



State of Utah

Department of Natural Resources

ROBERT L. MORGAN
Executive Director

Division of Oil, Gas & Mining

LOWELL P. BRAXTON
Division Director

OLENE S. WALKER
Governor

GAYLE F. McKEACHNIE
Lieutenant Governor

File in:

Confidential

Shelf

Expandable

Refer to Record No. 0039

Date 09082004

In C/007000/0001 Internal
For additional information

OK

September 8, 2004

TO: Internal File
FROM: Pamela Grubaugh-Littig, Permit Supervisor *PL*
RE: Release from Any Claims Arising from Ownership, Termination of Cessation Orders and Civil Penalties, White Oak Mine, C/007/0001

Attached is the set of documents that outline the release of the Debtors, Trustee, Rennert Parties, Congress and Wexford Parties from any claims arising from or related to the Debtors' mine ownership or mining activities including, without limitation the Utah reclamation obligations. Specifically,

- The Settlement and Term Sheet , page 10 paragraph 6 (a), page 17 paragraph 8 (a)(i), pages 30 to 33 paragraph (g), pages 38 to 46 paragraph 16,
- The Order Approving the Settlement,
- Letter identifying Renco parties and Associates, and
- First Amendment, pages 1 to 2 paragraph 2 (a) and (b) and Exhibit 6.

There are four cessation orders that can now be terminated pursuant to this Settlement Agreement effective August 18, 2004. The cessation orders are:

- C03-50-2-1 (initial violation issued for violating the permit by going beyond the allowable spoil limit),
- C03-42-2-1 (imminent harm CO issued for hazardous conditions to the health and safety of the public by permittee's failure to construct permanent seals of three underground openings.
- C03-42-2-2 (imminent harm CO issued for hazardous conditions to the health and safety of the public by permittee's failure eliminate highwalls).
- C03-42-2-3 (imminent harm CO issued for hazard conditions to the health and safety of the public at the White Oak loadout),

The penalties for the four FTA/CO's were: 4 x \$22,500 = \$90,000.

Additional civil penalties still outstanding for the White Oak Mine were:

N03-46-1-1,	\$ 160.00
N03-46-3-1,	200.00

N03-50-1-1,	720.00
C03-42-1-1,	3,560.00
C03-42-1-2,	3,160.00
C03-42-1-3,	3,560.00
C03-51-1-1,	<u>1,800.00</u>
	\$13,160.00

Total amount due was $\$90,000 + \$13,160 = \$103,160$, which is now settled as part of the agreement.

These cessation orders can be removed from the Applicant Violator System for the White Oak Mine.

Enclosure

cc: Price Field Office (w/o)

O:\007001.WO\FINAL\pglterminatecomplianceactionsMemo.doc

TERM SHEET AND SETTLEMENT AGREEMENT

This Term Sheet and Settlement Agreement dated as of June 10, 2004 expresses the agreement reached by and among each of the undersigned parties (collectively, the "Parties"), with the aid and assistance of the Honorable William S. Howard who, at the request of Bankruptcy Judge Joseph M. Scott, Jr. (before whom the Lodestar bankruptcy case is pending) and with the consent of all Parties, mediated the various disputes among the Parties. The Parties have agreed that this Term Sheet and Settlement Agreement shall be binding and enforceable to the extent set forth in paragraph 19(f) hereof.

1. PARTIES
 - a. Estates of Lodestar Energy, Inc. ("Lodestar"), Lodestar Holdings, Inc. ("LHI") and Industrial Fuels Minerals Co. (together with Lodestar and LHI, the "Debtors");
 - b. The Renco Group, Inc. ("Renco"), Iracoal, Inc. ("Iracoal") and Ira Leon Rennert ("Rennert" and, together with Renco and Iracoal, the "Rennert Parties");
 - c. William D. Bishop, individually and in his capacity as the chapter 7 and chapter 11 trustee ("Trustee") for the estates of the Debtors (the "Estates");
 - d. Frontier Insurance Company in Rehabilitation ("Frontier");
 - e. Congress Financial Corporation, in its capacity as agent ("Agent") for itself and certain other financial institutions (collectively, the "Lenders", and together with Agent, collectively referred to herein as ("Congress");
 - f. Wexford Capital LLC ("Wexford"), for itself and as agent for Valentis Investors, LLC, Solitair Corp. and Wexford Spectrum Investors, LLC (together with Wexford, the "Wexford Parties");
 - g. The Kentucky Environmental and Public Protection Cabinet (the

“Cabinet”) and its successors (collectively, including the Cabinet, the “Kentucky Parties”), which now or in the future have responsibility or jurisdiction to enforce Kentucky’s laws and regulations with respect to the Debtors’ coal mining activities pursuant to K.R.S. Chapter 224, 350 and regulations promulgated in furtherance thereof, as well as any other statutes and regulations the Cabinet has authority to enforce (collectively, the “Kentucky Laws”);

