989).

Application of the Business Judgment Standard

32. Bankruptcy courts routinely defer to the debtor's business judgment on most business decisions, including the decision to borrow money. *See Group of Institutional Investors v. Chicago Mil. St. P. & Pac. Ry.*, 318 U.S. 523, 550 (1943); *In re Simasko Prod. Co.*, 47 B.R. 444, 449 (D. Colo. 1985) ("Business judgments should be left to the board room and not to this Court"); *In re Lifeguard Indus., Inc.*, 37 B.R. 3, 17 (Bankr. S.D. Ohio 1983). "More exacting scrutiny would slow the administration of the Debtor's estate and increase its cost, interfere with the Bankruptcy Code's provision for private control of administration of the estate, and threaten the court's ability to control a case impartially." *Richmond Leasing Co. v. Capital Bank, N.A.*, 762 F.2d 1303, 1311 (5th Cir. 1985).

33. In general, a bankruptcy court should defer to a debtor's business judgment regarding the need for and the proposed use of funds, unless such decision is arbitrary and capricious. *In re Curlew Valley Assocs.*, 14 B.R. 507, 511-13 (Bankr. D. Utah 1981). Courts generally will not second-guess a debtor's business decisions when those decisions involve "a business judgment made in good faith, upon a reasonable basis, and within the scope of his authority under the Code." *Curlew Valley*, 14 B.R. at 513-14 (footnotes omitted).

34. In the Debtors' business judgment, the Amended and Restated Ratification Agreement, as amended by the Amendment to Ratification Agreement, and the Supplemental Financing Documents constitute a financing package that is essential to the continued operation of the Debtors and is in the best interests of the Debtors' estates and their creditors. By entering into these agreements, the Debtors can obtain the needed additional liquidity to maintain operations.

35. The Debtors have concluded in their best business judgment that they could not have obtained supplemental financing on terms more favorable than those contained in the Amended and Restated Ratification Agreement, as amended by the Amendment to Ratification Agreement and the Supplemental Financing Documents. Consequently, the Debtors' efforts in this regard satisfy the statutory requirement of section 364(c) of the Bankruptcy Code.

CONCLUSION

WHEREFORE, the Debtors respectfully request that the Court (1) enter (A) interim and final orders authorizing Debtors to obtain the Supplemental Financing and approve the

Supplemental Financing Documents and (B) an order approving the Amendment to Ratification Agreement and (2) grant to the Debtors such other and further relief as is just.

Dated: September 24, 2001

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY L.L.P.

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10-17-01

EXHIBIT B

EASTERN DISTRICT OF KENTUCKY

FILED

OCT 18 2001

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION

AT LEXINGTON
JERRY D. TRUITT, CLERK
U.S. BANKRUPTCY COURT

IN RE: _____)
)
LODESTAR ENERGY, INC.)
LODESTAR HOLDINGS, INC.)
)
DEBTORS)
_____)

CHAPTER 11
CASE NO. 01-50969
CASE NO. 01-50972
JOINTLY ADMINISTERED

FINAL ORDER AUTHORIZING (1) DEBTORS, PURSUANT TO SECTION 364 OF THE BANKRUPTCY CODE AND RULE 4001 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE, TO (A) OBTAIN SUPPLEMENTAL POST-PETITION FINANCING FROM WEXFORD CAPITAL LLC, (B) GRANT SENIOR LIENS, PRIORITY ADMINISTRATIVE EXPENSE STATUS AND ADEQUATE PROTECTION TO WEXFORD CAPITAL LLC AND (C) MODIFY THE AUTOMATIC STAY, AND (2) AMENDMENTS TO FINANCING AGREEMENTS WITH CONGRESS FINANCIAL CORPORATION, AS AGENT, AND THE CIT BUSINESS GROUP/BUSINESS CREDIT, INC., AS CO-AGENT

Pursuant to the Provisions of Local Bankruptcy Rule of Procedure 4001-2(d), Notice is Hereby Given that this Order contains terms and conditions which vary from the requirements of LBR E.D. Ky. 4001-2(c).

This matter having come on to be considered upon the Emergency Motion for (1) Entry of Interim and Final Orders Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (A) Obtain Supplemental

675-1

Post-Petition Financing From Wexford Capital LLC, and (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC, and (C) Modify the Automatic Stay, and (2) Entry of Order Approving Amendments to Financing Agreements with Congress Financial Corporation, As Agent, and the CIT Business Group/Business Credit, Inc., as Co-Agent (the "Motion") filed by Lodestar Energy, Inc. ("LEI" or "Debtor") and Lodestar Holdings, Inc. (LHI, collectively with LEI, the "Debtors") on September 25, 2001; after due and sufficient notice and a hearing, the Court having reviewed the Motion and having heard the statements of counsel in support of the relief requested therein and any objections and any evidence offered; and the Court being fully advised;

IT APPEARS AND THE COURT FINDS THAT:

BACKGROUND

Jurisdiction and Venue

1. The cases were commenced by the filing of an involuntary petition against the Debtors on March 30, 2001 (the "Petition Date"). On April 27, 2001 (the "Relief Date"), the Court entered an order granting the Debtors relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1330 (the "Bankruptcy Code"). The Debtors continue to operate their businesses and manage their property and affairs as debtors in possession in accordance with Bankruptcy Code §§ 1107 and 1108.
2. This Court has jurisdiction over these Chapter 11 cases under 28 U.S.C. §§ 157 and 1334. This matter constitutes a core proceeding under 28 U.S.C. § 157(b)(2).

3. The Debtors maintain their principal place of business in Lexington, Kentucky. Accordingly, venue for the Debtors' Chapter 11 cases is proper in this District under 28 U.S.C. §§ 1408 and 1409.

4. On April 27, 2001, the Court entered its Order Directing Joint Administration and Procedural Consolidation, whereby the Court directed the Debtors' Chapter 11 cases to be procedurally consolidated and to be jointly administered by the Court and the Office of the United States Trustee.

5. On May 8, 2001, the Office of the U.S. Trustee filed its Notice of Appointment of the Committee pursuant to which the Official Committee of Unsecured Creditors (the "Committee") was appointed.

The Debtors, Their Business and Operations and Pre-Petition Financing

6. The Debtors are both Delaware corporations. LHI is a holding company that owns 100% of the common stock of LEI. LEI owns 100% of the common stock of Eastern Resources, Inc., a Kentucky corporation, and Industrial Fuels Minerals Company, a Michigan corporation (collectively, the "Subsidiaries").

7. The principal operations of the Debtors (including the Subsidiaries) consist of surface and underground coal mining operations in Kentucky and underground coal mining operations in Utah and Colorado. The Debtors also have preparation plants, loading facilities, offices and warehouses associated with the mines. The Debtors employ approximately 850 people, 407 of whom are union members at the Baker Mine in Western Kentucky.

8. Before the commencement of Debtors' bankruptcy cases, Debtors were parties to an Amended and Restated Credit Agreement with Congress Financial Corporation, as agent for

itself and other lenders (the "Prepetition Lenders", or "Congress and CIT"), as amended and restated as of October 22, 1998 (the "Credit Agreement", or together with all related loan and collateral documents, as amended, the "Prepetition Loan Documents"). As part of the Prepetition Loan Documents, LEI granted the Prepetition Lenders a lien, security interest and mortgage in substantially all of the tangible and intangible real and personal property, fixtures and assets of LEI, whether now owned or existing or hereafter acquired or arising and wheresoever located including, without limitation: (a) all accounts, (b) all inventory, (c) all equipment, and (d) all general intangibles (collectively, the "Prepetition Collateral"). The Prepetition Lenders assert a first priority prepetition lien, security interest and mortgage in the Prepetition Collateral. Nothing in this Order is intended to validate or reaffirm any liens or security interests granted to the Prepetition Lenders.

9. Certain purchase money lenders (collectively, the "PMSI Creditors") may assert purchase money security interests against a variety of miscellaneous equipment used by LEI.

Post-Petition Financing

10. On the Relief Date, the Court entered the Emergency Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, and (4) Prescribe Form and Manner of Notice and Time for Interim Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (the "Emergency Order"), pursuant to which, inter alia, LEI was authorized to obtain, on an emergency basis effective during the "Emergency Financing Period" (as defined in the Emergency Order), post-petition loans, advances and other credit and financial

accommodations from Congress and CIT, in their capacity as agents and lenders, secured by first priority liens and security interests upon and in the collateral defined in the Emergency Order and a super-priority administrative expense claim against Debtors for all "Post-Petition Obligations" (as defined in the Emergency Order).

11. On May 3, 2001, the Court entered the Interim Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent and (5) Prescribe Form and Manner of Notice and Time for Final Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (the "Interim Financing Order"), pursuant to which, inter alia, LEI was authorized to obtain, on an interim basis, post-petition loans, advances and other credit and financial accommodations from Congress and CIT, in their capacity as agents and lenders pursuant to the terms and conditions of the Existing Loan Agreement and the other Existing Financing Agreements (as such terms are defined in the Interim Financing Order), as ratified and amended by the Ratification Agreement (as defined in the Interim Financing Order), secured by first priority liens and security interests upon and in the collateral set forth in the Interim Financing Order) and a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Ratification Agreement).

12. On June 21, 2001, the Court entered the Final Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative

Expense Status and Adequate Protection, (3) Modify the Automatic Stay and (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent (the "Final Financing Order"), pursuant to which, inter alia, LEI was authorized to obtain, on a final basis, post-petition loans, advances and other credit and financial accommodations from Congress and CIT (the "Congress DIP Facility"), in their capacity as agents and lenders, pursuant to the terms and conditions of the Amended and Restated Ratification Agreement and the other Financing Agreements (as such terms are defined in the Final Financing Order). The Congress DIP Facility is secured by first priority liens, security interests and mortgages upon and in the collateral set forth in the Final Financing Order (the "Congress DIP Liens") (The collateral against which Congress and CIT have the Congress DIP Liens is defined in the Final Financing Order as "Collateral" and such defined term shall have the same meaning as used in this Order). In addition, and as part of the Congress DIP Facility, Congress and CIT were granted a super-priority administrative expense claim against Debtors (the "Congress Superpriority Expense Status") for all "Obligations" (as defined in the Amended and Restated Ratification Agreement). For purposes of this Order, "Obligations" as defined in the Amended and Restated Ratification Agreement shall be defined as "Congress Obligations".

13. The Debtors' urgent need for additional financing is based on a number of reasons that have caused a lack of availability under the Financing Agreements. As represented by the Debtors, these reasons include, among others, (a) a substantial decrease in the appraised liquidation value of LEI's machinery and equipment, (b) a significant reduction in coal production arising from operational problems, (c) sizeable increases in the amounts of the

Debtors' insurance premiums and (d) the inability to conclude negotiations with certain third parties concerning modifications to long-term coal supply agreements.

14. The Debtors contacted Congress and other lenders to explore supplemental financing and informed the Committee and Wexford Capital LLC ("Wexford Capital"), the agent for Spectrum Investors LLC ("Wexford Spectrum"), Solitair Corp. ("Solitair") and Valentis Investors LLC ("Valentis"; collectively referred to herein with Wexford Capital, Wexford Spectrum and Solitair as "Wexford"). As a result of these discussions, Congress has agreed to increase its advance rate against machinery and equipment from sixty percent (60%) to sixty-five percent (65%), a change that will improve availability by approximately \$1.5 million, thereby softening the detrimental impact of the recent appraisal of the machinery and equipment. This modification is embodied in Amendment No. 1 to the Amended and Restated Ratification and Amendment Agreement to be dated as of the date of the Interim Order (the "Amendment to Ratification Agreement"), a copy of which is attached the Interim Order as Exhibit A thereto.

15. The availability increase that will result from the Amendment to Ratification Agreement is not sufficient to alleviate the Debtors' liquidity needs. The only satisfactory way to resolve the current financing requirements of the Debtors is to also obtain (i) supplemental financing in an amount not less than \$5 million and (ii) discretionary financing in an additional amount of not less than \$5 million. The Debtors obtained proposals for such supplemental financing from Wexford and Ableco Finance LLC, an affiliate of Cerberus Capital Management, L.P. Copies of the proposals were provided to the Committee.

16. After exploring their available options and discussing the terms of the supplemental financing with both potential lenders, the Debtors have determined that the best alternative is to

enter into the Amendment to Ratification Agreement with Congress and CIT and to obtain supplemental financing from Wexford (referred to herein as "Lender") upon the terms and conditions for such financing set out in the Credit Agreement attached hereto as Exhibit B (the "Supplemental Loans"). This combination will provide the greatest overall benefit to the Debtors and their estates and creditors and is expected to meet the Debtors' financing needs.

17. The Prepetition Lenders have agreed to the Supplemental Loans and the security for such loans provided for in this Order and the Credit Agreement provided the Lender enters into an Intercreditor and Subordination Agreement to be effective as of the date of this Order (the "Intercreditor Agreement") whereby Lender subordinates the Supplemental Loans and its security for such loans to the Congress DIP Facility and Congress DIP Liens, all on such terms as are provided in the Intercreditor Agreement.

18. The Debtors, in their business judgment, have determined that approval of the Supplemental Loans and the Amendment to Ratification Agreement will provide them with sufficient capital and liquidity to continue their business operations. The Amendment to Ratification Agreement will allow the Debtors to have greater borrowing availability under the Financing Agreements with Congress and CIT, and the Supplemental Loans will provide the Debtors with additional post-petition financing to supplement that provided by Congress and CIT.

19. As represented by the Debtors, the Debtors' need for the relief sought herein is urgent and essential to the success of the Debtors' Chapter 11 cases. Without the additional financing sought, the Debtors cannot continue to pay bills, royalties and other ongoing obligations, including payroll. The Debtors will be unable to continue to operate effectively after September

28, 2001 without additional financing. Accordingly, the continuing viability and ability of the Debtors to reorganize requires the requested relief.

20. Section 364 of the Bankruptcy Code distinguishes between: (a) obtaining unsecured credit in the ordinary course of business; (b) obtaining unsecured credit out of the ordinary course of business; (c) obtaining credit with specialized priority or with security; and (d) obtaining credit secured by priming or replacement liens. If a debtor-in-possession cannot obtain post petition credit on an unsecured basis, the Court may grant authority for the debtor to obtain credit entitled to superpriority administrative expense status or by a lien on unencumbered property, or some combination of these devices. 11 U.S.C. 364(c).

21. The Debtors were unable to obtain the additional financing they currently require on an unsecured basis or by granting Prepetition Lenders and Wexford superpriority administrative expense status.

22. On September 28, 2001, the Court entered the Interim Order Authorizing (1) Debtors, Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure, to (A) Obtain Supplemental Post-Petition Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and The CIT Business Group/Business Credit, Inc., as Co-Agent (the "Interim Order").

BASED ON THE FOREGOING FINDINGS, no further notice being required and the Court being otherwise duly advised in the premises,

IT IS HEREBY ORDERED THAT:

1. The Motion is granted and any objections to the entry of this Final Order are overruled; including, but not limited to, the limited objection of AMS Technologies, Inc. except to the extent that the rights of AMS Technologies, Inc. as a secured creditor are affected.

2. All of the terms, conditions and provisions of the Amendment to Ratification Agreement (a copy of which is annexed to the Motion and incorporated herein by reference) are hereby authorized and approved in all respects and Debtors are hereby authorized and directed to execute and deliver the Amendment to Ratification Agreement in favor of Prepetition Lenders and comply with all of the provisions thereof. Except as specifically modified and amended pursuant to the terms and provisions set forth in the Amendment to Ratification Agreement, all of the terms, conditions and provisions of the Final Financing Order and the Financing Agreements (as defined in the Final Financing Order) are hereby ratified and reaffirmed and shall remain in full force and effect.

3. The terms and provisions of the Amendment to Ratification Agreement among Debtors and the Prepetition Lenders have been negotiated in good faith and at arms' length between Debtors, on one hand, and Prepetition Lenders, on the other hand, and any loans, advances or other financial and credit accommodations which are made or caused to be made to Debtors by the Prepetition Lenders pursuant to the Final Financing Order and the Congress Financing Agreements, as amended and modified by the Amendment to Ratification Agreement, are deemed to have been extended in good faith, as the term "good faith" is used in Section 364(e) of the Bankruptcy Code, and shall be entitled to the full protection of Section 364(e) of the Bankruptcy Code in the event that this Order or any provision hereof is vacated, reversed or modified, on appeal or otherwise.

4. Lender is authorized to make the Supplemental Loans on the terms provided in the Credit Agreement. The Credit Agreement, the Note and all other agreements relating to the Credit Agreement (as those terms are defined in such agreement) and the Intercreditor Agreement are collectively referred to as the "Loan Documents". Notwithstanding any other provision of this Order to the contrary, in the event of a conflict between the terms of this Order and any Loan Documents, the terms of the applicable Loan Document shall control; provided, however, nothing in this Order or the Loan Documents shall change a party's obligations to keep information confidential pursuant to the terms of any and all confidentiality agreements involving such party; and, provided, further, nothing in the Loan Documents shall change the limitation to Lender's rights set out in paragraph 10(a) below.

5. The Debtors are hereby authorized and directed to (a) execute and deliver the Loan Documents evidencing the Supplemental Loans, and all other documents necessary or desirable to implement such loans (through one or more officers designated by them), (b) grant the security interests and liens contemplated hereby and thereby, (c) effect all transactions and take any action provided for in or contemplated by the Loan Documents or deemed necessary by the Lender and/or Congress to effectuate the terms and conditions of the Loan Documents and this Order, including, without limitation, the payment of any and all fees, costs, charges, commissions and expenses, including reasonable counsel fees and expenses, payable under the Loan Documents or this Order, without the necessity of any further order of this Court, and (d) comply with all provisions of the Loan Documents, including, without limitation, the payment and satisfaction in full of all Congress Obligations and Supplemental Indebtedness when due in accordance with the terms of the Loan Documents. Nothing contained in this Order shall be

construed to require the Lender to make any Supplemental Loans to or for the benefit of the Debtors other than as expressly provided in the Credit Agreement, and any and all Supplemental Loans shall be in such amounts and made at such times as expressly provided under the Credit Agreement. The Lender may, in its discretion, terminate the Supplemental Loans at any time after the occurrence of an Event of Default (as defined below) in accordance with the provisions of the Loan Documents.

6. Nothing in this Order shall require the Lender to file any Loan Documents with any applicable state or other office in order to fully perfect the security interests and liens in the Collateral granted by Debtors to Lender pursuant to the Loan Documents. Notwithstanding the foregoing, Lender may file of record any Loan Documents it deems reasonably necessary with respect to the Supplemental Loans, any such recorded documents to be deemed notice of the security interests and liens of the Lender, and the priority of such interests as granted by this Order, but not otherwise affect, or be required to establish the perfection and priority of, all such security interests and liens.

7. Debtors are authorized to receive financing from Lender on the terms of this Order and the Loan Documents, and to incur obligations to Lender up to a maximum of \$10,000,000.00 from Lender at any one time outstanding ("Maximum Amount"), in the form of the Supplemental Loans and grant liens and security interests in favor of Lender as provided herein. The Supplemental Loans will be made on the following terms:

a. Effective as of the date of the Interim Order, Lender has made a Supplemental Loan to the Debtors in the principal amount of \$3,000,000 (the "Initial Advance"), all in conformity with the provisions of the Loan Documents. Effective as of the date of this

Final Order, Lender shall make a Supplemental Loan to the Debtors in the principal amount of \$2,000,000. Thereafter, and other Supplemental Loans to Debtors, up to the balance of the Maximum Amount, shall be solely at the discretion of Lender (irrespective of whether the Debtors have repaid any portion of the Initial Advance) and strictly in conformity with the provisions of the Loan Documents.

b. All Supplemental Loans will be made solely in conformity with a weekly budget prepared by the Debtors, and as the same may be updated and modified from time to time with the prior written reasonable approval of Lender (the "DIP Budget"); provided, however, that the Debtors may vary from the budget for any line item on such budget in an amount not to exceed 5% or as otherwise approved by Lender in its sole discretion. In the event Lender does not approve any DIP Budget or update of any budget, it shall have no obligation to make any Supplemental Loans to Debtors. Notwithstanding the foregoing, the budget materials provided to Lender as of the date of this Order are deemed sufficient to allow funding of the Initial Advance.

c. Supplemental Loans will be disbursed in amounts of \$500,000 or multiples thereof, with funding to occur on a weekly basis (up to the Maximum Amount) unless otherwise agreed to by the Lender in its sole discretion, interest to accrue from the date on which any Supplemental Loan is made by Lender until such loan is repaid.

d. The Supplemental Loans shall bear interest at a rate equal to twelve percent (12%). From and after an Event of Default, the Postpetition Loans will accrue interest at sixteen percent (16%). Interest on the Supplemental Loans shall be due and payable on the first business day of each month, in arrears.

e. Debtor shall pay Lender (i) a non-refundable commitment fee of \$100,000 for the Initial Advance, payable upon the entry of this Order from the proceeds of the Initial Advance and (ii) additional non-refundable commitment fees equal to 2% of the principal amount of any additional Supplemental Loans made to Debtors, any such additional fees to be paid upon the date any such loan is funded, from the proceeds of the applicable Supplemental Loan (any such fee a "Commitment Fee"). Each Commitment Fee shall be deemed fully earned on the date it is paid.

f. Debtor shall pay Lender, upon demand all reasonable fees and out-of-pocket costs and expenses incurred by Lender in (i) preparation, review, negotiations and execution of this Final Order and the documentation of the Initial Advance (the "Initial Lender Expenses"), and (ii) monitoring, administering or providing financing or enforcing its rights and remedies hereunder, or in enforcing rights against any guarantors, including without limitation, attorneys fees (of both internal and outside counsel) and costs, appraisal fees, recording fees, audit fees (at a rate of \$750 per man/day plus out-of-pocket expenses), expert witness fees, together with all expenses and fees (including attorneys fees and costs) incurred in connection with any litigation arising under this Order or in connection with or related to the financing being provided hereunder (collectively, the "Lender Expenses").