- h. The West Virginia Dept. of Environmental Protection (“WVADEP”) and its successors (collectively, including WVADEP, the “West Virginia Parties”) which now or in the future have responsibility or jurisdiction to enforce West Virginia’s laws and regulations with respect to the Debtors’ coal mining activities pursuant to W.Va. Code 22-3-1 et seq. and Code of State Rules, W. Va. Code 38-2-1 et seq. (collectively the “West Virginia Laws”);
- i. The Utah Division of Oil, Gas & Mining (“DOGM”) and its successors (collectively, including, DOGM, the “Utah Parties”, and together with the Kentucky Parties and the West Virginia Parties, the “States”), which now or in the future have responsibility or jurisdiction to enforce Utah’s laws and regulations with respect to the Debtors’ coal mining activities pursuant to Utah Code § 40-10 et seq. (collectively the “Utah Laws”); and
- j. The United States of America on behalf of the Office of Surface Mining Reclamation and Enforcement (“OSM”) and its successors (collectively, including OSM, the “US Parties”, and together with the States,

the "Governmental Units") which now or in the future have responsibility or jurisdiction to enforce the laws and regulations with respect to the Debtors' coal mining activities pursuant to the Surface Mining Control and Reclamation Act of 1977, Public Law 95-87, 30 U.S.C. § 1201 et seq. ("SMCRA").

2. SALE OF RESIDUAL ASSETS

- a. As used herein, "Residual Assets" shall mean all property of the Debtors' Estates other than (a) the cash proceeds of the sale of certain vehicles owned by the Debtors which is agreed to be \$500,000 (the "Vehicle Proceeds"), (b) all claims of the Estates arising under §547 of the Bankruptcy Code (collectively, the "Preference Claims"), (c) all of the Estates' rights with respect to the Preference Claim Guarantee (as hereinafter defined in paragraph 18) (the "Preference Guarantee"), (d) the sum of \$375,000 in cash (the "Cash Settlement"), (e) all of the Estates' rights with respect to the assumption of claims by Congress (in accordance with paragraph 17 infra) ("Indemnification Rights"), and (f) all real property interests owned by the Estates, subject to Renco's exercise of its option (the "Renco Option") to purchase some or all of such real estate for a nominal sum (collectively, the "Real Estate" and, together with the Vehicle Proceeds, Preference Claims, Preference Guarantee, Cash Settlement, and Indemnification Rights, the "Excluded Assets") and all proceeds thereof; provided, however, that the net proceeds of Real Estate as to which Renco fails to exercise the Renco Option, shall constitute Residual Assets, as hereinafter set forth. As of the date hereof, the Estates have cash on hand in excess of \$875,000 (that

being the sum of the Vehicle Proceeds and Cash Settlement). In the event the Estates, at Closing (as defined in paragraph 10(c)), have less than \$875,000 in cash on hand, in no event shall such shortfall affect contributions to the General Reclamation Fund (as defined in paragraph 7(a)). Further, in no event shall any of the Parties hereto be obligated to advance any monies to the Estates to eliminate such shortfall; provided however, in the event of a shortfall all parties will use commercially reasonable efforts to negotiate a resolution, including efforts to liquidate assets to remedy the shortfall. Residual Assets shall include, without limitation, all personal property (whether tangible or intangible), cash, claims and causes of action other than Excluded Assets. Upon Renco's exercise of the Renco Option as to any Real Estate, such Real Estate shall thereafter become a Residual Asset. If not exercised within thirty (30) days of the Closing (or such longer period of time agreed to by the Trustee), the Renco Option shall expire. Immediately upon the expiration of the Renco Option, that Real Estate as to which Renco failed to timely exercise the Renco Option shall be promptly offered for sale, by private or public sale, on terms and conditions satisfactory to Renco, in Renco's sole and unfettered discretion (the "Real Estate Sales"); provided, however, that if, in the reasonable judgment of the Trustee, the possibility that the Estate will be able to sell its interest in any particular Real Estate is remote, the Trustee shall have the right, but not the duty, after consulting with Renco, to abandon such interest in accordance with §554 of the Bankruptcy Code and the applicable Bankruptcy Rules,

notwithstanding that the net proceeds of the sale of such interest would otherwise constitute Residual Assets in the event such interest were to be sold. The proceeds of the Real Estate Sales, net of the reasonable costs and expenses of sale including, without limitation, compensation for the Trustee and reimbursement of his legal and other expenses, shall be distributed, without deduction or offset, to Renco (or the Renco Designee (as hereinafter defined) if any) as Residual Assets;

- b. Renco agrees to purchase from the Estates, and the Estates agree to sell to Renco (by private sale and without an auction), the Residual Assets under §363 of the Bankruptcy Code, free and clear of all liens, claims and encumbrances (collectively, the "Liens"), except for any valid and unavoidable tax liens on Real Estate which are in existence at Closing and are senior to the Congress Lien (as defined in paragraph 3(a)) (collectively, the "Senior R/E Tax Liens"), for the sum of \$5.55 million (as adjusted in accordance with paragraph 19(k)), in cash (the "Purchase Price"). The Purchase Price shall be payable in cash or other immediately available funds to the Estates at Closing. The Renco Option and Renco's other rights to acquire the Residual Assets pursuant to the terms of this agreement may be, on or before the Closing, transferred by Renco to an affiliate of Renco, designated by Renco (the "Renco Designee") provided, however, that such transfer or assignment shall not release Renco from its obligations to pay the Purchase Price or otherwise make contributions to the KY Reclamation Fund as provided herein. Renco (or the Renco Designee, if any)

shall pay (and/or reimburse the Estates for) all recording fees, transfer taxes or similar charges payable in connection with the sale, transfer or assignment of the Residual Assets by the Estates to Renco (or the Renco Designee, if any) at Closing and at such later date as the Real Estate may be transferred pursuant to the Renco Option;