8. Notwithstanding anything to the contrary in the Order, Debtors shall borrow from Lender (as part of the Initial Advance) and pay to Lender \$100,000 upon entry of this Order to be used for the sole purpose of paying Initial Lender Expenses. Such payment shall be in full satisfaction of all Initial Lender Expenses, irrespective of the amount of such expenses.

9. Absent a written extension from Lender (which extension shall be at Lender's sole discretion), the Supplemental Loans shall be due on the earliest of: (a) April 30, 2002; (b) the occurrence of an Event of Default; or (c) the effective date of a plan of reorganization for the Debtors (the earliest of such events the "Term" of this Order).

10. To secure Debtors' obligations on account of the Supplemental Loans, including principal, interest, all Commitment Fees, the Initial Lender Expenses and all other Lender Expenses (collectively, "Supplemental Indebtedness"), Lender is hereby granted a perfected lien on and security interest in the Collateral.

a. Subject to paragraph 30 of this Order, notwithstanding anything to the contrary set forth in this Order, the perfected lien and security interest as well as the superpriority claims granted to Lender shall be coextensive (but junior and subordinate in all respects in accordance with the Intercreditor Agreement) to and with the perfected lien and security interest as well as the superpriority claims of the Prepetition Lenders as provided for in accordance with the Final Financing Order and the Congress Financing Agreements, and shall likewise be limited to the same extent as the perfected lien and security interest and superpriority claims of the Prepetition Lenders, including with respect to all Non-Insider Preference Actions (as that term is defined in the Final Financing Order).

b. Notwithstanding anything to the contrary set forth in this Order, the Collateral shall not include (i) the capital stock of LHI, and (ii) any rights or interests of either of the Debtors, as lessee, sublessee, or assignee of or tenant or subtenant under any leasehold interests of such Debtor in any real property utilized or reserved for the mining and recovery of coal or other minerals, if, as of the Petition Date, under the terms of any lease, sublease or other

agreement giving rise to such leasehold interest, the grant of a mortgage, security interest, assignment, or lien thereon to any person or entity (a) is prohibited; (b) may cause a default or forfeiture; or (c) requires the consent of any person or entity to the grant of a mortgage, security interest, assignment or lien thereon to any person or entity unless such prohibition, default, forfeiture or consent is expressly waived in writing or agreed upon by all such persons or entities subsequent to the entry of this Order, provided, however, that all rights and claims of all persons and entities in any of the aforementioned leasehold interests are reserved and not waived herein.

c. Pursuant to 11 U.S.C. § 364(c)(2) or (c)(3), as applicable, the lien and security interest granted herein to Lender in the Collateral shall be prior to all other liens and security interests against the Collateral, subject to the Congress DIP Liens, Permitted Liens (as defined in the Final Financing Order), the fees of the Clerk of the Bankruptcy Court for the Eastern District of Kentucky, the fees of the Office of the United States Trustee, the Professional Fee Carveout (as defined in the Final Financing Order) and the carveouts granted to certain utilities pursuant to the orders of the Court amending the Final Financing Order (collectively, the "Senior Encumbrances").

11. Except for the Senior Encumbrances (other than Permitted Liens), the obligations of the LEI under the Loan Documents and all Supplemental Indebtedness shall have priority (the "Wexford Superpriority Status") pursuant to 11 U.S.C. § 364(c)(1) over any and all costs and expenses of administration or other priority claims in this Chapter 11 case or any subsequent Chapter 7 case, including those described in 11 U.S.C. §§ 503(b) and 507(b), and, except for the Senior Encumbrances, shall not be subordinated to any other security interest or lien granted under 11 U.S.C. § 364 or § 105 or otherwise. Lender shall have all the rights and remedies of a

secured creditor and mortgagee in connection with the security interests, liens and mortgages granted by this Order, except to the extent that such rights and remedies may be affected or limited by the Bankruptcy Code.

12. Debtors shall furnish to Lender and the Prepetition Lenders:

a. On a daily basis, all internally prepared production, sales and/or shipment data, and an updated borrowing availability roll-forward analysis, in such form(s) and detail as Lender may reasonably request.

b. By the 15th day of each month, as of the last day of the preceding month, aging and summary reports of accounts (the "Accounts") in such form and detail as Lender may reasonably request.

c. With each request for a Supplemental Loan but no less frequently than the last business day of each week, certificates (each, a "Budget Certificate") indicating as of the close of business of the preceding day, in a form acceptable to Lender, what amounts have been spent and remain to be spent in conformity with the DIP Budget.

d. A weekly listing of all inventories of Debtors ("Inventory"), including raw material and processed inventory in such form and detail as Lender may reasonably request.

e. Within five business days of Lender's request, a physical inventory report listing all of Debtors' Inventory, wherever located.

f. Within 30 calendar days after the end of each of the first eleven months of each fiscal year, a balance sheet of the Debtors as of the close of each such month and of the comparable month in the preceding fiscal year, and statements of income and surplus of the Debtors for each month and for that part of the fiscal year ending with each such month and for

the corresponding period of the preceding fiscal year, all in reasonable detail and certified as true and correct (subject to audit and normal year-end adjustments) by the chief financial officer of the Debtors.

g. Within 45 calendar days after the end of each quarter of each fiscal year, a balance sheet of Debtors as of the closing of such quarter and statements of income and surplus of Debtors for such quarter and for the corresponding period of the preceding fiscal year, on cumulative basis, all in reasonable detail and certified as true and correct (subject to audit and normal year-end adjustments) by the chief financial officer of Debtors.

h. Within 90 calendar days after the end of each fiscal year, pro forma cash flow forecasts for the succeeding 12 month period.

i. All other reports, documents and information that Lender may reasonably request.

13. The Supplemental Loans shall be subject to the following terms and conditions:

a. For the purpose of calculating availability for Supplemental Loans, the receipt by Lender of any wire transfer or electronic funds transfer of funds, check or other item of payment shall be applied immediately to provisionally reduce the Obligations, but such receipt shall not be considered a payment on account unless such wire transfer or electronic funds transfer is of immediately available federal funds and is made to the appropriate deposit account of Lender or unless and until such check or other item of payment is honored when presented for payment. For the purpose of calculating interest, the receipt by Lender of any wire transfer or electronic funds transfer, check or other item of payment shall be deemed to have occurred two (2) business days after the date Lender actually receives such item of payment. In the event any

check or other item of payment is not honored when presented for payment, Debtors shall be deemed not to have made or received such payment. Notwithstanding anything to the contrary contained herein, any wire transfer, electronic funds transfer, check or other item of payment received by Lender after 1:00 p.m. Lexington, Kentucky time shall be deemed to have been received by Lender as of the opening of business on the immediately following business day.

b. As an administrative convenience to Debtors to ensure the timely payment of amounts owing by Debtors to Lender under this Order, Lender will advance for the account of Debtors an amount each month sufficient to pay interest accrued on the principal amount of the Supplemental Indebtedness during the immediately preceding month and amounts from time to time sufficient to pay all Lender Expenses owing by Debtors under this Order. All such advances will be treated as Supplemental Loans.

c. So long as such coverage is consistent with the insurance covenants for the Prepetition Lenders required under the Final Financing Order, and not in derogation of any co-insurance or other rights of Prepetition Lenders, Debtors shall maintain adequate fire and extended coverage and liability insurance covering all of its present and future real and personal property, including the Collateral, with Lender's loss payable and noncontributory mortgagee clauses in Lender's favor, protecting Lender's interest, as such interest may appear (including co-insurance with the Prepetition Lenders), together with such policies of business interruption insurance and products liability insurance as Lender may reasonably request and insurance in accordance with all applicable workers' compensation laws. Such insurance must be in such form, with such companies, and in such amounts as is acceptable to Lender, insuring against liability for damage to persons or property, and must provide for thirty (30) days prior written

notice to Lender of cancellation or material alteration. Debtor must provide Lender with the original policies of insurance for all such coverages or true copies of the policies, as soon as practicable following execution of this Order showing that Lender's interest has properly been endorsed on the applicable policy. Lender may, in its sole discretion, on 30 days written notice to Debtors, require the Debtors to obtain additional or different insurance coverages as Lender may reasonably request.

d. Lender, through any of its officers, employees or agents, shall have the right at any time or times during Debtors' usual business hours, or during the usual business hours of any third party having control over any of Debtors' records ("Reasonable Hours"), to inspect such records in order to verify the amount or condition of, or any other matter relating to, the Collateral or Debtors' financial condition, and to verify compliance with this Order and all Loan Documents. Lender also shall have the right at any time or times during Lenders' Reasonable Hours to inspect and examine inventory and the equipment and to check and test the same as to quality, quantity, value and condition. Notwithstanding anything herein to the contrary, Lender's actions under this paragraph shall not unreasonably interfere with Debtor's business operations; provided, however, if an Event of Default has occurred or if Lender reasonably believes that an Event of Default has occurred and gives notice to Debtor and its counsel of such specific Event of Default Lender may conduct any of the inspections referenced in this section at any time without regard to Debtor's or any third party's Reasonable Hours.

14. The following covenants, representations and warranties shall apply during the term of this Order:

a. Debtors will not assume or reject any material lease or executory contract, pursuant to 11 U.S.C. § 365, or fail to maintain the right to assume or reject any material lease or executory contract, without first consulting with Lender. Lender shall have the right to participate directly and actively in decisions relating to any such assumption or rejection of any material lease or executory contract. If the parties cannot agree regarding any decision, the dispute will be submitted by joint motion of Debtors, Wexford and the Committee to the Bankruptcy Court for resolution. Further, unless disputed in good faith (and as long as such dispute does not give rise to any default thereunder or materially affect the obligation of any party thereto), Debtors shall timely comply with and fully perform all of its and their respective agreements and valid obligations to and with all parties and shall not commit or permit to be committed any default thereunder, the noncompliance with which, or default under which, could (i) have a material and adverse effect upon the assets or businesses of Debtors or (ii) impair the ability of Debtors to perform hereunder or (iii) result in a lien upon any Postpetition Collateral.

b. Debtors will not change materially the nature of its Coal Business in any manner or replace their senior operating management, consisting of John W. Hughes, R. Eberley Davis, Michael E. Donohue, Mike Francisco, and William M. Potter, without the prior written consent of Lender.

c. Lender shall have a right of first refusal with respect to any definitive proposal to purchase substantially all of the assets of the Debtors, and shall promptly notify Lender regarding any such proposal, whether in conjunction with a plan of reorganization or otherwise (the "Lender Right of Refusal"); provided, however, the Lender Right of Refusal shall be inferior to the Permitted Liens including those of Webster County Coal, LLC and inferior to any other

party's right of refusal to purchase some or substantially all of the assets of the Debtors where the Debtors have previously granted such a rights and where such rights are validly existing as of the date hereof. Debtors shall enter into such agreements as Lender may require to evidence the Lender Right of Refusal. Notwithstanding anything herein to the contrary, if the Debtors assets are sold pursuant to an auction conducted by the Bankruptcy Court or by private sale, the Lender Right of Refusal shall give Lender the final opportunity to match the last bid made, but shall not prevent any party from continuing to increase the amount of its bid for the purchase of Debtors' assets.

d. The Debtors shall each furnish to Lender, immediately upon Lender's written request, such information about its financial condition, properties and operations as Lender may from time to time reasonably request.

e. By agreement of the Debtors, immediately upon entry of this Order and notwithstanding 11 U.S.C. §§ 1121(b) and (c) and the prior order of the Court extending the Debtors' exclusive right to file a plan of reorganization and seek confirmation of that plan (the "Exclusive Periods") to and including October 24, 2001 and December 24, 2001, respectively, the Committee and/or Lender only (and no other party in interest) shall have the right to file a plan or plans of reorganization for the Debtors, together with a disclosure statement or statements, and to seek confirmation of such plan or plans either alone or together with any plan of reorganization prepared and filed by the Debtors. This agreement of the Debtors concerning the limited termination of the Exclusive Periods in favor of the Committee and Lender only shall survive the termination of this Order.

f. The Debtors acknowledge that (i) Lender (as represented by Mark Zand) was a member of the Committee until it was instructed to resign by the Court after the Interim Order was entered but remains entitled to file its own plan of reorganization for Debtors, (ii) after conducting a Bankruptcy Rule 2004 examination of Mr. Zand, and such other investigation as Debtors deemed adequate, the Debtors (A) have no factual or legal basis to challenge the involvement of or participation of Lender and Mr. Zand on the Committee, and (B) have concluded that there is no evidence of any impropriety by Lender or Mr. Zand in their service on the Committee, and that Lender and Mr. Zand have not breached the Confidentiality Agreement ("Confidentiality Agreement") between Lender and Debtors, and (iii) there was no conflict of interest or other basis for limiting the role of Lender or Mr. Zand on the Committee in any manner, including but not limited to the type of information disclosed to Lender, subject to the requirements of the Confidentiality Agreement. Debtors agree to immediately withdraw with prejudice all challenges to Lender or Mr. Zand regarding their involvement with the Committee. In the event Debtors subsequently determine, on a good faith basis after full and complete disclosure and discussions with the Committee and Lender, that the Lender or any other Committee member has breached its Confidentiality Agreement, then in such event, Debtors may by motion seek such relief as they deem necessary with respect to such party from the Bankruptcy Court.

g. The Debtors will allow the Committee and Lender to participate directly and actively in (1) coal supply contract negotiations and (2) negotiations with Frontier Insurance Group, Inc. ("Frontier") addressing the impact on the Debtors of the financial problems of and the requirement imposed by the Commonwealth of Kentucky to replace the Debtors' surety

the parties cannot reach agreement, all disputes will be submitted by joint motion of the Lender, Committee and the Debtors to the Bankruptcy Court for resolution.

h. The Debtors acknowledge that, as of September 24, 2001, they are insolvent within the meaning of 11 U.S.C. § 101(32). Such acknowledgement is made as of such date and does not constitute an acknowledgement as of any future date.

i. Subject only to the provisions of existing Confidentiality Agreements, the Debtors will allow all existing mining and other consultants of the Lender and the Committee, including but not limited to Terry Coleman and the Weir Group, as well as other Representatives (as defined in such agreements) of the Lender and Committee, to have open access at Reasonable Hours, to all mines and other operations of the Debtors, as well as any other records and information concerning the Debtors which is reasonably required to make recommendations or develop plans concerning the business operations of the Debtors. Lender and the Committee will provide prior written notice to the Debtors of any additional mining or other consultants they propose to use in these cases. In the event Debtors subsequently determine, on a good faith basis after full and complete disclosure and discussions with the Committee and Lender, that any additional consultant to be used by either Lender or the Committee has an actual conflict of interest with, or is a competitor of, Debtors, then in such event the parties will negotiate in good faith and try to agree on whether the consultant cannot be used, or alternatively whether a Confidentiality Agreement or other limitations can reasonably be adopted so as to allow use of the consultant. In the event the parties cannot agree after such negotiations, either party may submit the matter to the Bankruptcy Court for resolution. The Debtors also agree that any information, including written and electronic, concerning the Debtors, arising under or related to

these bankruptcy cases in any manner, which is provided to Renco, Ira Rennert or any affiliate of Renco or Ira Rennert, at any time or from time to time, will also be provided at the same time to the Lender and the Committee.

15. This Order constitutes a modification of the automatic stay under § 362 of the Bankruptcy Code subject to the terms of this Order, to the extent that such modification is required to permit the Lender or Prepetition Lenders to take any actions permitted under this Order.

16. The following shall constitute events of default under this Order (“Events of Default”):

- a. Debtors breach in any material respect any of the terms and conditions or covenants of this Order;
- b. If any written representation or warranty made by Debtors after entry of this Order or any certificate, report or financial statement delivered to Lender by Debtors pursuant to this Order proves to have been false in any material respect as of the time when made or given;
- c. If the Debtors’ Chapter 11 cases are converted to cases under Chapter 7 of the Bankruptcy Code;
- d. If a trustee is appointed in either of Debtors’ Chapter 11 cases;
- e. If any modification is made to this Order which affects Lender's rights or remedies without the consent of Lender;
- f. Excluding the Senior Encumbrances (other than Permitted Liens), if any third party is granted a lien or security interest in any of the Collateral; and

g. If Debtors default in a material respect under any of the Loan Documents or in respect to any of the Senior Encumbrances.

17. Subject to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default and Lender providing written notice to Debtors and their counsel (which specifically identifies such default and the date of occurrence), Lender shall have the right to declare all Supplemental Loans immediately due and payable. Further, upon five (5) days written notice to Debtors and their counsel and Prepetition Lenders after an Event of Default, Lender shall be permitted to exercise all rights and remedies of a secured creditor and mortgagee without further order of the Court provided however, if after receipt of written notice of an event of Default from Lender, Debtors believe an Event of Default has not occurred, Debtors shall have the right to file a motion for a determination thereof (a "Default Motion"), which motion will be heard on an expedited basis on no less than two (2) business days notice to Lender and Prepetition Lenders, subject to the Court's calendar. At any hearing on a Default Motion, the sole issue to be litigated will be whether or not an Event of Default has occurred, and Debtors shall bear the ultimate burden of proof. If the automatic stay is lifted as to Lender, it shall be automatically lifted as to the Prepetition Lenders without further order of the Court.

18. The provisions of this Order shall be binding upon and inure to the benefit of Debtors, Prepetition Lenders and Lender and their respective successors and assigns (including any trustee hereafter appointed or elected as a representative of Debtors' estate, whether in this bankruptcy case or in any subsequent case under Chapter 7 of the Bankruptcy Code). The priorities, liens, mortgages and security interests provided for under this Order shall continue in this or any

superseding cases under the Bankruptcy Codes and such liens, mortgages and security interests shall maintain their priority as provided by this Order until satisfied and discharged.

19. The Lender (and their agents and consultants) shall not be deemed to be, for any purpose, the owner or operator of the Collateral or Debtors' premises or a successor to any of Debtors or an employer of any of Debtors' employees, and shall not be liable for any of Debtors' prepetition obligations or indebtedness.

20. The Lender and the Collateral shall be exempt from and not be subject to any surcharges, excises, liens or charges of any nature or type pursuant to 11 U.S.C. § 364, 11 U.S.C. § 506(c) and 11 U.S.C. § 510 in this Chapter 11 proceeding or in any subsequent Chapter 7 proceeding, including, without limitation, expenses of administration or liquidation except as expressly provided below. Further, Lender does not consent to a surcharge by a subsequently appointed trustee under 11 U.S.C. § 506(c). Notwithstanding the foregoing, Lender consents to a surcharge of its collateral (in which Lender has a first priority lien, mortgage or security interest) under 11 U.S.C. § 506(c) for the Senior Encumbrances (other than Permitted Liens). Except as provided in this Order, and only to the amount of the Professional Fee Carveout, Lender shall have no obligation to fund any other professional fees or administrative expenses, whether by surcharge or otherwise.

21. In order to effectuate the terms of this Order, Lender and the Prepetition Lenders, and their respective financial consultants, if any, shall be allowed to directly contact Debtors at Reasonable Hours. Any such contacts shall not be construed to be violative of the automatic stay provided by 11 U.S.C. § 362.