- c. At Closing, upon payment of the Purchase Price, the Liens (other than the Senior R/E Tax Liens, which shall continue to exist and shall be unaffected by Closing) shall attach to the proceeds of the sale of the Residual Assets in the same order of priority and with the same validity as such Liens were entitled as to the Residual Assets, immediately prior to sale. To the extent that certain claims for wages are secured by unavoidable liens on property of the Estates pursuant to K.R.S. 376.150 et seq. and are senior to the Congress Lien (as defined in paragraph 3(a) (collectively, the "Priming Wage Liens"), Congress will, pursuant to paragraph 17(a) infra, assume and pay (and indemnify the Estates and the Trustee, in his capacity as trustee for the Estates, against) such senior, secured wage claims (as well as certain other Designated Wage Claims (as defined in paragraph 17(a) infra.); and
- d. The obligation to reclaim lands affected by surface coal mining operations such as the one which has been conducted on Lodestar's SMCRA permits issued by Utah, Kentucky and West Virginia is not affected by any conveyance of land to third parties. Therefore, notwithstanding any other provision in this Term Sheet And Settlement Agreement, any real estate, including fee owned or leased property, whether

sold to third parties, abandoned or rejected by the Trustee that is part of the "affected area" of any of Lodestar's permits shall remain subject to the right of Lodestar and its owners, controllers and agents to enter onto the land and to reclaim it in accordance with SMCRA and its Utah, Kentucky and West Virginia counterparts. Notice must be given to any bona fide purchaser of the real estate affected by Lodestar's surface coal mining operations that he takes title free and clear of all liens, but subject to the right of entry needed to allow appropriate persons to enter onto the land after sale and reclaim it. Additionally, no sale of real estate, abandonment of property or lease rejection shall affect the regulatory jurisdiction of the Secretary of the Interior or the government regulatory authorities over the surface coal mining operations which have been conducted upon that land. Accordingly, notice shall be given to all identified purchasers that the affected areas they are purchasing will be returned to their approximate original contours, with all highwalls and depressions eliminated, in accordance with SMCRA and its state-law counterparts. In the event any of the Real Estate is transferred to Renco (or the Renco Designee, if any), such Real Estate shall be subject to the foregoing right of entry, but neither Renco nor any other Renco Party shall acquire new duties to reclaim or abate violations of SMCRA and its state-law counterparts based solely upon the acquisition and ownership by Renco (or the Renco Designee, if any) of such property.

3. LIEN RECOGNITION

The Parties acknowledge and agree that:

- (a) all of the property of the Estates other than the Vehicle Proceeds and the Preference Claims is encumbered by a valid, perfected and unavoidable lien in favor of Congress (the "Congress Lien") which secures all of the obligations of the Debtors to Congress (collectively, the "Congress Claims");
- (b) Pursuant to §509 of the Bankruptcy Code, Renco by reason of its pledge of \$6,000,000 of cash (the "Renco Cash Pledge") to Congress as additional collateral to secure the Congress Claims and the application by Congress of the Renco Cash Pledge to reduce the Congress Claims, is subrogated to Congress' rights, claims and entitlements (including, without limitation, the Congress Lien) against the Debtors and their respective Estates; and
- (c) all of the property of the Estates other than the Preference Claims is encumbered by the valid, perfected and unavoidable lien in favor of Wexford (the "Wexford Lien") which secures all of the obligations of the Debtors to Wexford on account of postpetition advances made by Wexford to the Debtors (collectively, the "Wexford DIP Claims").

4. PRIORITY OF LIENS

The Parties acknowledge and agree that:

- (a) The Congress Lien is senior to the Wexford Lien on all property of the Estates other than the Vehicle Proceeds;
- (b) Renco, as subrogee to Congress on account of the Cash Pledge, is entitled to assert the Congress Lien for

repayment of \$6,000,000, the amount of the Renco Cash Pledge. Renco's rights to the proceeds of the property encumbered by the Congress Lien up to \$6,000,000 is senior to Wexford's rights thereto; and

- (c) The Wexford Lien is the senior and only lien on the Vehicle Proceeds.

5. ALLOWANCE OF CLAIMS AGAINST THE DEBTORS

The Parties acknowledge and agree that:

- (a) Pursuant to a prior order of the Bankruptcy Court, the outstanding principal balance of Congress' Claims against the Debtors were repaid, except for certain costs of collection (including attorneys fees) and other fees, interests and charges permitted under the Congress loan agreements with Debtors which have been incurred and will continue to accrue (collectively, the "Congress Collection Claims");
- (b) Renco, as subrogee to Congress, has a claim against the Debtors for \$6,000,000 (the "Renco Subrogation Claim") secured by the Congress Lien;
- (c) The principal amount of the Wexford DIP Claims is approximately \$16,000,000 and (together with all interest, fees and expenses permitted under the DIP loan documents between the Debtors and Wexford) is secured by the Wexford Lien;
- (d) Each of the Governmental Units has rights against the Debtors' Estates for the costs of reclaiming the land disturbed by the Debtors' mining activities and assessments for civil penalties and OSM has an additional claim for prepetition AML fees (the "KY Reclamation Obligations", the "UT Reclamation Obligations", the

“WVA Reclamation Obligations” and, the “US Obligations”, respectively). In addition to such rights against the Debtors and their Estates, the Governmental Units contend they have claims against the owners, controllers and agents of the Debtors that arise under SMCRA and its state-law counterparts. Those reclamation claims allegedly are unaffected by the bankruptcy of the Debtors. The Governmental Units contend that such rights do not constitute “claims”, as such term is defined in the Bankruptcy Code; and

(e) Frontier holds claims against the Debtors or their Estates for indemnification.

6. SETTLEMENT OF CLAIMS

(a) Except as otherwise provided in paragraph 6(d), upon receipt by the Utah Parties of the sum of \$1,217,000 (as adjusted in accordance with paragraph 19(k)) at Closing from the General Reclamation Fund, the Utah Parties and US Parties shall be deemed to release the Debtors, Trustee, Rennert Parties, Congress and Wexford Parties from any and all claims arising from or related to the Debtors’ mine ownership or mining activities including, without limitation, the UT Reclamation Obligations;¹

(b) Except as otherwise provided in paragraph 6(d), upon receipt by the West Virginia Parties of the sum of \$1,417,000 (as adjusted in accordance with paragraph 19(k)) at Closing from the General Reclamation Fund, the West Virginia Parties and US Parties

¹ For the sake of brevity, the release language set forth in this subparagraph is abbreviated. The language of the release is more fully set forth in paragraph 16 *infra*. It is the intent of the Parties that the Debtors, Trustee, Rennert Parties, Congress, Wexford Parties and Frontier shall be granted their respective release as set forth in paragraph 16.

shall be deemed to release the Debtors, Trustee, Rennert Parties, Congress, Wexford Parties and Frontier from any and all claims arising from or related to the Debtors' mine ownership or mining activities including, without limitation, the WVA Reclamation Obligations;²

- (c) (i) Except as otherwise provided in paragraph 6(d), upon the delivery of \$9,416,000 (as adjusted in accordance with paragraph 19(k)) at Closing from the General Reclamation Fund to the Escrow Agent (as hereinafter defined), the Kentucky Parties and US Parties shall be deemed to release the Debtors, Trustee, Rennert Parties, Congress, Wexford Parties and Frontier from any and all claims arising from or related to the Debtors' mine ownership or mining activities including, without limitation, the KY Reclamation Obligations and any cause of action or liability resulting from any action, omission, failure to comply or violation of any statute or regulation within the authority of the Cabinet or its successors relating to the properties referenced on the schedule annexed hereto as Exhibit 2 (the "Schedule B Properties") but excluding those claims if any, arising from or related to the Debtors' mine ownership or mining activities relating to the properties listed on Schedule A annexed hereto as Exhibit 1 (the "Schedule A Properties", and together with the Schedule B Properties, the "Properties").³

(ii) Except as otherwise provided in paragraph 6(d), as each of the Schedule A Properties is transferred by the Estate/Trustee to another person (or is

² See footnote 1.

³ See footnote 1.

⁴ See footnote 1.

reclaimed in accordance with applicable law), the Kentucky Parties and US Parties shall be deemed to release the Debtors, Trustee, Rennert Parties, Congress, Wexford Parties and Frontier from any and all claims arising from or related to the Debtors' mine ownership or mining activities relating to such Schedule A Properties.⁴ The release contemplated in this provision shall be automatically effective upon: (i) the issuance by the Cabinet of a permit to the new permittee covering the obligations of the Estate, and (ii) the contemporaneous release of the reclamation performance bond associated with the Estate's permit(s) being transferred.

(d) Notwithstanding any provision of this Term Sheet and Settlement Agreement to the contrary, the US Parties do not waive, and expressly reserve, all of their rights and claims against the Estates (but not against any of the Releasees (as defined in paragraph 16(c)) for any unpaid AML fees incurred by the Debtors prior to the commencement of their respective bankruptcy cases (collectively, the "Prepetition AML Fees"). The obligations of the Estates to provide needed reclamation will be resolved by the reclamation measures funded pursuant to this Term Sheet And Settlement Agreement.

7. CREATION OF GENERAL RECLAMATION FUND

(a) The Rennert Parties, the Wexford Parties, Congress and Frontier shall create a fund (the "General Reclamation Fund"). The General Reclamation Fund shall be used to reclaim the Debtors' mining operations that the Rennert Parties, the Wexford Parties and Congress allegedly had the ability to control. The Rennert Parties,

the Wexford Parties and Congress deny that they are liable for reclamation of the Debtors' mine sites under SMCRA and its state-law counterparts. Accordingly, this Settlement Agreement provides for the resolution of disputed claims by obligating the Rennert Parties (through the purchase by Renco (or the Renco Designee, if any) of the Residual Assets and the Trustee's agreement to contribute such funds toward the settlement), the Wexford Parties, Congress and Frontier to contribute \$12.05 million in the aggregate (as adjusted in accordance with paragraph 19(k)) to the General Reclamation Fund. This Settlement Agreement creates the mechanisms for using money from the General Reclamation Fund to pay others to perform the reclamation measures the Debtors, the Rennert Parties, the Wexford Parties, Congress and Frontier are allegedly obligated to perform under SMCRA and its statutory counterparts in Utah, Kentucky and West Virginia. The General Reclamation Fund shall be used to pay (i) all of the reasonable costs to transfer and/or reclaim the Schedule B Properties in accordance with applicable law; (ii) to promote the transfer of the Schedule A Properties; and (iii) to settle the reclamation claims of the Utah Parties and West Virginia Parties;