22. Debtors shall give notice to Lender and the Prepetition Lenders, through their respective counsel, of all motions, requests, applications, proposed orders and orders entered relating to this Chapter 11 case and any proceedings in connection with said case.

23. Further, Debtors shall provide Lender and the Prepetition Lenders, through their respective counsel, with copies of all reports, statements, schedules, motions, pleadings and other papers filed with or submitted by Debtor to this Court or the U.S. Trustee.

24. No modification, amendment or appeal reversing any provision of this Order shall affect any other provision thereof. The protection of 11 U.S.C. § 364(e) shall apply to the Supplemental Loans and the security interest liens and mortgages granted to Lender hereunder to the fullest extent possible.

25. No delay on the part of the Lender or Prepetition Lenders in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any right, power and privilege hereunder preclude other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies hereunder specified are cumulative and not exclusive of any rights or remedies which the Lender, Prepetition Lenders or Debtors may otherwise have.

26. If any or all of the provisions of this Order are hereafter modified, vacated, stayed or terminated by subsequent order of this court or any other court, such modification, vacation or stay shall not affect (i) the validity of any debt under this Order to Lender that was incurred pursuant to this Order prior to the effective date of such modification, vacation, stay or termination, or (ii) the extent, validity, priority and enforceability of any lien or security interest of Lender granted pursuant to this Order. Notwithstanding such modification, vacation, stay or

termination, any obligations of Debtors pursuant to this Order arising prior to the effective date of such modification, vacation, stay or termination shall be governed in all respects by the original provisions of this Order. Lender shall be entitled to all of its rights, privileges and benefits hereunder and thereunder including, without limitation, the liens, security interests; priorities and collection rights granted herein to or for the benefit of Lender with respect to all borrowings and advances made pursuant to this Order.

27. Any finding of fact set forth in this Order that is a conclusion of law shall be deemed to be a conclusion of law incorporated by reference in these conclusions of law as though fully set forth herein.

28. Except as expressly provided in this Order, nothing in this Order shall modify or alter the terms of the Final Financing Order, which order remains in full force and effect.

29. Nothing in this Final Order shall prejudice, impair, determine or otherwise affect in any way the rights or remedies of Cedar Bay Generating Company Limited Partnership, Indiantown Cogeneration, L.P., or Colonial Coal Company under or in connection with Sections 365, 362 or any other provision of the Bankruptcy Code, including without limitation the right of such parties or any of them to argue that the liens granted to Lender hereunder constitute defaults under such parties' executory contracts with Debtors that must be cured in the post-petition pre-rejection period and in any event cured in connection with the assumption of such contracts under Section 365 of the Bankruptcy Code. Notwithstanding the foregoing (a) each of the Cedar Bay Generating Company Limited Partnership, Indiantown Cogeneration, L.P., and Colonial Coal Company does not object to the entry of this Final Order and (b) the rights of the Debtors, the Committee, Prepetition Lenders and Lender, and all other parties in interest to object to the

assertion of the rights and remedies of Cedar Bay Generating Company Limited Partnership, Indiantown Cogeneration, L.P., and Colonial Coal Company are hereby fully reserved.

30. Notwithstanding anything to the contrary contained in this Order, the Loan Documents or otherwise, the respective rights, obligations and priorities of Prepetition Lenders and Lender, respectively, with respect to the "Senior Debt", the "Junior Debt", and the "Collateral" (as each such term is defined, and as such rights, obligations and priorities are set forth, in the Intercreditor Agreement) are hereby authorized, approved, assumed, adopted and incorporated herein by reference in all respects. Each of the Prepetition Lenders and the Lender shall be bound by all of the terms and conditions set forth in the Intercreditor Agreement, and the Intercreditor Agreement shall apply and govern all of the respective rights, obligations and priorities of each of the Prepetition Lenders and the Lender in Debtors' Chapter 11 cases or in any converted or succeeding cases in respect thereof.

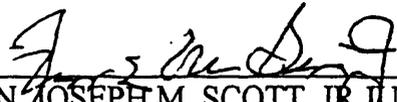
31. The terms and provisions of this Order shall be valid and binding upon Debtors, all creditors of Debtors and all other parties-in-interest from and after the date of the entry of this Order by this Court. The terms and provisions of this Order shall be effective immediately upon entry of this Order pursuant to Bankruptcy Rules 6004(g) and 7062.

32. Counsel for the Debtor shall serve copies of this Order on all parties listed on the service list in effect as approved by prior order of the Court, which shall be deemed in compliance with Local Rule 9022.1(a) regarding the need to list within an order the name and address of each party to be served with a copy of this Order.

33. To the extent this order is entered on the day it is submitted to the Court, and provided that on the same day counsel for the Debtors receives a copy of the Order as entered

from the bench for purposes of service on all applicable parties, then the provisions of Local Rule 9022-1 (c) regarding tendering of envelopes to the clerk so that entered copies of Orders can be forwarded to counsel for the Debtors to serve on all applicable parties shall be deemed satisfied without the need to tender postage pre-paid envelopes. Counsel for the Debtors will thereafter comply with the balance of Local Rule 9022-1(c).

Dated: 10/18, 2001.



HON. JOSEPH M. SCOTT, JR. JUDGE
UNITED STATES BANKRUPTCY COURT

Tendered By:

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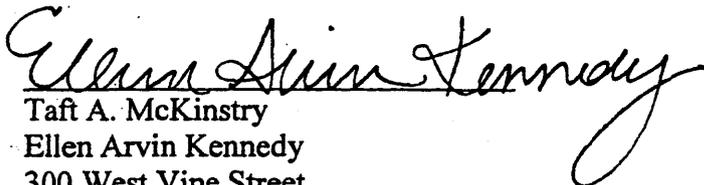
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CO-COUNSEL FOR DEBTORS AND DEBTORS IN POSSESSION



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COUNSEL FOR LENDER WEXFORD CAPITAL LLC

Pursuant to Local Rule 9022-1(c), Taft A. McKinstry or Ellen Arvin Kennedy shall cause a copy of this Order to be served on each of the parties designated to receive this order pursuant to Local Rule 9022-1(a) and shall file with the Court a certificate of service of the Order upon such parties within ten (10) days hereof.

collectively with LEI, the "Debtors"). Wexford and Debtors, by and through counsel, hereby agree as follows:

1. Pursuant to the Final Order, Wexford has loaned Debtors \$5,000,000, and has the discretion to loan Debtors up to an additional \$5,000,000 (defined in the Final Order as the Maximum Amount). The Debtors are in need of additional financing and seek, from Wexford, Supplemental Loans (as defined in the Final Order) up to the Maximum Amount pursuant to the terms of the Final Order, as amended herein.

2. Wexford will make the First Discretionary Advance (defined below) as Supplemental Loans under the Final Order provided that the Final Order is amended as set out in this paragraph; provided, however, notwithstanding any other provision of this Agreed Order to the contrary, all additional Supplemental Loans other than the First Discretionary Advance shall be at the sole and complete discretion of Wexford. Paragraph 7 of the "IT IS HEREBY ORDERED" section of the Final Order on pages 12 through 14 thereof is hereby amended such that the following subparagraphs are added to such paragraph 7 effective as of the date this Agreed Order is entered by the Court:

"g. At the demand of Lender and with the Debtors' consent, John Hughes and Bill Potter shall be terminated with their consent and without severance from their respective officer and employee positions with the Debtors effective as of November 1, 2001 and their respective employment agreements with the Debtors shall be rejected as of November 1, 2001.

- h. Mike Francisco, at his current compensation package, shall become, with the Debtors' consent, interim Chief Executive Officer effective as of November 1, 2001.
- i. Debtors shall continue until November 8, 2001 their Motion for an Order (1) Authorizing LEI to Enter into the Amendments to Contracts for Purchase and Sale of Coal between LEI and the Tennessee Valley Authority to Increase Debtors' Sale Price of Coal, and (2) Permitting the Amendments and the Original Contracts to be filed under Protective Seal.
- j. Debtors shall move to Reject Contracts for Purchase and Sale of Coal between LEI and the Tennessee Valley Authority (the "TVA Contract"), and shall file an emergency motion to reject the TVA Contract which shall be noticed for hearing on November 8, 2001. Agreements concerning rejection of the TVA Contract, if any, shall require the consent of Wexford, which may be withheld at its sole discretion.
- k. Lender, in its sole discretion, must approve all Debtors' disbursements after Debtors' have submitted disbursement requests to Wexford in a format acceptable to Lender. In exercising its discretion to approve disbursements of Debtors, Lender acknowledges the obligations of the Debtors to remain in compliance with all applicable laws regarding the payment of wages and taxes related to wages.

1. Lender agrees and acknowledges that it has committed to and shall fund Supplemental Loans in the amount of \$2.4 million (the "First Discretionary Advance"). The First Discretionary Advance shall be disbursed as follows: first, \$1,962,835.24 of the First Discretionary Advance shall be advanced on November 2, 2001, to pay the expenses identified on Schedule 1 attached to the Agreed Order Amending Final Order Authorizing (1) Debtors, Pursuant To Section 364 Of The Bankruptcy Code And Rule 4001 Of The Federal Rules Of Bankruptcy Procedure, To (A) Obtain Supplemental Post-Petition Financing From Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status And Adequate Protection To Wexford Capital LLC And (C) Modify The Automatic Stay, And (2) Amendments To Financing Agreements With Congress Financial Corporation, As Agent, And The CIT Business Group/Business Credit, Inc., As Co-Agent; and, second, \$ 437,164.76 of the First Discretionary Advance shall be funded by Lender within the periods set forth on Schedule 1, in no event later than November 21, 2001.
- m. The Debtors' (1) shall withdraw with prejudice their motion for approval of an employee retention program filed with the Court on July 24, 2001, (2) shall move to reject (a) those certain letter agreements each dated on or around December 15, 2001 regarding severance for certain of the Debtors' employees ("Letter

Agreements”), and (b) such other pre-petition severance programs or agreements as may be designated by Lender after consultation with the Debtors (“Other Severance Programs”; collectively with the Letter Agreements, the “Severance Programs”); and (3) shall file a motion to have to Court approve Debtors’ rejection of the Severance Programs which shall be noticed for hearing on December 14, 2001.”

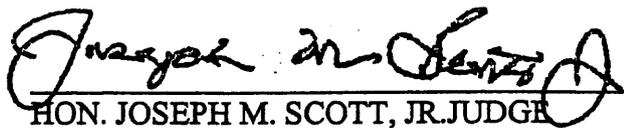
3. This Agreed Order is being entered on an interim basis pursuant to Bankruptcy Rule 4001 and is expressly subject to the rights of parties in interest to object as specifically provided for in this paragraph. Notice shall be given by Debtors (no later than 1 business day after the date of this Agreed Order) to all creditors and interested parties entitled to receive notice pursuant to Federal Rule of Bankruptcy Procedure 4001 that this Agreed Order has been entered. Pending a final hearing, Debtors may borrow from Wexford, under the terms and conditions stated herein, that amount which is necessary to avoid immediate and irreparable harm, but in no event shall such borrowings exceed \$2.4 million in the aggregate. Any objections to the terms of this Agreed Order must be (a) filed with the Court; and (b) served upon and received by counsel for Debtors and Wexford no later than 5:00 p.m. on Wednesday, November 7, 2001. If a timely objection is filed and served as provided above, a hearing will be held on November 8, 2001 at 1:30 p.m., at which time the objector(s) shall be given an opportunity to show cause why this Agreed Order should not be a final order of this Court. If no such timely objection is filed and served or if the objection is timely filed and served, but overruled by the Court, this Agreed Order shall become final without any further action by this Court. Notwithstanding the outcome of the final hearing on this Agreed Order, Lender shall be entitled to the liens, priorities and

other rights provided in this Agreed Order to protect Wexford to the extent of the First Discretionary Advance made by Wexford and incurred by Debtors on or after entry of this Agreed Order.

4. Counsel for the Debtor shall serve copies of this Order on all parties listed on the service list in effect as approved by prior order of the Court, which shall be deemed in compliance with Local Rule 9022.1(a) regarding the need to list within an order the name and address of each party to be served with a copy of this Order.

5. To the extent this order is entered on the day it is submitted to the Court, and provided that on the same day counsel for the Debtors receives a copy of the Order as entered from the bench for purposes of service on all applicable parties, then the provisions of Local Rule 9022-1 (c) regarding tendering of envelopes to the clerk so that entered copies of Orders can be forwarded to counsel for the Debtors to serve on all applicable parties shall be deemed satisfied without the need to tender postage pre-paid envelopes. Counsel for the Debtors will thereafter comply with the balance of Local Rule 9022-1(c).

Dated: NOV 02 2001, 2001.


HON. JOSEPH M. SCOTT, JR. JUDGE
UNITED STATES BANKRUPTCY COURT

Tendered And Agreed To By:

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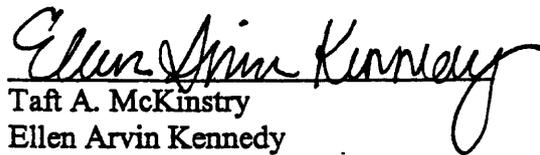
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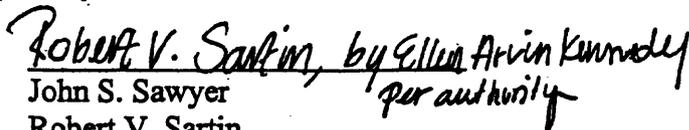
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COUNSEL FOR LENDER WEXFORD CAPITAL LLC

Pursuant to Local Rule 9022-1(c), Taft A. McKinstry or Ellen Arvin Kennedy shall cause a copy of this Order to be served on each of the parties designated to receive this order pursuant to Local Rule 9022-1(a) and shall file with the Court a certificate of service of the Order upon such parties within ten (10) days hereof.

Schedule 1

Lodestar Energy, Inc.
 Detail of Advances Required
 2-Nov-01

Vendor	Amount	Description	Region
November 2:			
Action Petroleum	\$ 100,433.25	Fuel Purchases	East Kentucky
Jones Oil	\$ 115,164.93	Fuel Purchases	East Kentucky
West Kentucky Railroad	\$ 34,802.35	Rail Services	West Kentucky
No. 1 Contractor	\$ 207,394.07	Contract Mining	West Kentucky
East Kentucky Royalties	\$ 405,040.64	Royalties	East Kentucky
Various Payrolls	\$ 256,000.00	Payroll	Various
CSX	\$ 172,000.00	Rail Services	East Kentucky
Miscellaneous A/P	\$ 672,000.00	Goods and Services	Various
	\$1,962,835.24		
Week of November 12:			
Payroll *	\$ 437,164.76	Payroll	Various
Total funding	\$2,400,000.00		

* Represents a portion of the total payroll for week of November 12.

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Exhibit D

EASTERN DISTRICT OF KENTUCKY
FILED

FEB 13 2002

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION

AT LEXINGTON
JERRY D. TRUITT, CLERK
U.S. BANKRUPTCY COURT

IN RE:)
)
LODESTAR ENERGY, INC.)
LODESTAR HOLDINGS, INC.)
)
DEBTORS)
)
)

CHAPTER 11
CASE NO. 01-50969
CASE NO. 01-50972
JOINTLY ADMINISTERED

**INTERIM ORDER AUTHORIZING DEBTORS TO OBTAIN
ADDITIONAL SUPPLEMENTAL POST-PETITION FINANCING FROM
WEXFORD CAPITAL LLC**

Pursuant to the Provisions of Local Bankruptcy Rule of Procedure 4001-2(d), Notice is Hereby Given that this Order contains terms and conditions which vary from the requirements of LBR E.D. Ky. 4001-2(c)

This matter having come on to be considered upon the Motion for Interim and Final Orders Debtors to (A) obtain additional supplemental post-petition financing from Wexford Capital LLC, as agent ("Wexford"), (B) grant senior liens, priority administrative expense status and adequate protection to Wexford and (C) modify the automatic stay (the "Motion") filed by Lodestar Energy, Inc. ("LEI") and Lodestar Holdings, Inc. (LHI, collectively with LEI, the "Debtors") on February 4, 2002; after due and sufficient notice and a hearing, the Court having

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reviewed the Motion and having heard the statements of counsel in support of the relief requested therein and any objections and any evidence offered; and the Court being fully advised;

IT APPEARS AND THE COURT FINDS THAT:

1. The cases were commenced by the filing of an involuntary petition against the Debtors on March 30, 2001 (the "Petition Date"). On April 27, 2001 (the "Relief Date"), the Court entered an order granting the Debtors relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1330 (the "Bankruptcy Code"). The Debtors continue to operate their businesses and manage their property and affairs as debtors in possession in accordance with Bankruptcy Code §§ 1107 and 1108.

2. This Court has jurisdiction over these Chapter 11 cases under 28 U.S.C. §§ 157 and 1334. This matter constitutes a core proceeding under 28 U.S.C. § 157(b)(2).

3. The Debtors maintain their principal place of business in Lexington, Kentucky. Accordingly, venue for the Debtors' Chapter 11 cases is proper in this District under 28 U.S.C. §§ 1408 and 1409.

4. On April 27, 2001, the Court entered its Order Directing Joint Administration and Procedural Consolidation, whereby the Court directed the Debtors' Chapter 11 cases to be procedurally consolidated and to be jointly administered by the Court and the Office of the United States Trustee.

5. On the Relief Date, the Court entered the Emergency Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority

Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, and (4) Prescribe Form and Manner of Notice and Time for Interim Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (the "Emergency Order"), pursuant to which, *inter alia*, LEI was authorized to obtain, on an emergency basis effective during the "Emergency Financing Period" (as defined in the Emergency Order), post-petition loans, advances and other credit and financial accommodations from Congress and CIT in their capacity as agents and lenders (collectively, "Senior Lenders") secured by first priority liens and security interests upon and in the "Collateral" (as defined in the Emergency Order). Senior Lenders were also granted a super-priority administrative expense claim against Debtors for all "Post-Petition Obligations" (as defined in the Emergency Order).

6. On May 3, 2001, the Court entered the Interim Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent and (5) Prescribe Form and Manner of Notice and Time for Final Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (the "Interim Financing Order"), pursuant to which, *inter alia*, LEI was authorized to obtain, on an interim basis, post-petition loans, advances and other credit and financial accommodations from Senior Lenders in their capacity as agents and lenders pursuant to the terms and conditions of the Existing Loan Agreement and the other Existing Financing Agreements (as such terms are defined in the Interim Financing Order), as ratified and amended by the Ratification Agreement

(as defined in the Interim Financing Order), secured by first priority liens and security interests upon and in the "Collateral" (as defined and set forth in the Interim Financing Order). Senior Lenders were also granted a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Ratification Agreement).

7. On June 21, 2001, the Court entered the Final Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay and (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent (the "Final Financing Order"), pursuant to which, inter alia, LEI was authorized to obtain, on a final basis, post-petition loans, advances and other credit and financial accommodations from Senior Lenders in their capacity as agents and lenders pursuant to the terms and conditions of the Amended and Restated Ratification Agreement and the other Financing Agreements (as such terms are defined in the Final Financing Order), secured by first priority liens and security interests upon and in the "Collateral" (as defined and set forth in the Final Financing Order). The Senior Lenders were also granted a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Amended and Restated Ratification Agreement).

8. The Debtors later determined that the existing financing was not sufficient and that a need for supplemental financing existed. The Debtors obtained such financing from Wexford pursuant to (a) the Interim Order Authorizing (1) Debtors Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure to (A) Obtain

Supplemental Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and CIT Business Group/Business Credit, Inc., as Co-Agent, entered September 28, 2001 (the "Wexford Interim Order"), and (b) the Final Order Authorizing (1) Debtors, Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure, to (A) Obtain Supplemental Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and the CIT Business Group/Business Credit, Inc., as Co-Agent entered October 18, 2001 (docket no. 635-1) (the "First Wexford Financing Order").

9. Pursuant to the First Wexford Financing Order, (a) Senior Lenders agreed to increase their advance rate against machinery and equipment (the "M&E Advance Rate") from 60% to 65% during the period ending January 31, 2002, and (b) Wexford agreed, among other things, to provide financing to the Debtors, in the form of the Supplemental Loans (as defined in the First Wexford Financing Order) in the maximum amount of \$10 million dollars (the "Maximum Amount"). The Supplemental Loans were to be made in accordance with the terms of a certain Credit Agreement, substantially in the form attached as Exhibit B to the Wexford Interim Order.

10. To secure payment of the Debtors' obligations under the Supplemental Loans, Wexford was granted liens and security interests junior and subordinate to the liens and security

interests of Senior Lenders as more particularly set forth in the First Wexford Financing Order. In addition, the obligations of the Debtors to Wexford in connection with the financing were granted superpriority status junior and subordinate to the superpriority status of the Senior Lenders' claims as more particularly set forth in the First Wexford Financing Order.

11. On November 2, 2001, the Debtors and Wexford filed the Agreed Order Amending Final Order Authorizing (1) Debtors Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure to (A) Obtain Supplemental Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and the CIT Business Group/Business Credit, Inc., as Co-Agent (the "Amended Wexford Final Order"), which was entered by the Court on the same date. Pursuant to the Amended Wexford Final Order, the Debtors agreed to comply with certain conditions relating to Debtors' staffing, the status of certain of Debtors' contracts and Wexford's pre-approval of expenditures made by the Debtors.

12. In accordance with the terms of the First Wexford Financing Order, as of February 1, 2002, the M&E Advance Rate under the Financing Agreements (as such term is defined in the Amended and Restated Ratification Agreement) reverted back to 60% from 65%. This, combined with a slight decrease in the value of the Debtors' machinery and equipment, as established by a recent appraisal, has resulted in an approximate reduction of \$1.8 million in the Debtors' borrowing availability under the Financing Agreements. This decrease in availability,

coupled with the timing of the current move of the longwall mining equipment in Western Kentucky, has resulted in the Debtors' need for additional financing.

13. The Debtors seek entry of an order authorizing the Debtors to obtain additional supplemental post-petition financing from Wexford by increasing the Maximum Amount from \$10 million to \$13 million, but otherwise on the same terms and conditions (including that all advances shall be solely at the discretion of Wexford) approved by the First Wexford Financing Order (the "Additional Wexford Financing").

14. Without the Additional Wexford Financing, the Debtors will be unable to continue to operate and preserve their going concern value. The Debtors' continuing viability and their ability to reorganize successfully depend heavily on the Court's approval of the requested relief.

15. Section 364 of the Bankruptcy Code distinguishes between: (a) obtaining unsecured credit in the ordinary course of business; (b) obtaining unsecured credit out of the ordinary course of business; (c) obtaining credit with specialized priority or with security; and (d) obtaining credit secured by priming or replacement liens. If a debtor-in-possession cannot obtain post petition credit on an unsecured basis, the Court may grant authority for the debtor to obtain credit entitled to superpriority administrative expense status or by a lien on unencumbered property, or some combination of these devices. *See* 11 U.S.C. 364(c).

16. Wexford will not provide the Additional Wexford Financing without security therefor.

17. The Debtors negotiated the terms of the Additional Wexford Financing in good faith and at arms' length. Given the Debtors' immediate need for additional working capital to

fund their ongoing operations, and the terms of the existing financing with Congress and Wexford, the Debtors had no realistic source of financing other than Wexford.

BASED ON THE FOREGOING FINDINGS, no further notice being required and the Court being otherwise duly advised in the premises,

IT IS HEREBY ORDERED THAT:

1. The Motion is granted with no objections to the entry of this Interim Order being filed.

2. In order to accommodate Debtors' incurrence of the Additional Wexford Financing, the Senior Lenders, Debtors and certain affiliates of Debtors have agreed to modify and amend certain of the terms and conditions contained in the Financing Agreements pursuant to Amendment No. 2 to Ratification and Amendment Agreement ("Amendment No. 2 to Ratification Agreement"). All of the terms, conditions and provisions of the Amendment No. 2 to Ratification Agreement (a copy of which is annexed hereto, marked Exhibit "A" and incorporated herein by reference) are hereby authorized and approved in all respects and Debtors are hereby authorized and directed to execute and deliver the Amendment No. 2 to Ratification Agreement in favor of Senior Lenders and comply with all of the provisions thereof. Except as specifically modified and amended pursuant to the terms and provisions set forth in the Amendment No. 2 to Ratification Agreement, all of the terms, conditions and provisions of the Final Financing Order, including, but not limited to paragraph 6 of the Final Financing Order granting the Committee certain rights to investigate the extent, validity, perfection and enforceability of Senior Lenders' liens upon and security interests in the Collateral, and the

Financing Agreements are hereby ratified and reaffirmed and shall remain in full force and effect.

3. The terms and provisions of the Amendment No. 2 to Ratification Agreement among Debtors, certain affiliates of Debtors and the Senior Lenders have been negotiated in good faith and at arms' length between Debtors, on one hand, and Senior Lenders, on the other hand, and any loans, advances or other financial and credit accommodations which are made or caused to be made to Debtors by the Senior Lenders pursuant to the Final Financing Order and the Financing Agreements, as amended and modified by the Amendment No. 2 to Ratification Agreement, are deemed to have been extended in good faith, as the term "good faith" is used in Section 364(e) of the Bankruptcy Code, and shall be entitled to the full protection of Section 364(e) of the Bankruptcy Code in the event that this Order or any provision hereof is vacated, reversed or modified, on appeal or otherwise.

4. Notwithstanding anything to the contrary contained in this Order, the Loan Documents (as defined in the First Wexford Financing Order) or otherwise, the respective rights, obligations and priorities of Senior Lenders and Wexford, respectively, with respect to the "Senior Debt", the "Junior Debt", and the "Collateral" (as each such term is defined, and as such rights, obligations and priorities are set forth, in the Intercreditor and Subordination Agreement, dated as of September 28, 2001 by and among Senior Lenders and Wexford ("Intercreditor Agreement")) are hereby ratified, affirmed, assumed, adopted and incorporated by reference herein and each of the Senior Lenders and Wexford shall remain bound by all of the terms and conditions set forth in the Intercreditor Agreement and the term "Junior Debt" therein shall be deemed to include, in addition and without limitation, the Additional Wexford Financing. The

Intercreditor Agreement shall apply and govern all of the respective rights, obligations and priorities of each of the Senior Lenders and Wexford in Debtors' Chapter 11 cases or in any converted or succeeding cases in respect thereof.

5. The terms and provisions of this Order shall be valid and binding upon Debtors, all creditors of Debtors and all other parties-in-interest from and after the date of the entry of this Order by this Court. The terms and provisions of this Order shall be effective immediately upon entry of this Order pursuant to Bankruptcy Rules 6004(g) and 7062.

6. The First Wexford Financing Order is amended as set out in this Interim Order; provided, however, notwithstanding any other provision of this Interim Order to the contrary, all Supplemental Loans shall be at the sole and complete discretion of Wexford.

7. The first sentence of Paragraph 7 of the "IT IS HEREBY ORDERED" section of the First Wexford Financing Order is hereby amended and restated in its entirety as follows:

"Debtors are authorized to receive financing from Lender on the terms of this Order and the Loan Documents, and to incur obligations to Lender up to a maximum of \$13,000,000.00 from Lender at any one time outstanding ("Maximum Amount"), in the form of the Supplemental Loans and grant liens and security interests in favor of Lender as provided herein."

8. All provisions of the First Wexford Financing Order not otherwise amended and restated herein shall remain unmodified and in full force and effect.

9. Upon entry of this Interim Order, before any more Supplemental Loans are made to the Debtors, the Credit Agreement and Note shall each be amended only to conform with the terms of this Interim Order, as agreed to by the parties hereto.

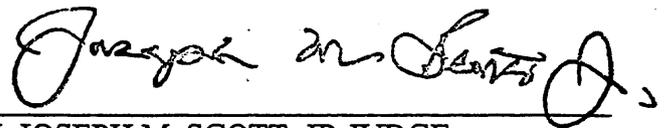
10. This Interim Order is being entered on an interim basis pursuant to Bankruptcy Rule 4001 and is expressly subject to the rights of parties in interest to object as specifically provided

for in this paragraph. Notice shall be given by Debtors (no later than 1 business day after the date of this Interim Order) to all creditors and interested parties entitled to receive notice pursuant to Federal Rule of Bankruptcy Procedure 4001 that this Interim Order has been entered. Pending a final hearing, Debtors may borrow from Wexford, under the terms and conditions stated herein, that amount which is necessary to avoid immediate and irreparable harm, but in no event shall such borrowings exceed \$2.13 million in the aggregate (the "Maximum Necessary Advance"). Any objections to the terms of this Interim Order must be (a) filed with the Court; and (b) served upon and received by counsel for Debtors and Wexford no later than 5:00 p.m. on February 15, 2002. If a timely objection is filed and served as provided above, a hearing will be held on February 20, 2002 at 3:00 p.m., at which time the objector(s) shall be given an opportunity to show cause why this Interim Order should not be a final order of this Court. If no such timely objection is filed and served or if the objection is timely filed and served, but overruled by the Court, this Interim Order shall become final without any further action by this Court. Notwithstanding the outcome of the final hearing on this Interim Order, Lender shall be entitled to the liens, priorities and other rights provided in this Interim Order to protect Wexford to the extent of the Necessary Maximum Advances made by Wexford and incurred by Debtors on or after entry of this Interim Order.

11. Counsel for the Debtors shall serve copies of this Interim Order on all parties listed on the service list in effect as approved by prior order of the Court, which shall be deemed in compliance with Local Rule 9022.1(a) regarding the need to list within an order the name and address of each party to be served with a copy of this Interim Order.

12. To the extent this order is entered on the day it is submitted to the Court, and provided that on the same day counsel for the Debtors receives a copy of the Order as entered from the bench for purposes of service on all applicable parties, then the provisions of Local Rule 9022-1 (c) regarding tendering of envelopes to the clerk so that entered copies of Orders can be forwarded to counsel for the Debtors to serve on all applicable parties shall be deemed satisfied without the need to tender postage pre-paid envelopes. Counsel for the Debtors will thereafter comply with the balance of Local Rule 9022-1(c).

Dated: FEB 13 2002



HON. JOSEPH M. SCOTT, JR. JUDGE
UNITED STATES BANKRUPTCY COURT

TENDERED BY:

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*Robert V. Sartin by Ellen Arvin Kennedy
per authority*

John S. Sawyer

Robert V. Sartin

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Lexington, KY 40513

COUNSEL FOR LENDER WEXFORD CAPITAL LLC

Pursuant to Local Rule 9022-1(c), Taft A. McKinstry or Ellen Arvin Kennedy shall cause a copy of this Order to be served on each of the parties designated to receive this order pursuant to Local Rule 9022-1(a) and shall file with the Court a certificate of service of the Order upon such parties within ten (10) days hereof.

[02/11/02]

AMENDMENT NO. 2
TO
AMENDED AND RESTATED
RATIFICATION AND AMENDMENT AGREEMENT

AMENDMENT NO. 2 TO AMENDED AND RESTATED RATIFICATION AND AMENDMENT AGREEMENT (this "Amendment No. 2 to Ratification Agreement") dated as of February __, 2002, by and among LODESTAR ENERGY, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Borrower"), LODESTAR HOLDINGS, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Holdings", together with Borrower, each individually a "Debtor" and collectively, "Debtors"), EASTERN RESOURCES, INC., a Kentucky corporation, ("ERI"), INDUSTRIAL FUELS MINERALS COMPANY, a Michigan corporation, ("IFMC", and together with Holdings and ERI, each individually, "Guarantor" and collectively, "Guarantors"), the financial institutions from time to time parties to the Loan Agreement (as hereinafter defined) as lenders (individually each, a "Lender" and collectively, "Lenders"), CONGRESS FINANCIAL CORPORATION, a Delaware corporation, as successor by merger to Congress Financial Corporation, a California corporation, in its capacity as Lender ("Congress"), THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation, in its capacity as a Lender ("CIT"), Congress, in its capacity as administrative agent and collateral agent for the Lenders under the Loan Agreement (in such capacity, the "Agent") and CIT in its capacity as co-agent for the Lenders under the Loan Agreement (in such capacity, the "Co-Agent").

WITNESSETH:

WHEREAS, Borrower, Guarantors, Lenders, Agent and Co-Agent have entered into the Amended and Restated Ratification and Amendment Agreement, dated as of June 20, 2001, by and among Borrower, Guarantors, Lenders, Agent and Co-Agent and Amendment No. 1 to Amended and Restated Ratification Agreement, dated as of September 28, 2001, by and among Borrowers, Guarantors, Lenders, Agent and Co-Agent (as the same now exists and is amended hereby, and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Ratification Agreement"), with respect to the Amended and Restated Loan and Security Agreement, dated May 15, 1998, by and among Borrower, Holdings, Lenders, Agent and Co-Agent, as amended by certain amendments and the Ratification Agreement (as the same now exists and is amended hereby and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Loan Agreement") and various other agreements, documents and instruments executed and/or delivered in connection therewith or related thereto (together with the Ratification Agreement and the Loan Agreement, as the same now exist and may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, collectively, the "Financing Agreements").

EXHIBIT

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WHEREAS, Borrower and Guarantors have requested that Lenders, Agent and Co-Agent amend the Ratification Agreement and the other Financing Agreements. Agent, Co-Agent and Lenders are willing agree to such amendments subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, Co-Agent, Lenders, Borrower and Guarantors mutually covenant, warrant and agree as follows:

SECTION 1. DEFINITIONS

1.1 Additional Definitions: As used herein, the following terms shall have the respective meanings given to them below and the Ratification Agreement and the other Financing Agreements shall be deemed and are hereby amended to include, in addition and not in limitation, each of the following definitions:

(a) "Amendment No. 2 to Ratification Agreement" shall mean Amendment No. 2 to Amended and Restated Ratification Agreement, dated as of February __, 2002, by and among Agent, Co-Agent, Lenders, Borrower and Guarantors, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.2 Amendments to Definition in the Ratification Agreement.

(a) All references to the term "Ratification Agreement" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, Amendment No. 2 to Ratification Agreement.

(b) All references to the term "Wexford Agreements" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, First Amended Post-Petition Credit Agreement, dated as of February __, 2002, by and among Debtors and Wexford.

1.3 Interpretation.

(a) For purposes of this Amendment No. 2 to Ratification Agreement, unless otherwise defined or amended herein, including, but not limited to, those terms used and/or defined in the recitals hereto, all terms used herein shall have the respective meanings assigned to such terms in the Loan Agreement.

(b) All references to any term in the singular shall include the plural and all references to any term in the plural shall include the singular.

SECTION 2. AMENDMENTS

Indebtedness. Section 7.3(v)(i) of the Loan Agreement is hereby amended by deleting the number "\$10,000,000" in such section and replacing such number with "\$13,000,000".

SECTION 3. ADDITIONAL REPRESENTATIONS, WARRANTIES AND COVENANTS

In addition to the continuing representations, warranties and covenants heretofore and hereafter made by Borrower and Guarantors to Agent and Lenders, whether pursuant to the Financing Agreements or otherwise, and not in limitation thereof, Borrower and each Guarantor hereby represents, warrants and covenants to Agent and Lenders the following (which shall survive the execution and delivery of this Amendment No. 2 to Ratification Agreement), the truth and accuracy of which, or compliance with, to the extent such compliance does not violate the terms and provisions of the Bankruptcy Code, shall be a continuing condition of the making of loans by Lenders:

3.1 Order. The Bankruptcy Court has entered an order authorizing the execution and delivery of this Amendment No. 2 to Ratification Agreement.

3.2 No Event of Default. No Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than Borrower's failure to comply with section 7.25 for the periods ending October 31, 2001, November 30, 2001, December 31, 2001 and January 31, 2002 which constitutes an Event of Default under Section 8.1(b) of the Loan Agreement and the other Financing Agreements ("Existing Default")).

3.3 Execution and Delivery. This Amendment No. 2 to Ratification Agreement has been duly executed and delivered by the parties hereto and this Amendment No. 2 to Ratification Agreement and the other Financing Agreements are in full force and effect as of the date hereof, and the agreements and obligations of Debtors and Guarantors contained herein and therein constitute legal, valid and binding obligations of Debtors and Guarantors enforceable against each of them in accordance with their respective terms.

SECTION 4. NO WAIVER; RESERVATION OF RIGHTS.

4.1 Agent has not waived, is not by this Amendment No. 2 to Ratification Agreement waiving and has no intention of waiving, the Existing Default or any other Event of Default which may be continuing on the date hereof or any Events of Default which may occur after the date hereof (whether the same or similar to the Existing Default or otherwise), and Agent has not agreed to forbear with respect to any of its rights or remedies concerning the Existing Default or any other Event of Default, which may have occurred or are continuing as of the date hereof or which may occur after the date hereof. Any Event of Default continuing after the date hereof (including the Existing Default) or any Event of Default which may occur after the date hereof, in each case, may only be waived in writing duly executed by an authorized officer of Agent.

4.2 Agent reserves the right to exercise any or all of its rights and remedies under the Loan Agreement and the other Financing Agreements as a result of the Existing Default or any other Event of Default which may be continuing on the date hereof or any Event of Default which may occur after the date hereof, and Agent has not waived any of such rights or remedies, and nothing in this Amendment No. 2 to Ratification Agreement, and no delay on its part in exercising any such rights or remedies, should be construed as a waiver of any such rights or remedies.

SECTION 5. CONDITIONS PRECEDENT

The amendments herein shall be effective only upon the satisfaction of each of the following conditions precedent in a manner satisfactory to Agent and Lenders:

5.1 as of the date hereof, there shall have been no termination of the Financing Agreements;

5.2 no trustee, examiner or receiver or the like shall have been appointed or designated with respect to any Debtor, as debtor and debtor-in-possession, or its business, properties and assets and no motion or proceeding shall be pending seeking such relief;

5.3 each Debtor shall comply in full with the notice and other requirements of the Bankruptcy Code and the applicable Federal Rules of Bankruptcy Procedure with respect to any relevant Financing Order in a manner acceptable to Agent and its counsel, and such Financing Order shall have been entered by the Bankruptcy Court, in form and substance satisfactory to Agent, authorizing secured post-petition financing under the Financing Agreements as amended by the terms and conditions set forth in Amendment No. 2 to Ratification Agreement and, authorizing the execution and delivery of this Amendment No. 2 to Ratification Agreement and containing such other terms or provisions as Agent and Lenders and their counsel shall require;

5.4 the receipt by Agent of an original of this Amendment No. 2 to Ratification Agreement, duly authorized, executed and delivered by Borrower and Guarantors;

5.5 the receipt by Agent, in form and substance satisfactory to Agent, of First Amended Post-Petition Credit Agreement by and among Debtors and Wexford, duly authorized, executed and delivered by each of Wexford, Borrower and Guarantors;

5.6 the receipt by Agent, in form and substance satisfactory to Agent, of true, correct and complete copy of the letter from Wexford to Agent in the form attached hereto as Exhibit A, as duly authorized, executed and delivered by Wexford; and

5.7 no Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than the Existing Default).

SECTION 6. MISCELLANEOUS

6.1 Effect of this Agreement. Except as modified pursuant hereto, no other changes or modifications to the Financing Agreements are intended or implied, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of a conflict between the terms of this Amendment No. 2 to Ratification Agreement and the other Financing Agreements, the terms of this Amendment No. 2 to Ratification Agreement shall control.

6.2 Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary or desirable to effectuate the provisions and purposes of this Amendment No. 2 to Ratification Agreement.

6.3 Headings. The headings used herein are for convenience only and do not constitute matters to be considered in interpreting this Amendment No. 2 to Ratification Agreement.

6.4 Additional Events of Default. The parties hereto acknowledge, confirm and agree that the failure of Borrower or any Guarantor to comply with any of the covenants, conditions and agreements contained herein or in any other agreement, document or instrument at any time executed by Borrower or any Guarantor in connection herewith shall constitute an Event of Default under the Financing Agreements.

6.5 Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the laws of the State of New York (without giving effect to principles of conflicts of laws) except to the extent that the provisions of the Bankruptcy Code are applicable and specifically conflict with the foregoing.

6.6 Binding Effect. This Amendment No. 2 to Ratification Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.7 Counterparts. This Amendment No. 2 to Ratification Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of this Amendment No. 2 to Ratification Agreement by telefacsimile shall have the same force and effect as delivery of an original counterpart of this Amendment No. 2 to Ratification Agreement, but the parties hereto agree to deliver original counterparts to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No.2 to Ratification Agreement to be duly executed as of the day and year first above written.

DEBTORS

LODESTAR ENERGY, INC.

Debtor and Debtor-in-Possession

By: _____

Title: _____

LODESTAR HOLDINGS, INC.

Debtor and Debtor-in-Possession

By: _____

Title: _____

OTHER GUARANTORS

EASTERN RESOURCES, INC.