- (b) The General Reclamation Fund shall be funded at Closing as follows:
 - (i) Frontier shall pay the sum of \$3,200,000 (as adjusted in accordance with paragraph 19(k)) in cash;
 - (ii) Wexford shall pay the sum of \$900,000 (as adjusted in

accordance with paragraph
19(k)) in cash;

- (iii) Congress shall pay the sum of \$100,000 (as adjusted in accordance with paragraph 19(k)) in cash;
- (iv) Congress, Renco, as subrogee to Congress, and Wexford shall consent to the release of the Congress Lien and Wexford Lien on the proceeds of the sale of the Residual Assets, for the sole purpose of permitting the Trustee to pay the sum of \$5.55 million (as adjusted in accordance with paragraph 19(k)) into the General Reclamation Fund;
- (v) To the extent that any person has a Priming Wage Lien on the proceeds of the sale of the Residual Assets, such lien shall be deemed released as to such proceeds to permit the transfer of such proceeds into the General Reclamation Fund free and clear of such lien, provided, however, that as adequate protection for such Priming Wage Liens, Congress has agreed to satisfy such liens pursuant to paragraph 17 infra; and
- (vi) The release and payment by the West Virginia Parties and Kentucky Parties of all cash bonds placed with the West Virginia Parties and Kentucky Parties by, or for the benefit of, the Debtors, (collectively, the "Cash Bonds") including, without limitation, cash bonds currently held in connection with

any and all current and former Lodestar permits and Branham and Baker Permit Nos. 898-0556 and 898-0503; provided, however, that if the release or payment of any Cash Bonds as provided herein shall be impermissible under applicable law, the obligations of the West Virginia Parties and the Kentucky Parties to release and/or pay Cash Bonds hereunder shall be suspended (but only to the limited extent performance of such obligations would be impermissible under applicable law) until such time as such release or payment of Cash Bonds becomes permissible under applicable law. In the event that the Cash Bonds aggregate less than \$2,309,300, Renco agrees to fund seventy-five percent (75%) and Wexford agrees to fund twenty-five percent (25%) of the amount of such shortfall in cash at Closing (the "Cash Bond Shortfall"). If additional Cash Bonds are discovered or become available at or after Closing, such Cash Bonds shall first be used to reimburse Renco and Wexford for their respective contributions (if any) to the Cash Bond Shortfall on a 75%-25% basis, respectively, and, if any monies from such Cash Bonds thereafter remain, such Cash Bonds shall be paid to, and shared by, the West Virginia Parties and the KY Reclamation Fund, in proportion to their respective initial entitlements from the General Reclamation Fund (*i.e.*, \$1,417,000 for West

Virginia and \$9,416,000 for Kentucky). The Parties' willingness to fund the Cash Bond Shortfall is predicated upon the representations made by the Kentucky Parties and West Virginia Parties that such shortfall is not more than \$150,000.

(vii) All parties agree to waive any and all rights they may have with respect to the Cash Bonds to allow the Cash Bonds to be transferred to the General Reclamation Fund as herein provided.

(c) After due diligence and consultations with mining engineers and reclamation experts employed by the Governmental Units, Frontier, the Trustee, the Rennert Parties and the Wexford Parties, the Parties have formed the belief that all known violations of SMCRA's and its state-law counterpart's performance standards in Utah and Kentucky as to Schedule B Properties, can be abated through careful application of the General Reclamation Fund, but that additional funds will be needed from West Virginia's bond pool in order to address acid mine drainage at some of the Debtors' West Virginia permits. In order to resolve the disputed claims for reclamation, the Governmental Units have agreed to release the Debtors, the Trustee, the Rennert Parties, the Wexford Parties, Congress and Frontier as provided herein.

(d) Pending distribution as hereinafter set forth, the monies representing the General Reclamation Fund shall be paid to, and held by, Wyatt Tarrant & Combs, as escrow agent, or such other person as the Governmental Units may

designate ("WT&C"). WT&C shall make payments for the benefit of the Kentucky Reclamation Fund, the WVADEP and the DOGM on the date of Closing in accordance with this Term Sheet And Settlement Agreement. The terms of the escrow arrangement shall be negotiated in good faith by the Parties.