By: _____

Title: _____

**INDUSTRIAL FUELS MINERALS
COMPANY**

By: _____

Title: _____

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION, in
its capacity as Agent and Lender

By: _____

Title: _____

THE CIT GROUP/BUSINESS CREDIT, INC.
its capacity as Co-Agent and Lender

By: _____

Title: _____

EXHIBIT A

Form of Letter from Wexford to Agent

[TO BE REPRINTED ON WEXFORD LETTERHEAD]

November 7, 2001

Congress Financial Corporation,
as agent
1133 Avenue of the Americas
New York, New York 10028
Attn: Mr. Robert Strack

Re: Lodestar Energy, Inc., et al. ("Debtors")

Gentlemen:

We refer to the Interim Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital LLC, enter by the Bankruptcy Court on February __, 2002 ("Second Interim Wexford Order") and any Final Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital entered by the Bankruptcy Court in connection therewith after the date hereof (together with the Second Interim Wexford Order, collectively, "Second Wexford Financing Order").

This shall confirm that (i) all loans, advances and other financial accommodations made by Wexford, as agent for itself and each of Solitair Corp., Wexford Spectrum Investors, LLC and Valentis Investors, LLC (collectively, the "Wexford Lenders"), to Debtors pursuant to the Second Wexford Financing Order, or otherwise, including without limitation all amounts up to the Maximum Amount (as defined in the Second Interim Wexford Order) shall constitute "Junior Debt" as such term is defined in the Intercreditor Agreement (as hereinafter defined) and such debt, and (ii) all liens, security interests and claims granted to or in favor of the Wexford Lenders under the Second Wexford Financing Order, or otherwise, shall, in the case of clauses (i) and (ii) above, be junior and subordinate in all respects to all obligations, liabilities and indebtedness of Debtors to Congress Financial Corporation, as agent for itself and certain other financial institutions (in such capacity, "Congress") and all liens, security interests and claims granted to or in favor of Congress, in accordance with the First Wexford Financing Order, as amended and the Intercreditor and Subordination Agreement, dated as of September 28, 2001 (the "Intercreditor Agreement"), by and among Congress and the

Wexford Lenders, and shall be subject to all of the terms and conditions of the First Wexford Financing Order, as amended and the Intercreditor Agreement.

We understand that Congress and The CIT Group/Business Credit, Inc. in their capacity as agent and lenders, and their respective successors and assigns, are relying upon this letter in providing financing to Debtors.

WEXFORD CAPITAL LLC, as agent

By: _____

Title: _____

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FIRST AMENDMENT TO REVOLVING CREDIT NOTE

THIS FIRST AMENDMENT TO REVOLVING CREDIT NOTE (this "Amendment") is made, entered into and effective as of the ____ day of February, 2002 by and between (i) **LODESTAR HOLDINGS, INC.** and **LODESTAR ENERGY, INC.** (collectively, the "Makers") and (ii) **WEXFORD CAPITAL LLC** (the "Lender"), as agent for Spectrum Investors LLC, Solitair Corp. and Valentis Investors LLC.

RECITALS

A. Makers are makers under that certain Revolving Credit Note dated September 28, 2001 made to the Order of Lender (the "Original Note").

B. Makers desire to amend and modify certain terms and provisions of the Original Note as set out in this Amendment. The Original Note, as amended hereby, is referred to herein as the "Note".

NOW, THEREFORE, in consideration of the recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions.** All capitalized terms used in this Amendment and not otherwise defined herein shall have the meaning given such terms in the Original Note.

2. **Amount.** The aggregate principal amount of the Original Note is increased to \$13,000,000.00. The first paragraph of the Original Note is hereby amended to read as follows:

FOR VALUE RECEIVED, the undersigned, **LODESTAR HOLDINGS, INC. AND LODESTAR ENERGY, INC.** (collectively, the "Makers"), hereby jointly and severally promise to pay to the order of **WEXFORD CAPITAL LLC** (the "Lender"), on the Commitment Termination Date, the principal sum of Thirteen Million Dollars (\$13,000,000) or, if less, the aggregate unpaid principal balance of all Supplemental Loans made by the Lender to the Makers pursuant to that certain Credit Agreement, dated as of the date hereof, as the same may be amended, restated, renewed, replaced, supplemented or otherwise modified from time to time hereafter (the "Credit Agreement"), by and among the Makers and the Lender, together with interest on any and all principal remaining unpaid hereunder from the date hereof until payment in full, payable on the dates and at the interest rate or rates specified in the Credit Agreement. Capitalized terms used in this Note without definition have the meanings assigned to them in the Credit Agreement.

3. **Continuing Effect.** Except to the extent modified hereby, the Original Note shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the Makers have caused this Amendment to be executed under seal by its duly authorized representative as of the date first above written.

LODESTAR HOLDINGS, INC.

By: R. E. Kelly, Jr. AS.

Title: Assistant Secretary

LODESTAR ENERGY, INC.

By: R. E. Kelly, Jr. VP

Title: Vice President

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FIRST AMENDED POST-PETITION CREDIT AGREEMENT

THIS FIRST AMENDED POST-PETITION CREDIT AGREEMENT ("Amendment") dated as of February 13, 2002, by and among **LODESTAR ENERGY, INC.**, a Delaware corporation and Debtor-In-Possession in its chapter 11 case now pending in the United States Bankruptcy Court for the Eastern District of Kentucky, and **LODESTAR HOLDINGS, INC.**, a Delaware corporation and Debtor-In-Possession in its chapter 11 case now pending in the United States Bankruptcy Court for the Eastern District of Kentucky (collectively, the "Borrowers"); and **WEXFORD CAPITAL LLC** (the "Lender"), a Connecticut limited liability company, as agent for Spectrum Investors LLC, Solitair Corp. and Valentis Investors LLC.

RECITALS:

Pursuant to the terms of that certain Post-Petition Credit Agreement dated September 28, 2001 (the "Original Credit Agreement"), Borrowers have obtained from Lender a revolving credit facility in an amount not to exceed \$10,000,000.00 (the "Revolver").

The Borrowers and Lender desire to increase the amount of the Revolver to \$13,000,000.00.

NOW THEREFORE, the parties hereto, intending to be legally bound, and in consideration of the foregoing and the mutual covenants contained herein, hereby agree as follows:

1. Increase in Amount of Revolver. The aggregate principal amount of the Revolver is increased to \$13,000,000.00. Section 1.01 of the Original Credit Agreement is hereby amended to read as follows:

"Section 1.01. Revolving Credit Facility.

- (a) As of the date hereof, subject to the terms and conditions set forth in this Agreement and the DIP Order, the Lender has established in favor of the Borrowers a revolving credit facility (the "Revolver") in the aggregate principal amount of Thirteen Million Dollars \$13,000,000 (the "Commitment"), which shall expire on the Commitment Termination Date. During the Revolving Period and within the limits of the Commitment, the Borrowers may borrow, repay and reborrow under this **Section 1.01**.
- (b) Loans made under the Revolver are hereinafter sometimes referred to collectively as the "Supplemental Loans". The Supplemental Loans will be made on the following terms:
 - (i) As of the date of the Original Credit Agreement dated September 28, 2001, Lender made a Supplemental Loan to the Borrowers in the principal

amount of \$5,000,000 (the "Initial Advance"), all in conformity with the provisions of the Loan Documents. Thereafter, Lender shall make other Supplemental Loans to Borrowers, up to the balance of \$13,000,000 (the "Maximum Amount"), shall be solely at the discretion of Lender (irrespective of whether the Borrowers have repaid any portion of the Initial Advance) and strictly in conformity with the provisions of the Loan Documents."

(ii) All Supplemental Loans (other than the Initial Advance) will be made solely in conformity with a weekly budget prepared by the Borrowers, and as the same may be updated and modified from time to time with the prior written reasonable approval of Lender (the "DIP Budget"); provided, however, that the Borrowers may vary from the budget for any line item on such budget in an amount not to exceed 5% or as otherwise approved by Lender in its sole discretion. In the event Lender does not approve any DIP Budget or update of any budget, it shall have no obligation to make any Supplemental Loans to Borrowers.

(iii) Supplemental Loans will be disbursed in amounts of \$500,000 or multiples thereof, with funding to occur on a weekly basis (up to the Maximum Amount) unless otherwise agreed to by the Lender in its sole discretion, interest to accrue from the date on which any Supplemental Loan is made by Lender until such loan is repaid.

(c) The borrowings under this **Section 1.01** shall be evidenced by the Borrowers' First Amended Revolving Credit Note in the form attached hereto as **Schedule 1.01(c)** (the "Note"). The Note is hereby incorporated by reference herein and made a part hereof.

2. **DIP Order.** Section 3.01(d) of the Original Credit Agreement is hereby amended to read as follows:

"(d) DIP Order. The DIP Order approving the increase of the Revolver from \$10,000,000 to \$13,000,000 shall have been entered on the docket of the Bankruptcy Court, shall be in full force and effect and shall not have been recalled, revised, modified or stayed in any respect and shall have been entered no later than February 13, 2002 (and, if the DIP Order is the subject of a pending appeal,

no performance of any obligation of any party shall have been stayed pending such appeal) and the Final DIP Order shall be entered no later than February 21, 2002, all in a form satisfactory to Lender;"

3. **Definition of Loan Documents.** The definition of "Loan Documents" in Article X on Page 24 of the Original Credit Agreement is hereby amended to include this Amendment, that certain First Amendment to Revolving Credit Note of even date herewith by and between Borrowers and Lender, and all other documents executed in conjunction with this Amendment as the same may be amended or modified from time to time.

4. **Force and Effect; References.** As Amended hereby, the Original Credit Agreement shall remain in full force and effect. Further, all references to the Credit Agreement in any of the Loan Documents shall be references to the Original Credit Agreement, as amended hereby, or as hereafter amended by the parties.

5. **Representations and Warranties.** The Borrowers hereby remake and restate, as of the date of this Amendment, each and every warranty and representation set forth in the Original Credit Agreement and all other Loan Documents, and further represent and warrant, except for the "Existing Default" as defined in Section 3.2 of Amendment No. 2 to Amended and Restated Ratification and Amendment Agreement, dated as of February 13, 2002, by and among Borrowers, Eastern Resources, Inc., Industrial Fuels Minerals Company, Congress Financial Corporation and The CIT Group/Business Credit, Inc., that no Event of Default now exists under the Original Agreement, as amended hereby, or under any of the other Loan Documents.

6. **Defined Terms.** All terms not defined herein shall have the same meaning given them in the Original Credit Agreement.

IN WITNESS WHEREOF, the Lender and the Borrowers have caused this Amendment to be duly executed by their duly authorized representatives, as a sealed instrument, all as of the day and year first above written.

BORROWERS:

LODESTAR HOLDINGS, INC.

By: R. E. Kelly AS

Title: Assistant Secretary

LODESTAR ENERGY, INC.

By: R. E. Kelly VS

Title: Vice President

LENDER:

WEXFORD CAPITAL LLC, As Agent

By: _____

Title: _____

LENDER:

WEXFORD CAPITAL LLC, As Agent

By: Mark Zard

Title: PRINCIPAL

[02/11/02]

AMENDMENT NO. 2
TO
AMENDED AND RESTATED
RATIFICATION AND AMENDMENT AGREEMENT

AMENDMENT NO. 2 TO AMENDED AND RESTATED RATIFICATION AND AMENDMENT AGREEMENT (this "Amendment No. 2 to Ratification Agreement") dated as of February __, 2002, by and among LODESTAR ENERGY, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Borrower"), LODESTAR HOLDINGS, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Holdings", together with Borrower, each individually a "Debtor" and collectively, "Debtors"), EASTERN RESOURCES, INC., a Kentucky corporation, ("ERI"), INDUSTRIAL FUELS MINERALS COMPANY, a Michigan corporation, ("IFMC", and together with Holdings and ERI, each individually, "Guarantor" and collectively, "Guarantors"), the financial institutions from time to time parties to the Loan Agreement (as hereinafter defined) as lenders (individually each, a "Lender" and collectively, "Lenders"), CONGRESS FINANCIAL CORPORATION, a Delaware corporation, as successor by merger to Congress Financial Corporation, a California corporation, in its capacity as Lender ("Congress"), THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation, in its capacity as a Lender ("CIT"), Congress, in its capacity as administrative agent and collateral agent for the Lenders under the Loan Agreement (in such capacity, the "Agent") and CIT in its capacity as co-agent for the Lenders under the Loan Agreement (in such capacity, the "Co-Agent").

WITNESSETH:

WHEREAS, Borrower, Guarantors, Lenders, Agent and Co-Agent have entered into the Amended and Restated Ratification and Amendment Agreement, dated as of June 20, 2001, by and among Borrower, Guarantors, Lenders, Agent and Co-Agent and Amendment No. 1 to Amended and Restated Ratification Agreement, dated as of September 28, 2001, by and among Borrowers, Guarantors, Lenders, Agent and Co-Agent (as the same now exists and is amended hereby, and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Ratification Agreement"), with respect to the Amended and Restated Loan and Security Agreement, dated May 15, 1998, by and among Borrower, Holdings, Lenders, Agent and Co-Agent, as amended by certain amendments and the Ratification Agreement (as the same now exists and is amended hereby and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Loan Agreement") and various other agreements, documents and instruments executed and/or delivered in connection therewith or related thereto (together with the Ratification Agreement and the Loan Agreement, as the same now exist and may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, collectively, the "Financing Agreements").

WHEREAS, Borrower and Guarantors have requested that Lenders, Agent and Co-Agent amend the Ratification Agreement and the other Financing Agreements. Agent, Co-Agent and Lenders are willing agree to such amendments subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, Co-Agent, Lenders, Borrower and Guarantors mutually covenant, warrant and agree as follows:

SECTION 1. DEFINITIONS

1.1 Additional Definitions. As used herein, the following terms shall have the respective meanings given to them below and the Ratification Agreement and the other Financing Agreements shall be deemed and are hereby amended to include, in addition and not in limitation, each of the following definitions:

(a) "Amendment No. 2 to Ratification Agreement" shall mean Amendment No. 2 to Amended and Restated Ratification Agreement, dated as of February __, 2002, by and among Agent, Co-Agent, Lenders, Borrower and Guarantors, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.2 Amendments to Definition in the Ratification Agreement.

(a) All references to the term "Ratification Agreement" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, Amendment No. 2 to Ratification Agreement.

(b) All references to the term "Wexford Agreements" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, First Amended Post-Petition Credit Agreement, dated as of February __, 2002, by and among Debtors and Wexford.

1.3 Interpretation.

(a) For purposes of this Amendment No. 2 to Ratification Agreement, unless otherwise defined or amended herein, including, but not limited to, those terms used and/or defined in the recitals hereto, all terms used herein shall have the respective meanings assigned to such terms in the Loan Agreement.

(b) All references to any term in the singular shall include the plural and all references to any term in the plural shall include the singular.

SECTION 2. AMENDMENTS

Indebtedness. Section 7.3(v)(i) of the Loan Agreement is hereby amended by deleting the number "\$10,000,000" in such section and replacing such number with "\$13,000,000".

SECTION 3. ADDITIONAL REPRESENTATIONS, WARRANTIES AND COVENANTS

In addition to the continuing representations, warranties and covenants heretofore and hereafter made by Borrower and Guarantors to Agent and Lenders, whether pursuant to the Financing Agreements or otherwise, and not in limitation thereof, Borrower and each Guarantor hereby represents, warrants and covenants to Agent and Lenders the following (which shall survive the execution and delivery of this Amendment No. 2 to Ratification Agreement), the truth and accuracy of which, or compliance with, to the extent such compliance does not violate the terms and provisions of the Bankruptcy Code, shall be a continuing condition of the making of loans by Lenders:

3.1 Order. The Bankruptcy Court has entered an order authorizing the execution and delivery of this Amendment No. 2 to Ratification Agreement.

3.2 No Event of Default. No Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than Borrower's failure to comply with section 7.25 for the periods ending October 31, 2001, November 30, 2001, December 31, 2001 and January 31, 2002 which constitutes an Event of Default under Section 8.1(b) of the Loan Agreement and the other Financing Agreements ("Existing Default")).

3.3 Execution and Delivery. This Amendment No. 2 to Ratification Agreement has been duly executed and delivered by the parties hereto and this Amendment No. 2 to Ratification Agreement and the other Financing Agreements are in full force and effect as of the date hereof, and the agreements and obligations of Debtors and Guarantors contained herein and therein constitute legal, valid and binding obligations of Debtors and Guarantors enforceable against each of them in accordance with their respective terms.

SECTION 4. NO WAIVER; RESERVATION OF RIGHTS.

4.1 Agent has not waived, is not by this Amendment No. 2 to Ratification Agreement waiving and has no intention of waiving, the Existing Default or any other Event of Default which may be continuing on the date hereof or any Events of Default which may occur after the date hereof (whether the same or similar to the Existing Default or otherwise), and Agent has not agreed to forbear with respect to any of its rights or remedies concerning the Existing Default or any other Event of Default, which may have occurred or are continuing as of the date hereof or which may occur after the date hereof. Any Event of Default continuing after the date hereof

(including the Existing Default) or any Event of Default which may occur after the date hereof, in each case, may only be waived in writing duly executed by an authorized officer of Agent.

4.2 Agent reserves the right to exercise any or all of its rights and remedies under the Loan Agreement and the other Financing Agreements as a result of the Existing Default or any other Event of Default which may be continuing on the date hereof or any Event of Default which may occur after the date hereof, and Agent has not waived any of such rights or remedies, and nothing in this Amendment No. 2 to Ratification Agreement, and no delay on its part in exercising any such rights or remedies, should be construed as a waiver of any such rights or remedies.

SECTION 5. CONDITIONS PRECEDENT

The amendments herein shall be effective only upon the satisfaction of each of the following conditions precedent in a manner satisfactory to Agent and Lenders:

5.1 as of the date hereof, there shall have been no termination of the Financing Agreements;

5.2 no trustee, examiner or receiver or the like shall have been appointed or designated with respect to any Debtor, as debtor and debtor-in-possession, or its business, properties and assets and no motion or proceeding shall be pending seeking such relief;

5.3 each Debtor shall comply in full with the notice and other requirements of the Bankruptcy Code and the applicable Federal Rules of Bankruptcy Procedure with respect to any relevant Financing Order in a manner acceptable to Agent and its counsel, and such Financing Order shall have been entered by the Bankruptcy Court, in form and substance satisfactory to Agent, authorizing secured post-petition financing under the Financing Agreements as amended by the terms and conditions set forth in Amendment No. 2 to Ratification Agreement and, authorizing the execution and delivery of this Amendment No. 2 to Ratification Agreement and containing such other terms or provisions as Agent and Lenders and their counsel shall require;

5.4 the receipt by Agent of an original of this Amendment No. 2 to Ratification Agreement, duly authorized, executed and delivered by Borrower and Guarantors;

5.5 the receipt by Agent, in form and substance satisfactory to Agent, of First Amended Post-Petition Credit Agreement by and among Debtors and Wexford, duly authorized, executed and delivered by each of Wexford, Borrower and Guarantors;

5.6 the receipt by Agent, in form and substance satisfactory to Agent, of true, correct and complete copy of the letter from Wexford to Agent in the form attached hereto as Exhibit A, as duly authorized, executed and delivered by Wexford; and

5.7 no Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than the Existing Default).

SECTION 6. MISCELLANEOUS

6.1 Effect of this Agreement. Except as modified pursuant hereto, no other changes or modifications to the Financing Agreements are intended or implied, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of a conflict between the terms of this Amendment No. 2 to Ratification Agreement and the other Financing Agreements, the terms of this Amendment No. 2 to Ratification Agreement shall control. _____

6.2 Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary or desirable to effectuate the provisions and purposes of this Amendment No. 2 to Ratification Agreement.

6.3 Headings. The headings used herein are for convenience only and do not constitute matters to be considered in interpreting this Amendment No. 2 to Ratification Agreement.

6.4 Additional Events of Default. The parties hereto acknowledge, confirm and agree that the failure of Borrower or any Guarantor to comply with any of the covenants, conditions and agreements contained herein or in any other agreement, document or instrument at any time executed by Borrower or any Guarantor in connection herewith shall constitute an Event of Default under the Financing Agreements.

6.5 Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the laws of the State of New York (without giving effect to principles of conflicts of laws) except to the extent that the provisions of the Bankruptcy Code are applicable and specifically conflict with the foregoing.

6.6 Binding Effect. This Amendment No. 2 to Ratification Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.7 Counterparts. This Amendment No. 2 to Ratification Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of this Amendment No. 2 to Ratification Agreement by telefacsimile shall have the same force and effect as delivery of an original counterpart of this Amendment No. 2 to Ratification Agreement, but the parties hereto agree to deliver original counterparts to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No.2 to Ratification Agreement to be duly executed as of the day and year first above written.

DEBTORS

LODESTAR ENERGY, INC.
Debtor and Debtor-in-Possession

By: R. Ebelly D VP

Title: Vice President

LODESTAR HOLDINGS, INC.
Debtor and Debtor-in-Possession

By: R. Ebelly D AS

Title: ASSISTANT SECRETARY

OTHER GUARANTORS

EASTERN RESOURCES, INC.

By: R. Ebelly D AS

Title: ASSISTANT SECRETARY

**INDUSTRIAL FUELS MINERALS
COMPANY**

By: R. Ebelly D AS

Title: ASSISTANT SECRETARY

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION, in
its capacity as Agent and Lender

By: *Charm H. Hunt*

Title: *Vice President*

THE CIT GROUP/BUSINESS CREDIT, INC.
its capacity as Co-Agent and Lender

By: _____

Title: _____

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION, in
its capacity as Agent and Lender

By: _____

Title: _____

THE CIT GROUP/BUSINESS CREDIT, INC.
its capacity as Co-Agent and Lender

By: Stuart Scelzi

Title: VP

WEXFORDSM

Wexford Capital LLC

Wexford Plaza
411 West Putnam Avenue
Greenwich, CT 06830
www.wexford.com
(203) 862-7000

Direct Dial: 862-7412
Direct Fax: 862-7452
mzand@wexford.com

February 13, 2002

Congress Financial Corporation,
as agent
1133 Avenue of the Americas
New York, New York 10028
Attn: Mr. Robert Strack

Re: Lodestar Energy, Inc., et al. (Debtors)

Gentlemen:

We refer to the Interim Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital LLC, entered by the Bankruptcy Court on February 13, 2002 ("Second Interim Wexford Order") and any Final Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital entered by the Bankruptcy Court in connection therewith after the date hereof (together with the Second Interim Wexford Order, collectively, "Second Wexford Financing Order").

This shall confirm that (i) all loans, advances and other financial accommodations made by Wexford, as agent for itself and each of Solitair Corp., Wexford Spectrum Investors LLC and Valentis Investors LLC (collectively, the Wexford Lenders), to Debtors pursuant to the Second Wexford Financing Order, or otherwise, including without limitation all amounts up to the Maximum Amount (as defined in the Second Interim Wexford Order) shall constitute "Junior Debt" as such term is defined in the Intercreditor Agreement (as hereinafter defined) and such debt, and (ii) all liens, security interests and claims granted to or in favor of the Wexford Lenders under the Second Wexford Financing Order, or otherwise, shall, in the case of clauses (i) and (ii) above, be junior and subordinate in all respects to all obligations, liabilities and indebtedness of Debtors to Congress Financial Corporation, as agent for itself and certain other financial institutions (in such capacity, Congress) and all liens, security interests and claims granted to or in favor of Congress, in accordance with the First Wexford Financing Order, as amended and the Intercreditor and Subordination Agreement, dated as of September 28, 2001 (the Intercreditor Agreement), by and among Congress and the Wexford Lenders, and shall be subject to all of the

February 13, 2002

Page 2

terms and conditions of the First Wexford Financing Order, as amended and the Intercreditor Agreement.

We understand that Congress and The CIT Group/Business Credit, Inc. in their capacity as agent and lenders, and their respective successors and assigns, are relying upon this letter in providing financing to Debtors.

WEXFORD CAPITAL LLC, as agent



By: Mark Zand

Title: Principal

EXHIBIT A

Form of Letter from Wexford to Agent

[TO BE REPRINTED ON WEXFORD LETTERHEAD]

November 7, 2001

Congress Financial Corporation,
as agent
1133 Avenue of the Americas
New York, New York 10028
Attn: Mr. Robert Strack

Re: Lodestar Energy, Inc., et al. ("Debtors")

Gentlemen:

We refer to the Interim Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital LLC, enter by the Bankruptcy Court on February __, 2002 ("Second Interim Wexford Order") and any Final Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital entered by the Bankruptcy Court in connection therewith after the date hereof (together with the Second Interim Wexford Order, collectively, "Second Wexford Financing Order").

This shall confirm that (i) all loans, advances and other financial accommodations made by Wexford, as agent for itself and each of Solitair Corp., Wexford Spectrum Investors, LLC and Valentis Investors, LLC (collectively, the "Wexford Lenders"), to Debtors pursuant to the Second Wexford Financing Order, or otherwise, including without limitation all amounts up to the Maximum Amount (as defined in the Second Interim Wexford Order) shall constitute "Junior Debt" as such term is defined in the Intercreditor Agreement (as hereinafter defined) and such debt, and (ii) all liens, security interests and claims granted to or in favor of the Wexford Lenders under the Second Wexford Financing Order, or otherwise, shall, in the case of clauses (i) and (ii) above, be junior and subordinate in all respects to all obligations, liabilities and indebtedness of Debtors to Congress Financial Corporation, as agent for itself and certain other financial institutions (in such capacity, "Congress") and all liens, security interests and claims granted to or in favor of Congress, in accordance with the First Wexford Financing Order, as amended and

the Intercreditor and Subordination Agreement, dated as of September 28, 2001 (the "Intercreditor Agreement"), by and among Congress and the Wexford Lenders, and shall be subject to all of the terms and conditions of the First Wexford Financing Order, as amended and the Intercreditor Agreement.

We understand that Congress and The CIT Group/Business Credit, Inc. in their capacity as agent and lenders, and their respective successors and assigns, are relying upon this letter in providing financing to Debtors.

WEXFORD CAPITAL LLC, as agent

By: _____

Title: _____

Exhibit E

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION

EASTERN DISTRICT OF KENTUCKY
FILED

MAR 05 2002

AT LEXINGTON
JERRY D. TRUITT, CLERK
U.S. BANKRUPTCY COURT

IN RE:)	
)	
LODESTAR ENERGY, INC.)	CHAPTER 11
LODESTAR HOLDINGS, INC.)	CASE NO. 01-50969
)	CASE NO. 01-50972
DEBTORS)	JOINTLY ADMINISTERED
)	
)	

**INTERIM ORDER AUTHORIZING DEBTORS' SECOND MOTION TO OBTAIN
ADDITIONAL SUPPLEMENTAL POST-PETITION FINANCING FROM
WEXFORD CAPITAL LLC**

**Pursuant to the Provisions of Local Bankruptcy Rule of Procedure 4001-2(d), Notice is
Hereby Given that this Order contains terms and conditions which vary from the
requirements of LBR E.D. Ky. 4001-2(c)**

This matter having come on to be considered upon Debtors' Second Motion for Interim and Final Orders authorizing Debtors to (A) obtain additional supplemental post-petition financing from Wexford Capital LLC, as agent ("Wexford"), (B) grant senior liens, priority administrative expense status and adequate protection to Wexford and (C) modify the automatic stay (the "Motion") filed by Lodestar Energy, Inc. ("LEI") and Lodestar Holdings, Inc. (LHL, collectively with LEI, the "Debtors") on March 5, 2002; after due and sufficient notice and a hearing, the Court having reviewed the Motion and having heard the statements of counsel in support of the relief requested therein and any objections and any evidence offered; and the Court being fully advised;

IT APPEARS AND THE COURT FINDS THAT:

1. The cases were commenced by the filing of an involuntary petition against the Debtors on March 30, 2001 (the "Petition Date"). On April 27, 2001 (the "Relief Date"), the Court entered an order granting the Debtors relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1330 (the "Bankruptcy Code"). The Debtors continue to operate their businesses and manage their property and affairs as debtors in possession in accordance with Bankruptcy Code §§ 1107 and 1108.

2. This Court has jurisdiction over these Chapter 11 cases under 28 U.S.C. §§ 157 and 1334. This matter constitutes a core proceeding under 28 U.S.C. § 157(b)(2).

3. The Debtors maintain their principal place of business in Lexington, Kentucky. Accordingly, venue for the Debtors' Chapter 11 cases is proper in this District under 28 U.S.C. §§ 1408 and 1409.

4. On April 27, 2001, the Court entered its Order Directing Joint Administration and Procedural Consolidation, whereby the Court directed the Debtors' Chapter 11 cases to be procedurally consolidated and to be jointly administered by the Court and the Office of the United States Trustee.

5. On the Relief Date, the Court entered the Emergency Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, and (4) Prescribe Form and Manner of Notice and Time for Interim Hearing under Federal Rule of

Bankruptcy Procedure 4001(c)(docket no. 36)(the "Emergency Order"), pursuant to which, *inter alia*, LEI was authorized to obtain, on an emergency basis effective during the "Emergency Financing Period" (as defined in the Emergency Order), post-petition loans, advances and other credit and financial accommodations from Congress and CIT in their capacity as agents and lenders (collectively, "Senior Lenders") secured by first priority liens and security interests upon and in the "Collateral" (as defined in the Emergency Order). Senior Lenders were also granted a super-priority administrative expense claim against Debtors for all "Post-Petition Obligations" (as defined in the Emergency Order).

6. On May 7, 2001, the Court entered the Interim Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay, (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent and (5) Prescribe Form and Manner of Notice and Time for Final Hearing under Federal Rule of Bankruptcy Procedure 4001(c) (docket no. 73) (the "Interim Financing Order"), pursuant to which, *inter alia*, LEI was authorized to obtain, on an interim basis, post-petition loans, advances and other credit and financial accommodations from Senior Lenders in their capacity as agents and lenders pursuant to the terms and conditions of the Existing Loan Agreement and the other Existing Financing Agreements (as such terms are defined in the Interim Financing Order), as ratified and amended by the Ratification Agreement (as defined in the Interim Financing Order), secured by first priority liens and security interests

upon and in the "Collateral" (as defined and set forth in the Interim Financing Order). Senior Lenders were also granted a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Ratification Agreement).

7. On June 21, 2001, the Court entered the Final Order Pursuant to Section 364(c) of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure Authorizing Debtors to (1) Obtain Post-Petition Financing, (2) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection, (3) Modify the Automatic Stay and (4) Enter into Agreements with Congress Financial Corporation, as Agent, and The CIT Group/Business Credit, Inc., as Co-Agent (docket no. 228)(the "Final Financing Order"), pursuant to which, inter alia, LEI was authorized to obtain, on a final basis, post-petition loans, advances and other credit and financial accommodations from Senior Lenders in their capacity as agents and lenders pursuant to the terms and conditions of the Amended and Restated Ratification Agreement and the other Financing Agreements (as such terms are defined in the Final Financing Order), secured by first priority liens and security interests upon and in the "Collateral" (as defined and set forth in the Final Financing Order). The Senior Lenders were also granted a super-priority administrative expense claim against Debtors for all Obligations (as defined in the Amended and Restated Ratification Agreement).

8. The Debtors later determined that the existing financing was not sufficient and that a need for supplemental financing existed. The Debtors obtained such financing from Wexford pursuant to (a) the Interim Order Authorizing (1) Debtors Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure to (A) Obtain

Supplemental Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and CIT Business Group/Business Credit, Inc., as Co-Agent, entered September 28, 2001(docket no. 537) (the "Wexford Interim Order"), and (b) the Final Order Authorizing (1) Debtors, Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure, to (A) Obtain Supplemental Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and the CIT Business Group/Business Credit, Inc., as Co-Agent entered October 18, 2001 (docket no. 635) (the "First Wexford Financing Order").

9. Pursuant to the First Wexford Financing Order, (a) Senior Lenders agreed to increase their advance rate against machinery and equipment (the "M&E Advance Rate") from 60% to 65% during the period ending January 31, 2002, and (b) Wexford agreed, among other things, to provide financing to the Debtors, in the form of the Supplemental Loans (as defined in the First Wexford Financing Order) in the maximum amount of \$10 million dollars (the "Maximum Amount"). The Supplemental Loans were to be made in accordance with the terms of a certain Credit Agreement, substantially in the form attached as Exhibit B to the Wexford Interim Order.

10. To secure payment of the Debtors' obligations under the Supplemental Loans, Wexford was granted liens and security interests junior and subordinate to the liens and security interests of Senior Lenders as more particularly set forth in the First Wexford Financing Order. In addition, the obligations of the Debtors to Wexford in connection with the financing were granted superpriority status junior and subordinate to the superpriority status of the Senior Lenders' claims as more particularly set forth in the First Wexford Financing Order.

11. On November 2, 2001, the Debtors and Wexford filed the Agreed Order Amending Final Order Authorizing (1) Debtors Pursuant to Section 364 of the Bankruptcy Code and Rule 4001 of the Federal Rules of Bankruptcy Procedure to (A) Obtain Supplemental Financing from Wexford Capital LLC, (B) Grant Senior Liens, Priority Administrative Expense Status and Adequate Protection to Wexford Capital LLC and (C) Modify the Automatic Stay, and (2) Amendments to Financing Agreements with Congress Financial Corporation, as Agent, and the CIT Business Group/Business Credit, Inc., as Co-Agent (docket no. 705)(the "Amended Wexford Final Order"), which was entered by the Court on the same date. Pursuant to the Amended Wexford Final Order, the Debtors agreed to comply with certain conditions relating to Debtors' staffing, the status of certain of Debtors' contracts and Wexford's pre-approval of expenditures made by the Debtors.

12. In accordance with the terms of the First Wexford Financing Order, as of February 1, 2002, the M&E Advance Rate under the Financing Agreements (as such term is defined in the Amended and Restated Ratification Agreement) reverted back to 60% from 65%. This, combined with a slight decrease in the value of the Debtors' machinery and equipment, as

established by a recent appraisal, resulted in an approximate reduction of \$1.8 million in the Debtors' borrowing availability under the Financing Agreements. This decrease in availability, coupled with the timing of the current move of the longwall mining equipment in Western Kentucky, resulted in the Debtors' need for additional financing.

13. As a result, the Debtors and Wexford agreed to the terms of additional financing to be provided by Wexford, and on February 13, 2002, the Court entered the agreed Interim Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital LLC (docket no. 992) (the "Supplemental Wexford Order"). Pursuant to the terms of the Supplemental Wexford Order, Wexford agreed to increase the Maximum Amount of the Supplemental Loans from \$10 million to \$13 million. With the exception of the increase in the Maximum Amount, the Supplemental Loans were made to the Debtors on the same terms and conditions as those approved under the First Wexford Financing Order. No objections were filed to the provisions of the Supplemental Wexford Order. Therefore, in accordance with its terms, that order became final on February 20, 2002.

14. The Debtors currently have an immediate need to obtain several pieces of heavy equipment, consisting of bulldozers, loaders and trucks (the "Equipment"), to conduct their surface mining operations at the Gooseneck Mine and the Ridge Top Mine in Eastern Kentucky. The Debtors plan to obtain this Equipment pursuant to a rental/lease contract (the "Equipment

Lease”) between LEI and Wayne Supply Company (“Wayne”).¹ Under the Equipment Lease, LEI will be required to pay monthly rental payments (the “Payments”) to Wayne for the leased Equipment. In addition, the Equipment Lease will obligate LEI to pay Wayne a pre-determined deposit amount for each piece of Equipment leased by LEI (collectively, the “Deposits”). LEI must pay the entire amount of the Deposits and one month’s Payments prior to the delivery of the Equipment. The Debtors also have need of additional working capital to continue their business operations. Thus to cover the Deposits, and to obtain the necessary working capital, the Debtors require supplemental financing at this time.

15. The Debtors seek entry of an order authorizing the Debtors to obtain additional supplemental post-petition financing from Wexford (the “Supplemental Wexford Financing”). Wexford intends to provide the Supplemental Wexford Financing by increasing the Maximum Amount of the Supplemental Loans from \$13 million to \$16.1 million. Except with respect to such increase in the Maximum Amount, the same terms and conditions (including that all advances shall be solely at the discretion of Wexford) will apply to the Supplemental Loans, including the Supplemental Wexford Financing, as were approved under the First Wexford Financing Order. The Debtors plan to use approximately \$1.8 million of the Supplemental Wexford Financing to pay the Deposits and the first month’s Payments.

¹ The Debtors requested the Court’s approval of, and the Court’s authorization to enter into, the Equipment Lease, pursuant to the Motion for an Order: (1) Pursuant to Section 363(b) of the Bankruptcy Code Authorizing Debtor Lodestar Energy, Inc. to Enter into a Rental/Lease Contract with Wayne Supply Company; and (2) Permitting the Rental/Lease Contract to be Filed under Seal. The Court granted that Motion at a hearing held on March 5, 2002.

16. The Debtors' continuing viability and their ability to reorganize successfully depend heavily on the Court's approval of the requested relief. Without the Supplemental Wexford Financing, the Debtors will not have the financial resources to obtain the Equipment, which will greatly diminish the productivity of their surface mining operations in Eastern Kentucky. In addition, the Debtors will be unable to preserve their going concern value if they fail to obtain the working capital provided by the Supplemental Wexford Financing.

17. Section 364 of the Bankruptcy Code distinguishes between: (a) obtaining unsecured credit in the ordinary course of business; (b) obtaining unsecured credit out of the ordinary course of business; (c) obtaining credit with specialized priority or with security; and (d) obtaining credit secured by priming or replacement liens. If a debtor-in-possession cannot obtain post petition credit on an unsecured basis, the Court may grant authority for the debtor to obtain credit entitled to superpriority administrative expense status or by a lien on unencumbered property, or some combination of these devices. *See* 11 U.S.C. 364(c).

18. Wexford will not provide the Supplemental Wexford Financing without security therefor.

19. The Debtors negotiated the terms of the Supplemental Wexford Financing in good faith and at arms' length. Given the Debtors' immediate need for additional working capital to fund their ongoing operations, and the terms of the existing financing with Congress and Wexford, the Debtors had no realistic source of financing other than Wexford.

BASED ON THE FOREGOING FINDINGS, no further notice being required and the Court being otherwise duly advised in the premises,

IT IS HEREBY ORDERED THAT:

1. The Motion is granted with no objections to the entry of this Interim Order being filed.

2. In order to accommodate Debtors' incurrence of the Supplemental Wexford Financing, the Senior Lenders, Debtors and certain affiliates of Debtors have agreed to modify and amend certain of the terms and conditions contained in the Financing Agreements pursuant to Amendment No. 3 to Ratification and Amendment Agreement ("Amendment No. 3 to Ratification Agreement"). All of the terms, conditions and provisions of the Amendment No. 3 to Ratification Agreement (a copy of which is annexed hereto, marked Exhibit "A" and incorporated herein by reference) are hereby authorized and approved in all respects and Debtors are hereby authorized and directed to execute and deliver the Amendment No. 3 to Ratification Agreement in favor of Senior Lenders and comply with all of the provisions thereof. Except as specifically modified and amended pursuant to the terms and provisions set forth in the Amendment No. 3 to Ratification Agreement, all of the terms, conditions and provisions of the Final Financing Order, including, but not limited to paragraph 6 of the Final Financing Order granting the Committee certain rights to investigate the extent, validity, perfection and enforceability of Senior Lenders' liens upon and security interests in the Collateral, and the Financing Agreements are hereby ratified and reaffirmed and shall remain in full force and effect.

3. The terms and provisions of the Amendment No. 3 to Ratification Agreement among Debtors, certain affiliates of Debtors and the Senior Lenders have been negotiated in good faith

and at arms' length between Debtors, on one hand, and Senior Lenders, on the other hand, and any loans, advances or other financial and credit accommodations which are made or caused to be made to Debtors by the Senior Lenders pursuant to the Final Financing Order and the Financing Agreements, as amended and modified by the Amendment No. 3 to Ratification Agreement, are deemed to have been extended in good faith, as the term "good faith" is used in Section 364(e) of the Bankruptcy Code, and shall be entitled to the full protection of Section 364(e) of the Bankruptcy Code in the event that this Order or any provision hereof is vacated, reversed or modified, on appeal or otherwise.

4. Notwithstanding anything to the contrary contained in this Order, the Loan Documents (as defined in the First Wexford Financing Order) or otherwise, the respective rights, obligations and priorities of Senior Lenders and Wexford, respectively, with respect to the "Senior Debt", the "Junior Debt", and the "Collateral" (as each such term is defined, and as such rights, obligations and priorities are set forth, in the Intercreditor and Subordination Agreement, dated as of September 28, 2001 by and among Senior Lenders and Wexford ("Intercreditor Agreement")) are hereby ratified, affirmed, assumed, adopted and incorporated by reference herein and each of the Senior Lenders and Wexford shall remain bound by all of the terms and conditions set forth in the Intercreditor Agreement and the term "Junior Debt" therein shall be deemed to include, in addition and without limitation, the Supplemental Wexford Financing. The Intercreditor Agreement shall apply and govern all of the respective rights, obligations and priorities of each of the Senior Lenders and Wexford in Debtors' Chapter 11 cases or in any converted or succeeding cases in respect thereof.