8. DISBURSEMENT FROM THE GENERAL RECLAMATION FUND

(a) At Closing:

- (i) the sum of \$1,217,000 (as adjusted in accordance with paragraph 19(k)) in cash shall be disbursed by WT&C to the State of Utah (the "UT Settlement Payment") and shall be expended by the Utah Parties in accordance with state law to abate the violations cited at the Whiskey Creek Mine by the Utah Parties and by OSM. The Trustee, the Rennert Parties, the Wexford Parties, Congress, the Utah Parties and OSM agree that the distribution of the UT Settlement Payment from the General Reclamation Fund will absolve the Rennert Parties, the Wexford Parties, the Trustee and Congress, (the alleged owners, controllers and agents of the Debtors) from any and all exposure to personal liability for individual civil penalties, AML fees and civil penalties, and will likewise absolve them from individual liability to abate violations arising from or related to the Debtors' mine ownership or mining activities including, without limitation, the UT Reclamation Obligations, under the holding in *United States v. Dix Fork Coal Company*, 692 F.2d 436 (6th Cir. 1982), and similar Utah decisions. Additionally,

information about this settlement will be entered into the Applicant/Violator System (the "AVS Notation") such that the relevant owners and controllers of Lodestar, signatories of this Term Sheet And Settlement Agreement, effectively will not be linked to any violation or deficiency attributable to the Debtors, or by virtue of their alleged ownership and control of the Debtors and will not be precluded from obtaining permits on account of the Debtors' mine ownership and mining activities. As further consideration for this concession, the Rennert Parties agree to cause the Application for Review of Federal Cessation Order #C04-140-116-001 to be dismissed with prejudice; and

- (ii) the sum of \$1,417,000 (as adjusted in accordance with paragraph 19(k)) in cash shall be disbursed by WT&C to the State of West Virginia (the "WVA Settlement Payment") and shall be expended by the West Virginia Parties in accordance with state law to abate the violations now known to exist in that state on the permits owned and controlled by the Debtors. The Trustee, the Rennert Parties, the Wexford Parties, Congress, the West Virginia Parties and OSM agree that the distribution of the WVA Settlement Payment from the General Reclamation Fund will absolve the Rennert Parties, the Wexford Parties, the Trustee and Congress, (the alleged owners, controllers and agents of the Debtors) from any and all exposure to personal liability for individual civil penalties AML

fees and civil penalties and will likewise absolve them from individual liability to abate violations arising from or related to the Debtors' mine ownership or mining activities, including, without limitation, the WVA Reclamation Obligations, under the holding in *United States v. Dix Fork Coal Company*, 692 F.2d 436 (6th Cir. 1982), and similar West Virginia decisions. Additionally, the Governmental Units shall make the AVS Notation such that the relevant owners and controllers of Lodestar, signatories of this Term Sheet And Settlement Agreement, effectively will not be linked to any violation or deficiency attributable to the Debtors, or by virtue of their alleged ownership and control of the Debtors and will not be precluded from obtaining permits on account of the Debtors' mine ownership and mining activities; and

- (iii) the sum of \$9,416,000 (as adjusted in accordance with paragraph 19(k)) in cash shall be disbursed and delivered by WT&C to the Escrow Agent (as hereinafter defined in paragraph 9(a)), to be held, in the first instance, for the benefit of the Cabinet (the "KY Reclamation Fund"). Of said sum, up to \$8,070,133 (as adjusted in accordance with paragraph 19(k)) plus fifty-five (55%) percent of any interest earned with respect to the investment of said sum of \$8,070,133 (the "Reclamation Interest") shall be disbursed in accordance with paragraph 9(f) for the purpose of paying the costs of reclaiming the Schedule B

Properties, (including the Reclamation Interest, the "Reclamation Monies") and up to \$1,345,867 (plus all other additions and accretions to the KY Reclamation Fund other than the Reclamation Interest and that interest payable to Renco in accordance with paragraph 9(e)) shall be disbursed in accordance with paragraph 9(g) for the purpose of facilitating the transfer of the Schedule A Properties (including such additions and accretions, the "Transfer Monies"). The Rennert Parties, the Wexford Parties, the Trustee, Congress, the Kentucky Parties and the U.S. Parties agree that the disbursement of the Reclamation Monies and the Transfer Monies from the General Reclamation Fund will absolve the Rennert Parties, the Wexford Parties, the Trustee and Congress, (the alleged owners, controllers and agents of the Debtors) from any and all exposure to personal liability for individual civil penalties, AML fees and civil penalties, and will likewise absolve them from individual liability to abate violations arising from or related to the Debtors' mine ownership or mining activities under the holding in *United States v. Dix Fork Coal Company*, 692 F.2d 436 (6th Cir. 1982) and similar Kentucky decisions, subject to the provisions of paragraph 9 *infra*. Additionally, the Governmental Units shall make the AVS Notation such that the relevant owners and controllers of Lodestar, signatories of this Term Sheet And Settlement Agreement, effectively will not be

linked to any violation or deficiency attributable to the Debtors, or by virtue of their alleged ownership and control of the Debtors and will not be precluded from obtaining permits on account of the Debtors' mine ownership and mining activities. The Parties acknowledge and agree that such release and data entry by the Governmental Units as to the particular Schedule A Properties shall be conditioned upon and subject to the transfer or final bond release of the Schedule A Properties, as provided for in section 6(c)(ii). As further consideration for this concession, the Rennert Parties agree to cause any and all Petitions for Review and other administrative actions filed against the Cabinet, arising from or related to the Debtors' mine ownership or mining activities, to be dismissed with prejudice.