5. The terms and provisions of this Order shall be valid and binding upon Debtors, all creditors of Debtors and all other parties-in-interest from and after the date of the entry of this Order by this Court. The terms and provisions of this Order shall be effective immediately upon entry of this Order pursuant to Bankruptcy Rules 6004(g) and 7062.

6. The First Wexford Financing Order, as amended by the Supplemental Wexford Order, is amended as set out in this Interim Order; provided, however, notwithstanding any other provision of this Interim Order to the contrary, all Supplemental Loans shall be at the sole and complete discretion of Wexford.

7. The first sentence of Paragraph 7 of the "IT IS HEREBY ORDERED" section of the First Wexford Financing Order, as amended by the Supplemental Wexford Order, is hereby amended and restated in its entirety as follows:

"Debtors are authorized to receive financing from Lender on the terms of this Order and the Loan Documents, and to incur obligations to Lender up to a maximum of \$16,100,000.00 from Lender at any one time outstanding ("Maximum Amount"), in the form of the Supplemental Loans and grant liens and security interests in favor of Lender as provided herein."

8. All provisions of the First Wexford Financing Order, as amended by the Wexford Supplemental Order, not otherwise amended and restated herein shall remain unmodified and in full force and effect.

9. Upon entry of this Interim Order, before any more Supplemental Loans are made to the Debtors, the Credit Agreement and Note shall each be amended only to conform with the terms of this Interim Order, as agreed to by the parties hereto.

10. This Interim Order is being entered on an interim basis pursuant to Bankruptcy Rule 4001 and is expressly subject to the rights of parties in interest to object as specifically provided for in this paragraph. Notice shall be given by Debtors (no later than 1 business day after the date of this Interim Order) to all creditors and interested parties entitled to receive notice pursuant to Federal Rule of Bankruptcy Procedure 4001 that this Interim Order has been entered. Pending a final hearing, Debtors may borrow from Wexford, under the terms and conditions stated herein, that amount which is necessary to avoid immediate and irreparable harm, but in no event shall such borrowings exceed \$2.3 million in the aggregate (the "Maximum Necessary Advance"). Any objections to the terms of this Interim Order must be (a) filed with the Court; and (b) served upon and received by counsel for Debtors and Wexford no later than 5:00 p.m. on March 15, 2002. If a timely objection is filed and served as provided above, a hearing will be held on March 25, 2002 at 9:30 AM at which time the objector(s) shall be given an opportunity to show cause why this Interim Order should not be a final order of this Court. If no such timely objection is filed and served or if the objection is timely filed and served, but overruled by the Court, this Interim Order shall become final without any further action by this Court. Notwithstanding the outcome of the final hearing on this Interim Order, Lender shall be entitled to the liens, priorities and other rights provided in this Interim Order to protect Wexford to the extent of the Necessary Maximum Advances made by Wexford and incurred by Debtors on or after entry of this Interim Order.

11. Counsel for the Debtors shall serve copies of this Interim Order on all parties listed on the service list in effect as approved by prior order of the Court, which shall be deemed in

compliance with Local Rule 9022.1(a) regarding the need to list within an order the name and address of each party to be served with a copy of this Interim Order.

12. To the extent this order is entered on the day it is submitted to the Court, and provided that on the same day counsel for the Debtors receives a copy of the Order as entered from the bench for purposes of service on all applicable parties, then the provisions of Local Rule 9022-1 (c) regarding tendering of envelopes to the clerk so that entered copies of Orders can be forwarded to counsel for the Debtors to serve on all applicable parties shall be deemed satisfied without the need to tender postage pre-paid envelopes. Counsel for the Debtors will thereafter comply with the balance of Local Rule 9022-1(c).

Dated: 3/5, 2002.


HON. JOSEPH M. SCOTT, JR. JUDGE
UNITED STATES BANKRUPTCY COURT

Tendered And Agreed To By:

SQUIRE, SANDERS & DEMPSEY L.L.P.

Stephen D. Lerner

Jeffrey A. Marks

Kim D. Seaton

312 Walnut Street, Suite 3500

Cincinnati, Ohio 45202

Telephone: 513-361-1200

Facsimile: 513-361-1201

Email: slerner@ssd.com

jemarks@ssd.com

kseaton@ssd.com

and

FOWLER, MEASLE & BELL, LLP

Ellen Arvin Kennedy

Taft A. McKinstry

Ellen Arvin Kennedy

300 West Vine Street, Suite 600

Lexington, KY 40507-1660

Telephone: 859-252-6700

Facsimile: 859-255-3735

E-mail: tmckinstry@fmblaw.com

eakennedy@fmblaw.com

CO-COUNSEL FOR DEBTORS

AND DEBTORS IN POSSESSION

Robert V. Sartin by Ellen Arvin Kennedy
per authority

John S. Sawyer

Robert V. Sartin

SAWYER & GLANCY PLLC

3120 Wall Street, Suite 310

Lexington, KY 40513

COUNSEL FOR LENDER WEXFORD CAPITAL LLC

Pursuant to Local Rule 9022-1(c), Taft A. McKinstry or Ellen Arvin Kennedy shall cause a copy of this Order to be served on each of the parties designated to receive this order pursuant to Local Rule 9022-1(a) and shall file with the Court a certificate of service of the Order upon such parties within ten (10) days hereof.

[03/04/02]

AMENDMENT NO. 3
TO
AMENDED AND RESTATED
RATIFICATION AND AMENDMENT AGREEMENT

AMENDMENT NO. 3 TO AMENDED AND RESTATED RATIFICATION AND AMENDMENT AGREEMENT (this "Amendment No. 3 to Ratification Agreement") dated as of March __, 2002, by and among LODESTAR ENERGY, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Borrower"), LODESTAR HOLDINGS, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Holdings", together with Borrower, each individually a "Debtor" and collectively, "Debtors"), EASTERN RESOURCES, INC., a Kentucky corporation, ("ERI"), INDUSTRIAL FUELS MINERALS COMPANY, a Michigan corporation, ("IFMC", and together with Holdings and ERI, each individually, "Guarantor" and collectively, "Guarantors"), the financial institutions from time to time parties to the Loan Agreement (as hereinafter defined) as lenders (individually each, a "Lender" and collectively, "Lenders"), CONGRESS FINANCIAL CORPORATION, a Delaware corporation, as successor by merger to Congress Financial Corporation, a California corporation, in its capacity as Lender ("Congress"), THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation, in its capacity as a Lender ("CIT"), Congress, in its capacity as administrative agent and collateral agent for the Lenders under the Loan Agreement (in such capacity, the "Agent") and CIT in its capacity as co-agent for the Lenders under the Loan Agreement (in such capacity, the "Co-Agent").

WITNESSETH:

WHEREAS, Borrower, Guarantors, Lenders, Agent and Co-Agent have entered into the Amended and Restated Ratification and Amendment Agreement, dated as of June 20, 2001, by and among Borrower, Guarantors, Lenders, Agent and Co-Agent, Amendment No. 1 to Amended and Restated Ratification Agreement, dated as of September 28, 2001 and Amendment No. 2 to Amended and Restated Ratification Agreement, dated as of February 13, 2002, by and among Borrowers, Guarantors, Lenders, Agent and Co-Agent (as the same now exists and is amended hereby, and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Ratification Agreement"), with respect to the Amended and Restated Loan and Security Agreement, dated May 15, 1998, by and among Borrower, Holdings, Lenders, Agent and Co-Agent, as amended by certain amendments and the Ratification Agreement (as the same now exists and is amended hereby and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Loan Agreement") and various other agreements, documents and instruments executed and/or delivered in connection therewith or related thereto (together with the Ratification Agreement and the Loan Agreement, as the same now exist and may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, collectively, the "Financing Agreements").

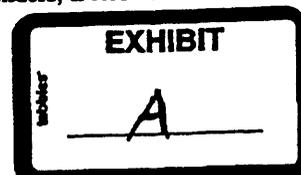
WHEREAS, Borrower and Guarantors have requested that Lenders, Agent and Co-Agent amend the Ratification Agreement and the other Financing Agreements. Agent, Co-Agent and Lenders are willing agree to such amendments subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, Co-Agent, Lenders, Borrower and Guarantors mutually covenant, warrant and agree as follows:

SECTION 1. DEFINITIONS

1.1 Additional Definition. As used herein, the following term shall have the meanings given to it below and the Ratification Agreement and the other Financing Agreements shall be deemed and are hereby amended to include, in addition and not in limitation, the following definition:

"Amendment No. 3 to Ratification Agreement" shall mean Amendment No. 3 to Amended and Restated Ratification Agreement, dated as of March __, 2002, by and among Agent, Co-Agent, Lenders, Borrower



and Guarantors, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.2 Amendments to Definition in the Ratification Agreement.

(a) All references to the term "Ratification Agreement" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, Amendment No. 3 to Ratification Agreement.

(b) All references to the term "Wexford Agreements" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, Second Amended Post-Petition Credit Agreement, dated as of March __, 2002, by and among Debtors and Wexford and any agreements, documents or instruments executed in connection therewith.

1.3 Interpretation.

(a) For purposes of this Amendment No. 3 to Ratification Agreement, unless otherwise defined or amended herein, including, but not limited to, those terms used and/or defined in the recitals hereto, all terms used herein shall have the respective meanings assigned to such terms in the Loan Agreement.

(b) All references to any term in the singular shall include the plural and all references to any term in the plural shall include the singular.

SECTION 2. AMENDMENTS

Indebtedness. Section 7.3(v)(i) of the Loan Agreement is hereby amended by deleting the number "\$13,000,000" in such section and replacing such number with "\$16,100,000".

SECTION 3. ADDITIONAL REPRESENTATIONS, WARRANTIES AND COVENANTS

In addition to the continuing representations, warranties and covenants heretofore and hereafter made by Borrower and Guarantors to Agent and Lenders, whether pursuant to the Financing Agreements or otherwise, and not in limitation thereof, Borrower and each Guarantor hereby represents, warrants and covenants to Agent and Lenders the following (which shall survive the execution and delivery of this Amendment No. 3 to Ratification Agreement), the truth and accuracy of which, or compliance with, to the extent such compliance does not violate the terms and provisions of the Bankruptcy Code, shall be a continuing condition of the making of loans by Lenders:

3.1 Order. The Bankruptcy Court has entered an order authorizing the execution and delivery of this Amendment No. 3 to Ratification Agreement.

3.2 No Event of Default. No Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than Borrower's failure to comply with section 7.25 for the periods ending October 31, 2001, November 30, 2001, December 31, 2001 and January 31, 2002 which constitutes an Event of Default under Section 8.1(b) of the Loan Agreement and the other Financing Agreements ("Existing Default")).

3.3 Execution and Delivery. This Amendment No. 3 to Ratification Agreement has been duly executed and delivered by the parties hereto and this Amendment No. 3 to Ratification Agreement and the other Financing Agreements are in full force and effect as of the date hereof, and the agreements and obligations of Debtors and Guarantors contained herein and therein constitute legal, valid and binding obligations of Debtors and Guarantors enforceable against each of them in accordance with their respective terms.

SECTION 4. NO WAIVER; RESERVATION OF RIGHTS.

4.1 Agent has not waived, is not by this Amendment No. 3 to Ratification Agreement waiving and has no intention of waiving, the Existing Default or any other Event of Default which may be continuing on the date hereof or any Events of Default which may occur after the date hereof (whether the same or similar to the Existing Default or otherwise), and Agent has not agreed to forbear with respect to any of its rights or remedies concerning the Existing Default or any other Event of Default, which may have occurred or are continuing as of the date hereof or which may occur after the date hereof. Any Event of Default continuing after the date hereof (including the Existing Default) or any Event of Default which may occur after the date hereof, in each case, may only be waived in writing duly executed by an authorized officer of Agent.

4.2 Agent reserves the right to exercise any or all of its rights and remedies under the Loan Agreement and the other Financing Agreements as a result of the Existing Default or any other Event of Default which may be continuing on the date hereof or any Event of Default which may occur after the date hereof, and Agent has not waived any of such rights or remedies, and nothing in this Amendment No. 3 to Ratification Agreement, and no delay on its part in exercising any such rights or remedies, should be construed as a waiver of any such rights or remedies.

SECTION 5. CONDITIONS PRECEDENT

The amendments herein shall be effective only upon the satisfaction of each of the following conditions precedent in a manner satisfactory to Agent and Lenders:

5.1 as of the date hereof, there shall have been no termination of the Financing Agreements;

5.2 no trustee, examiner or receiver or the like shall have been appointed or designated with respect to any Debtor, as debtor and debtor-in-possession, or its business, properties and assets and no motion or proceeding shall be pending seeking such relief;

5.3 each Debtor shall comply in full with the notice and other requirements of the Bankruptcy Code and the applicable Federal Rules of Bankruptcy Procedure with respect to any relevant Financing Order in a manner acceptable to Agent and its counsel, and such Financing Order shall have been entered by the Bankruptcy Court, in form and substance satisfactory to Agent, authorizing secured post-petition financing under the Financing Agreements as amended by the terms and conditions set forth in Amendment No. 3 to Ratification Agreement and, authorizing the execution and delivery of this Amendment No. 3 to Ratification Agreement and containing such other terms or provisions as Agent and Lenders and their counsel shall require;

5.4 the receipt by Agent of an original of this Amendment No. 3 to Ratification Agreement, duly authorized, executed and delivered by Borrower and Guarantors;

5.5 the receipt by Agent, in form and substance satisfactory to Agent, of Second Amended Post-Petition Credit Agreement by and among Debtors and Wexford and any agreements, documents and instruments executed in connection therewith, each duly authorized, executed and delivered by each of Wexford, Borrower and Guarantors;

5.6 the receipt by Agent, in form and substance satisfactory to Agent, of true, correct and complete copy of the letter from Wexford to Agent in the form attached hereto as Exhibit A, as duly authorized, executed and delivered by Wexford; and

5.7 no Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than the Existing Default).

SECTION 6. MISCELLANEOUS

6.1 Effect of this Agreement. Except as modified pursuant hereto, no other changes or modifications to the Financing Agreements are intended or implied, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of a conflict between the terms of this Amendment No. 3 to Ratification Agreement and the other Financing Agreements, the terms of this Amendment No. 3 to Ratification Agreement shall control.

6.2 Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary or desirable to effectuate the provisions and purposes of this Amendment No. 3 to Ratification Agreement.

6.3 Headings. The headings used herein are for convenience only and do not constitute matters to be considered in interpreting this Amendment No. 3 to Ratification Agreement.

6.4 Additional Events of Default. The parties hereto acknowledge, confirm and agree that the failure of Borrower or any Guarantor to comply with any of the covenants, conditions and agreements contained herein or in any other agreement, document or instrument at any time executed by Borrower or any Guarantor in connection herewith shall constitute an Event of Default under the Financing Agreements.

6.5 Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the laws of the State of New York (without giving effect to principles of conflicts of laws) except to the extent that the provisions of the Bankruptcy Code are applicable and specifically conflict with the foregoing.

6.6 Binding Effect. This Amendment No. 3 to Ratification Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.7 Counterparts. This Amendment No. 3 to Ratification Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of this Amendment No. 3 to Ratification Agreement by telefacsimile shall have the same force and effect as delivery of an original counterpart of this Amendment No. 3 to Ratification Agreement, but the parties hereto agree to deliver original counterparts to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to Ratification Agreement to be duly executed as of the day and year first above written.

DEBTORS

LODESTAR ENERGY, INC.
Debtor and Debtor-in-Possession

By: _____

Title: _____

LODESTAR HOLDINGS, INC.
Debtor and Debtor-in-Possession

By: _____

Title: _____

OTHER GUARANTORS

EASTERN RESOURCES, INC.

By: _____

Title: _____

**INDUSTRIAL FUELS MINERALS
COMPANY**

By: _____

Title: _____

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION, in
its capacity as Agent and Lender

By: _____

Title: _____

THE CIT GROUP/BUSINESS CREDIT, INC.
its capacity as Co-Agent and Lender

By: _____

Title: _____

EXHIBIT A

Form of Letter from Wexford to Agent

[TO BE REPRINTED ON WEXFORD LETTERHEAD]

March __, 2002

Congress Financial Corporation,
as agent
1133 Avenue of the Americas
New York, New York 10028
Attn: Mr. Robert Strack

Re: Lodestar Energy, Inc., et al. ("Debtors")

Gentlemen:

We refer to the Interim Order Authorizing Debtors Second Motion to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital LLC, enter by the Bankruptcy Court on March __, 2002 ("Third Interim Wexford Order") and any interim or final Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital entered by the Bankruptcy Court with any financing provided by the Wexford Lenders to the Debtors (collectively, the "Wexford Financing Orders").

This shall confirm that (i) all loans, advances and other financial accommodations made by Wexford, as agent for itself and each of Solitair Corp., Wexford Spectrum Investors, LLC and Valentis Investors, LLC (collectively, the "Wexford Lenders"), to Debtors pursuant to the Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order, or otherwise, including without limitation all amounts up to the Maximum Amount (as defined in the Third Interim Wexford Order) shall constitute "Junior Debt" as such term is defined in the Intercreditor Agreement (as hereinafter defined) and such debt, and (ii) all liens, security interests and claims granted to or in favor of the Wexford Lenders under Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order, or otherwise, shall, in the case of clauses (i) and (ii) above, be junior and subordinate in all respects to all obligations, liabilities and indebtedness of Debtors to Congress Financial Corporation, as agent for itself and certain other financial institutions (in such capacity, "Congress") and all liens, security interests and claims granted to or in favor of Congress, in accordance with the Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order and the Intercreditor and Subordination Agreement, dated as of September 28, 2001 (the "Intercreditor Agreement"), by and among Congress and the Wexford Lenders, and shall be subject to all of the terms and conditions of the Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order and the Intercreditor Agreement.

We understand that Congress and The CIT Group/Business Credit, Inc. in their capacity as agents and lenders, and their respective successors and assigns, are relying upon this letter in providing financing to Debtors.

WEXFORD CAPITAL LLC, as agent
for itself and the other Wexford Lenders

By: _____

Title: _____

SECOND AMENDMENT TO REVOLVING CREDIT NOTE

THIS SECOND AMENDMENT TO REVOLVING CREDIT NOTE (this "Amendment") is made, entered into and effective as of the 6th day of March, 2002 by and between (i) **LODESTAR HOLDINGS, INC.** and **LODESTAR ENERGY, INC.** (collectively, the "Makers") and (ii) **WEXFORD CAPITAL LLC** (the "Lender"), as agent for Spectrum Investors LLC, Solitair Corp. and Valentis Investors LLC.

RECITALS

A. Makers are makers under that certain Revolving Credit Note dated September 28, 2001 made to the Order of Lender, as amended pursuant to that certain First Amendment to Revolving Credit Note dated February 13, 2002 (the "Original Note").

B. Makers desire to amend and modify certain terms and provisions of the Original Note as set out in this Amendment. The Original Note, as amended hereby, is referred to herein as the "Note".

NOW, THEREFORE, in consideration of the recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions.** All capitalized terms used in this Amendment and not otherwise defined herein shall have the meaning given such terms in the Original Note.

2. **Amount.** The aggregate principal amount of the Original Note is increased to \$16,100,000.00. The first paragraph of the Original Note is hereby amended to read as follows:

FOR VALUE RECEIVED, the undersigned, **LODESTAR HOLDINGS, INC. AND LODESTAR ENERGY, INC.** (collectively, the "Makers"), hereby jointly and severally promise to pay to the order of **WEXFORD CAPITAL LLC** (the "Lender"), on the Commitment Termination Date, the principal sum of Sixteen Million One Hundred Thousand Dollars (\$16,100,000) or, if less, the aggregate unpaid principal balance of all Supplemental Loans made by the Lender to the Makers pursuant to that certain Credit Agreement, dated as of the date hereof, as the same may be amended, restated, renewed, replaced, supplemented or otherwise modified from time to time hereafter (the "Credit Agreement"), by and among the Makers and the Lender, together with interest on any and all principal remaining unpaid hereunder from the date hereof until payment in full, payable on the dates and at the interest rate or rates specified in the Credit Agreement. Capitalized terms used in this Note without definition have the meanings assigned to them in the Credit Agreement.

3. **Continuing Effect.** Except to the extent modified hereby, the Original Note shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the Makers have caused this Amendment to be executed under seal by its duly authorized representative as of the date first above written.