- (b) In the event the UT Settlement Payment exceeds the amount necessary to satisfy the UT Reclamation Obligations in full, such excess, if any, (i) shall be transferred to WVADEP to satisfy any unpaid WVA Reclamation Obligations and, (ii) if there are no such unpaid obligations, shall be paid to the Escrow Agent to augment the KY Reclamation Fund. (The disposition of excess monies remaining in the KY Reclamation Fund is addressed in paragraph 13 infra.)
- (c) In the event the WVA Settlement Payment exceeds the amount necessary to satisfy the WVA Reclamation Obligations in full, such excess, if any, (i) shall be transferred to DOGM to satisfy any unpaid UT Reclamation

Obligations, and (ii) if there are no such unpaid obligations, shall be paid to the Escrow Agent to augment the KY Reclamation Fund. (The disposition of excess monies remaining in the KY Reclamation Fund is addressed in paragraph 13 infra.)

9. PROVISIONS RELATING TO
THE KY RECLAMATION
FUND

- (a) The KY Reclamation Fund shall be held in escrow by a financial institution or other person selected by the Cabinet, provided, however, that such person shall be reasonably acceptable to a majority vote of Frontier, Wexford and Renco (the "Escrow Agent").
- (b) The Escrow Agent shall hold and disburse funds in accordance with a written Escrow Agreement reasonably satisfactory to all Parties and the Escrow Agent, which shall, among other things, set forth all of such Escrow Agent's duties, obligations and compensation.
- (c) The Estates will continue to hold legal title to the Properties after Closing. All expenses of maintaining the Properties after Closing (the "Ongoing Real Estate Expenses") (including, without limitation, insurance expenses and real estate taxes) shall be paid from the KY Reclamation Fund or shall be assumed by the General Reclamation Manager (as hereinafter defined); provided, however, in no event (i) shall the KY Reclamation Fund be obligated to pay real estate taxes accruing after Closing on Properties as to which the Estates have only a leasehold interest; and (ii) shall the Estates be liable for the Ongoing Real Estate Expenses.
- (d) The Cabinet shall use its best efforts to select a person on or prior to June 18, 2004 (or as soon thereafter as is possible) to oversee and manage the

process to transfer and/or reclaim the Properties (the "General Reclamation Manager" or "GRM"). The Cabinet shall enter into an agreement (the "GRM Agreement") with the General Reclamation Manager which shall set forth, among other things, the duties and responsibilities of the General Reclamation Manager and shall provide a compensation structure for the General Reclamation Manager which incentivizes the GRM to minimize the financial cost of the reclamation of the Properties by transferring such properties or otherwise. To the extent that the GRM selected by the Cabinet cannot abide by any of the terms and conditions set forth herein regarding the GRM Agreement, the Parties agree to negotiate in good faith to modify such terms and conditions as reasonably necessary to enable the Cabinet to engage the GRM it has selected.

- (e) The Escrow Agreement shall provide that the Escrow Agent shall pay to Renco, no less frequently than on a quarterly basis, forty-five (45%) percent of any interest paid to the Escrow Agent on account of monies in the KY Reclamation Fund invested by the Escrow Agent. That interest not paid to Renco shall be allocated by the Escrow Agent between the Transfer Monies and the Reclamation Monies in direct proportion to the respective opening balances in such accounts (*i.e.*, \$1,345,867 in the account for Transfer Monies and \$8,070,133 in the account for Reclamation Monies). The Escrow Agreement shall provide for distribution of excess monies in the KY Reclamation Fund consistent with the provisions of this term sheet.
- (f) Except as otherwise provided in the GRM Agreement or in such other

writing signed by the Cabinet, the Cabinet shall have sole and exclusive control over the reclamation of the Properties.

- (g) Transfer Monies shall be expended: (i) only in connection with the transfer of one or more of the Schedule A Properties, and (ii) only with the express written consent of Frontier, Renco and Wexford, or in the absence of such consent, only in accordance with a Bankruptcy Court order entered after not less than ten (10) days notice to Frontier, Renco and Wexford. In connection with the execution of this Term Sheet and Settlement Agreement, and conditioned upon the occurrence of the Closing, Frontier, Renco and Wexford have agreed to the allocation and expenditure of the Transfer Monies.

10. CLOSING AND
CONDITIONS TO CLOSING

- (a) Unless waived in accordance with paragraph 10(b), each of the following conditions (collectively, the "Conditions") must be satisfied before this Settlement Agreement may be consummated:
 - (i) By June 11, 2004 either (i) a successor permittee has assumed liability by transfer of Permit Nos. 917-0017, 917-0019, 917-0022, 917-5001 and 917-5012 (collectively, the "Smith Assets") or the permits have been granted 100% release, or (ii) new bonds have been submitted to the Cabinet to reasonably assure the transfer of the Smith Assets;
 - (ii) Transfer of Marion Branch site (Permit No. 898 0457) to a new permittee;

- (iii) Transfer of Island Creek site (Permit No. 898 0284) to a new permittee;
- (iv) Order approving the Settlement Agreement and the compromise embodied thereby (the "Approval Order") is entered by the Court having jurisdiction over the Debtors' bankruptcy cases (the "Bankruptcy Court");
- (v) The Approval Order contains a finding that there are no liens on the Residual Assets senior to the Congress Lien except for Senior R/E Tax Liens, if any, and Priming Wage Liens, if any, and the Approval Order is otherwise reasonably acceptable to the Parties;
- (vi) The Approval Order becomes a final non-appealable order;
- (vii) All Trustee Reports (as hereinafter defined in subparagraph 12(e)) have been filed with the Bankruptcy Court;
- (viii) Sandra Freeburger, in her capacity as the Responsible Officer in the pending bankruptcy proceedings of Quaker Coal Co., Inc. ("Quaker"), has consented (with approval of the court with jurisdiction over Quaker's bankruptcy proceedings, if necessary) to the transfer and payment of those Cash Bonds relating to mining permits Nos. 898-0503 and 898-0556, to the General Reclamation Fund as provided in this Term Sheet;
- (ix) The Cash Bonds available to be

contributed to the General Reclamation Fund at Closing aggregate at least \$2,150,000;

(x) Execution and delivery of definitive agreements implementing the settlements embodied in this term sheet (collectively, the "Definitive Documents") including, without limitation, the Escrow Agreement and GRM Agreement); and

(xi) The representations made herein by the Parties shall be true and correct in all material respects on the Closing Date.