LODESTAR HOLDINGS, INC.

By: _____

Title: _____

LODESTAR ENERGY, INC.

By: _____

Title: _____

SECOND AMENDED POST-PETITION CREDIT AGREEMENT

THIS SECOND AMENDED POST-PETITION CREDIT AGREEMENT ("Amendment") dated as of March 1st, 2002, by and among LODESTAR ENERGY, INC., a Delaware corporation and Debtor-In-Possession in its chapter 11 case now pending in the United States Bankruptcy Court for the Eastern District of Kentucky, and LODESTAR HOLDINGS, INC., a Delaware corporation and Debtor-In-Possession in its chapter 11 case now pending in the United States Bankruptcy Court for the Eastern District of Kentucky (collectively, the "Borrowers"); and WEXFORD CAPITAL LLC (the "Lender"), a Connecticut limited liability company, as agent for Spectrum Investors LLC, Solitair Corp. and Valentis Investors LLC.

RECITALS:

Pursuant to the terms of that certain Post-Petition Credit Agreement dated September 28, 2001, as amended by that certain First Amended Post-Petition Credit Agreement dated February 13, 2002 (the "Original Credit Agreement"), Borrowers have obtained from Lender a revolving credit facility in an amount not to exceed \$13,000,000.00 (the "Revolver").

The Borrowers and Lender desire to increase the amount of the Revolver to \$16,100,000.00.

NOW THEREFORE, the parties hereto, intending to be legally bound, and in consideration of the foregoing and the mutual covenants contained herein, hereby agree as follows:

1. **Increase in Amount of Revolver.** The aggregate principal amount of the Revolver is increased to \$16,100,000.00. Section 1.01 of the Original Credit Agreement is hereby amended to read as follows:

"Section 1.01. Revolving Credit Facility.

- (a) As of the date hereof, subject to the terms and conditions set forth in this Agreement and the DIP Order, the Lender has established in favor of the Borrowers a revolving credit facility (the "Revolver") in the aggregate principal amount of Sixteen Million One Hundred Thousand Dollars \$16,100,000 (the "Commitment"), which shall expire on the Commitment Termination Date. During the Revolving Period and within the limits of the Commitment, the Borrowers may borrow, repay and reborrow under this Section 1.01.
- (b) Loans made under the Revolver are hereinafter sometimes referred to collectively as the "Supplemental Loans". The Supplemental Loans will be made on the following terms:

(i) As of the date of the Original Credit Agreement dated September 28, 2001, Lender made a Supplemental Loan to the Borrowers in the principal amount of \$5,000,000 (the "Initial Advance"), all in conformity with the provisions of the Loan Documents. Thereafter, Lender shall make other Supplemental Loans to Borrowers, up to the balance of \$16,100,000 (the "Maximum Amount"), shall be solely at the discretion of Lender (irrespective of whether the Borrowers have repaid any portion of the Initial Advance) and strictly in conformity with the provisions of the Loan Documents."

(ii) All Supplemental Loans (other than the Initial Advance) will be made solely in conformity with a weekly budget prepared by the Borrowers, and as the same may be updated and modified from time to time with the prior written reasonable approval of Lender (the "DIP Budget"); provided, however, that the Borrowers may vary from the budget for any line item on such budget in an amount not to exceed 5% or as otherwise approved by Lender in its sole discretion. In the event Lender does not approve any DIP Budget or update of any budget, it shall have no obligation to make any Supplemental Loans to Borrowers.

(iii) Supplemental Loans will be disbursed in amounts of \$500,000 or multiples thereof, with funding to occur on a weekly basis (up to the Maximum Amount) unless otherwise agreed to by the Lender in its sole discretion, interest to accrue from the date on which any Supplemental Loan is made by Lender until such loan is repaid.

(c) The borrowings under this **Section 1.01** shall be evidenced by the Borrowers' First Amended Revolving Credit Note in the form attached hereto as **Schedule 1.01(c)** (the "Note"). The Note is hereby incorporated by reference herein and made a part hereof.

2. DIP Order. Section 3.01(d) of the Original Credit Agreement is hereby amended to read as follows:

"(d) DIP Order. The DIP Order approving the increase of the Revolver from \$13,000,000 to \$16,100,000 shall have been entered on the docket of the Bankruptcy Court, shall be in full force and

effect and shall not have been recalled, revised, modified or stayed in any respect and shall have been entered no later than March 5, 2002 (and, if the DIP Order is the subject of a pending appeal, no performance of any obligation of any party shall have been stayed pending such appeal) and the Final DIP Order shall be entered no later than March 26, 2002, all in a form satisfactory to Lender;"

3. **Definition of Loan Documents.** The definition of "Loan Documents" in Article X on Page 24 of the Original Credit Agreement is hereby amended to include this Amendment and that certain Second Amendment to Revolving Credit Note of even date herewith by and between Borrowers and Lender, and all other documents executed in conjunction with this Amendment as the same may be amended or modified from time to time.

4. **Force and Effect; References.** As Amended hereby, the Original Credit Agreement shall remain in full force and effect. Further, all references to the Credit Agreement in any of the Loan Documents shall be references to the Original Credit Agreement, as amended hereby, or as hereafter amended by the parties.

5. **Representations and Warranties.** The Borrowers hereby remake and restate, as of the date of this Amendment, each and every warranty and representation set forth in the Original Credit Agreement and all other Loan Documents, and further represent and warrant, except for the "Existing Default" as defined in Section 3.3 of Amendment No. 3 to Amended and Restated Ratification and Amendment Agreement, dated as of March 6, 2002, by and among Borrowers, Eastern Resources, Inc., Industrial Fuels Minerals Company, Congress Financial Corporation and The CIT Group/Business Credit, Inc., that no Event of Default now exists under the Original Agreement, as amended hereby, or under any of the other Loan Documents.

6. **Defined Terms.** All terms not defined herein shall have the same meaning given them in the Original Credit Agreement.

IN WITNESS WHEREOF, the Lender and the Borrowers have caused this Amendment to be duly executed by their duly authorized representatives, as a sealed instrument, all as of the day and year first above written.

BORROWERS:

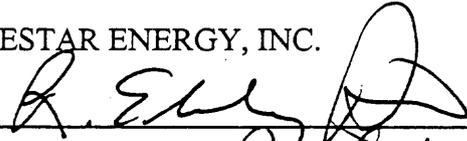
LODESTAR HOLDINGS, INC.

By: _____

Title: _____

LODESTAR ENERGY, INC.

By:



Title:

Vice President

LENDER:

WEXFORD CAPITAL LLC, As Agent

By:

Title:

LODESTAR ENERGY, INC.

By: _____

Title: _____

LENDER:

WEXFORD CAPITAL LLC, As Agent _____

By: Mark Zand

Title: MARK ZAND
PRINCIPAL

[03/06/02]

AMENDMENT NO. 3
TO
AMENDED AND RESTATED
RATIFICATION AND AMENDMENT AGREEMENT

AMENDMENT NO. 3 TO AMENDED AND RESTATED RATIFICATION AND AMENDMENT AGREEMENT (this "Amendment No. 3 to Ratification Agreement") dated as of March 6, 2002, by and among LODESTAR ENERGY, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Borrower"), LODESTAR HOLDINGS, INC., a Delaware corporation, as Debtor and Debtor-in-Possession ("Holdings", together with Borrower, each individually a "Debtor" and collectively, "Debtors"), EASTERN RESOURCES, INC., a Kentucky corporation, ("ERI"), INDUSTRIAL FUELS MINERALS COMPANY, a Michigan corporation, ("IFMC", and together with Holdings and ERI, each individually, "Guarantor" and collectively, "Guarantors"), the financial institutions from time to time parties to the Loan Agreement (as hereinafter defined) as lenders (individually each, a "Lender" and collectively, "Lenders"), CONGRESS FINANCIAL CORPORATION, a Delaware corporation, as successor by merger to Congress Financial Corporation, a California corporation, in its capacity as Lender ("Congress"), THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation, in its capacity as a Lender ("CIT"), Congress, in its capacity as administrative agent and collateral agent for the Lenders under the Loan Agreement (in such capacity, the "Agent") and CIT in its capacity as co-agent for the Lenders under the Loan Agreement (in such capacity, the "Co-Agent").

WITNESSETH:

WHEREAS, Borrower, Guarantors, Lenders, Agent and Co-Agent have entered into the Amended and Restated Ratification and Amendment Agreement, dated as of June 20, 2001, by and among Borrower, Guarantors, Lenders, Agent and Co-Agent, Amendment No. 1 to Amended and Restated Ratification Agreement, dated as of September 28, 2001 and Amendment No. 2 to Amended and Restated Ratification Agreement, dated as of February 13, 2002, by and among Borrowers, Guarantors, Lenders, Agent and Co-Agent (as the same now exists and is amended hereby, and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Ratification Agreement"), with respect to the Amended and Restated Loan and Security Agreement, dated May 15, 1998, by and among Borrower, Holdings, Lenders, Agent and Co-Agent, as amended by certain amendments and the Ratification Agreement (as the same now exists and is amended hereby and as the same may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Loan Agreement") and various other agreements, documents and instruments executed and/or delivered in connection therewith or related thereto (together with the Ratification Agreement and the Loan Agreement, as the same now exist and may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, collectively, the "Financing Agreements").

WHEREAS, Borrower and Guarantors have requested that Lenders, Agent and Co-Agent amend the Ratification Agreement and the other Financing Agreements. Agent, Co-Agent and Lenders are willing agree to such amendments subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, Co-Agent, Lenders, Borrower and Guarantors mutually covenant, warrant and agree as follows:

SECTION 1. DEFINITIONS

1.1 Additional Definition. As used herein, the following term shall have the meanings given to it below and the Ratification Agreement and the other Financing Agreements shall be deemed and are hereby amended to include, in addition and not in limitation, the following definition:

"Amendment No. 3 to Ratification Agreement" shall mean Amendment No. 3 to Amended and Restated Ratification Agreement, dated as of March 10, 2002, by and among Agent, Co-Agent, Lenders, Borrower and Guarantors, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.2 Amendments to Definition in the Ratification Agreement.

(a) All references to the term "Ratification Agreement" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, Amendment No. 3 to Ratification Agreement.

(b) All references to the term "Wexford Agreements" herein or in any of the other Financing Agreements, shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, Second Amended Post-Petition Credit Agreement, dated as of March __, 2002, by and among Debtors and Wexford and any agreements, documents or instruments executed in connection therewith.

1.3 Interpretation.

(a) For purposes of this Amendment No. 3 to Ratification Agreement, unless otherwise defined or amended herein, including, but not limited to, those terms used and/or defined in the recitals hereto, all terms used herein shall have the respective meanings assigned to such terms in the Loan Agreement.

(b) All references to any term in the singular shall include the plural and all references to any term in the plural shall include the singular.

SECTION 2. AMENDMENTS

Indebtedness. Section 7.3(v)(i) of the Loan Agreement is hereby amended by deleting the number "\$13,000,000" in such section and replacing such number with "\$16,100,000".

SECTION 3. ADDITIONAL REPRESENTATIONS, WARRANTIES AND COVENANTS

In addition to the continuing representations, warranties and covenants heretofore and hereafter made by Borrower and Guarantors to Agent and Lenders, whether pursuant to the Financing Agreements or otherwise, and not in limitation thereof, Borrower and each Guarantor hereby represents, warrants and covenants to Agent and Lenders the following (which shall survive the execution and delivery of this Amendment No. 3 to Ratification Agreement), the truth and accuracy of which, or compliance with, to the extent such compliance does not violate the terms and provisions of the Bankruptcy Code, shall be a continuing condition of the making of loans by Lenders:

3.1 Order. The Bankruptcy Court has entered an order authorizing the execution and delivery of this Amendment No. 3 to Ratification Agreement.

3.2 No Event of Default. No Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than Borrower's failure to comply with section 7.25 for the periods ending October 31, 2001, November 30, 2001, December 31, 2001, January 31, 2002 and February 28, 2002 which constitutes an Event of Default under Section 8.1(b) of the Loan Agreement and the other Financing Agreements ("Existing Default")).

3.3 Execution and Delivery. This Amendment No. 3 to Ratification Agreement has been duly executed and delivered by the parties hereto and this Amendment No. 3 to Ratification Agreement and the other Financing Agreements are in full force and effect as of the date hereof, and the agreements and obligations of Debtors and Guarantors contained herein and therein constitute legal, valid and binding obligations of Debtors and Guarantors enforceable against each of them in accordance with their respective terms.

SECTION 4. NO WAIVER; RESERVATION OF RIGHTS.

4.1 Agent has not waived, is not by this Amendment No. 3 to Ratification Agreement waiving and has no intention of waiving, the Existing Default or any other Event of Default which may be continuing on the date hereof or any Events of Default which may occur after the date hereof (whether the same or similar to the Existing Default or otherwise), and Agent has not agreed to forbear with respect to any of its rights or remedies concerning the Existing Default or any other Event of Default, which may have occurred or are continuing as of the date hereof or which may occur after the date hereof. Any Event of Default continuing after the date hereof (including the Existing Default) or any Event of Default which may occur after the date hereof, in each case, may only be waived in writing duly executed by an authorized officer of Agent.

4.2 Agent reserves the right to exercise any or all of its rights and remedies under the Loan Agreement and the other Financing Agreements as a result of the Existing Default or any other Event of Default which may be continuing on the date hereof or any Event of Default which may occur after the date hereof, and Agent has not waived any of such rights or remedies, and nothing in this Amendment No. 3 to Ratification Agreement, and no delay on its part in exercising any such rights or remedies, should be construed as a waiver of any such rights or remedies.

SECTION 5. CONDITIONS PRECEDENT

The amendments herein shall be effective only upon the satisfaction of each of the following conditions precedent in a manner satisfactory to Agent and Lenders:

5.1 as of the date hereof, there shall have been no termination of the Financing Agreements;

5.2 no trustee, examiner or receiver or the like shall have been appointed or designated with respect to any Debtor, as debtor and debtor-in-possession, or its business, properties and assets and no motion or proceeding shall be pending seeking such relief;

5.3 each Debtor shall comply in full with the notice and other requirements of the Bankruptcy Code and the applicable Federal Rules of Bankruptcy Procedure with respect to any relevant Financing Order in a manner acceptable to Agent and its counsel, and such Financing Order shall have been entered by the Bankruptcy Court, in form and substance satisfactory to Agent, authorizing secured post-petition financing under the Financing Agreements as amended by the terms and conditions set forth in Amendment No. 3 to Ratification Agreement and, authorizing the execution and delivery of this Amendment No. 3 to Ratification Agreement and containing such other terms or provisions as Agent and Lenders and their counsel shall require;

5.4 the receipt by Agent of an original of this Amendment No. 3 to Ratification Agreement, duly authorized, executed and delivered by Borrower and Guarantors;

5.5 the receipt by Agent, in form and substance satisfactory to Agent, of Second Amended Post-Petition Credit Agreement by and among Debtors and Wexford and any agreements, documents and instruments executed in connection therewith, each duly authorized, executed and delivered by each of Wexford, Borrower and Guarantors;

5.6 the receipt by Agent, in form and substance satisfactory to Agent, of true, correct and complete copy of the letter from Wexford to Agent in the form attached hereto as Exhibit A, as duly authorized, executed and delivered by Wexford; and

5.7 no Event of Default or act, condition or event which with notice of passage of time or both would constitute an Event of Default exists or has occurred as of the date hereof (other than the Existing Default).

SECTION 6. MISCELLANEOUS

6.1 Effect of this Agreement. Except as modified pursuant hereto, no other changes or modifications to the Financing Agreements are intended or implied, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of a conflict between the terms of this Amendment No. 3 to Ratification Agreement and the other Financing Agreements, the terms of this Amendment No. 3 to Ratification Agreement shall control.

6.2 Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary or desirable to effectuate the provisions and purposes of this Amendment No. 3 to Ratification Agreement.

6.3 Headings. The headings used herein are for convenience only and do not constitute matters to be considered in interpreting this Amendment No. 3 to Ratification Agreement.

6.4 Additional Events of Default. The parties hereto acknowledge, confirm and agree that the failure of Borrower or any Guarantor to comply with any of the covenants, conditions and agreements contained herein or in any other agreement, document or instrument at any time executed by Borrower or any Guarantor in connection herewith shall constitute an Event of Default under the Financing Agreements.

6.5 Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the laws of the State of New York (without giving effect to principles of conflicts of laws) except to the extent that the provisions of the Bankruptcy Code are applicable and specifically conflict with the foregoing.

6.6 Binding Effect. This Amendment No. 3 to Ratification Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.7 Counterparts. This Amendment No. 3 to Ratification Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of this Amendment No. 3 to Ratification Agreement by telefacsimile shall have the same force and effect as delivery of an original counterpart of this Amendment No. 3 to Ratification Agreement, but the parties hereto agree to deliver original counterparts to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to Ratification Agreement to be duly executed as of the day and year first above written.

DEBTORS

LODESTAR ENERGY, INC.
Debtor and Debtor-in-Possession

By: R. E. [Signature]

Title: Vice President

LODESTAR HOLDINGS, INC.
Debtor and Debtor-in-Possession

By: R. E. [Signature]

Title: Asst Sec

OTHER GUARANTORS

EASTERN RESOURCES, INC.

By: R. E. [Signature]

Title: Asst Sec

**INDUSTRIAL FUELS MINERALS
COMPANY**

By: R. E. [Signature]

Title: Asst Sec

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION, in
its capacity as Agent and Lender

By: *[Handwritten Signature]*
Title: *Vice President*

THE CIT GROUP/BUSINESS CREDIT, INC.
its capacity as Co-Agent and Lender

By: _____

Title: _____

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION, in
its capacity as Agent and Lender

By: _____

Title: _____

THE CIT GROUP/BUSINESS CREDIT, INC.
its capacity as Co-Agent and Lender

By: Steven Schuit

Title: **STEVEN SCHUIT**
VICE PRESIDENT
TEAM LEADER

WEXFORDSM

Wexford Capital LLC

Wexford Plaza
411 West Putnam Avenue
Greenwich, CT 06830
www.wexford.com
(203) 862-7000

Direct Dial: 862-7412
Direct Fax: 862-7452
mzand@wexford.com

March 19, 2002

Congress Financial Corporation,
as agent
1133 Avenue of the Americas
New York, New York 10028
Attn: Mr. Robert Strack

Re: Lodestar Energy, Inc., et al. ("Debtors")

Gentlemen:

We refer to the Interim Order Authorizing Debtors Second Motion to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital LLC, entered by the Bankruptcy Court on March 6, 2002 ("Third Interim Wexford Order") and any interim or final Order Authorizing Debtors to Obtain Additional Supplemental Post-Petition Financing from Wexford Capital entered by the Bankruptcy Court with any financing provided by the Wexford Lenders to the Debtors (collectively, the "Wexford Financing Orders").

This shall confirm that (i) all loans, advances and other financial accommodations made by Wexford, as agent for itself and each of Solitair Corp., Wexford Spectrum Investors LLC and Valentis Investors LLC (collectively, the "Wexford Lenders"), to Debtors pursuant to the Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order, or otherwise, including without limitation all amounts up to the Maximum Amount (as defined in the Third Interim Wexford Order) shall constitute "Junior Debt" as such term is defined in the Intercreditor Agreement (as hereinafter defined) and such debt, and (ii) all liens, security interests and claims granted to or in favor of the Wexford Lenders under Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order, or otherwise, shall, in the case of clauses (i) and (ii) above, be junior and subordinate in all respects to all obligations, liabilities and indebtedness of Debtors to Congress Financial Corporation, as agent for itself and certain other financial institutions (in such capacity, "Congress") and all liens, security interests and claims granted to or in favor of Congress, in accordance with the Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order and the Intercreditor and Subordination Agreement, dated as of September 28, 2001 (the "Intercreditor Agreement"), by

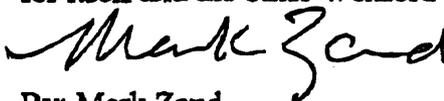
March 19, 2002

Page 2

and among Congress and the Wexford Lenders, and shall be subject to all of the terms and conditions of the Wexford Financing Orders including, but not limited to, the Third Wexford Financing Order and the Intercreditor Agreement.

We understand that Congress and The CIT Group/Business Credit, Inc. in their capacity as agents and lenders, and their respective successors and assigns, are relying upon this letter in providing financing to Debtors.

WEXFORD CAPITAL LLC, as agent —
for itself and the other Wexford Lenders



By: Mark Zand

Title: Principal