(b) Each condition may be waived only with the written consent of each of the Parties, except that:

(i) the consent of only the Trustee, Frontier, the Wexford Parties and the Rennert Parties shall be required to waive conditions 10(a)(i), (ii) or (iii);

(ii) the consent of only the Rennert Parties shall be required to waive condition 10(a)(vii);

(iii) the consent of only Frontier, the Wexford Parties, the Rennert Parties and the Kentucky Parties shall be required to waive condition 10(a)(viii);

(iv) the consent of only the Wexford Parties and the Rennert Parties shall be required to waive condition 10(a)(ix); and

(v) the consent of the Party or Parties for whose benefit the representation was made shall be required to waive condition

10(a)(xi).

- (c) The Closing shall occur on such day after all of the Conditions have been satisfied and/or waived which all of the Parties have agreed to or, in the absence of such agreement, on the tenth (10th) business day after all of the Conditions have been satisfied or waived (the "Closing").

11. REPRESENTATIONS

- (a) All Parties. Each of the Parties represents and warrants to the other Parties that it:
 - (i) Has due and proper authorization to execute and consummate this Term Sheet And Settlement Agreement (except, in the case of the Trustee, such authorization is dependent upon obtaining Bankruptcy Court approval); and
 - (ii) Is not aware of any reason why such Party will not be able to perform its obligations under this Term Sheet And Settlement Agreement.
- (b) Frontier. In addition to other amounts herein provided, Frontier represents that it has committed and will make available at least \$4.5 million (\$2.1 million for Alliance transfers of the Smith Assets (permit numbers 917-0022, 917-0017, 917-5001 and 917-0016), \$1.0 million for Utah sites, Permit No. ACT/007/001, \$800,000 for New Ridgetop site (Permit No. 898-0556) and \$600,000 for Permit No. 898-0457 ("Marion Branch") and Permit No. 898-0284 ("Island Creek")) in connection with the transfer of the Schedule A Properties or performance of reclamation work with respect to the Schedule B Properties.

- (c) States. Each of the Kentucky Parties and West Virginia Parties represents that the aggregate dollar amount of the Cash Bonds is not less than \$2,159,300 as set forth in the schedule annexed hereto as Exhibit 3.
- (d)
 - (i) Cabinet represents that it is unaware of any other Kentucky governmental unit having the power to enforce the Kentucky Laws.
 - (ii) WVADEP represents that it is unaware of any other West Virginia governmental unit having the power to enforce the West Virginia Laws.
 - (iii) DOGM represents that it is unaware of any other Utah governmental unit having the power to enforce the Utah Laws.
 - (iv) OSM represents that it is unaware of any other federal governmental unit having the power to enforce SMCRA.
- (e) Wexford. The Wexford Parties own at least \$100 million of the 11.5% Senior notes due 2005 issued by LHI.
- (f) The Trustee represents that as of April 8, 2004, the gross proceeds received from the prosecution of Preference Claims was \$596,751.71.

12. COVENANTS

- (a) Renco covenants and agrees to pay up to \$2,500 if demanded by the Cabinet to facilitate the planting of trees required for the release of the Eastern Resources, Inc. permit reflected on Schedule B.
- (b) All Parties covenant and agree to use their best efforts to negotiate, finalize

and execute the Definitive Documents prior to the hearing held by the Bankruptcy Court (the "Approval Hearing") to approve the settlements embodied in this term sheet (which hearing is contemplated to be on or about July 12, 2004).

- (c) All Parties covenant and agree to cooperate to obtain Bankruptcy Court approval of the settlements proposed herein and not to take or cause to be taken any action which would interfere with, or frustrate approval of, such settlements by the Bankruptcy Court; provided, however, that covenant shall not be interpreted to prevent any of the Governmental Units from enforcing SMCRA or its state-law counterparts in any manner required by law. This paragraph shall be interpreted in a manner that is consistent with Judge Howard's "stand still admonition" of January 27, 2004.
- (d) Subject to the provisions of this paragraph, Wexford covenants and agrees that it will perform the reclamation required pursuant to Permit No. 898-5535 ("Miller Creek") and to secure complete bond release. Wexford will have 30 days from the date of execution of this Term Sheet And Settlement Agreement to obtain rights of access to perform the work at Miller Creek. If Wexford has not obtained sufficient rights of access, either directly or indirectly, by the Closing, then Wexford shall deposit \$777,065 into an escrow account reasonably acceptable to Wexford and the Kentucky Parties. Wexford shall have an additional 120 days thereafter to obtain rights of access to perform the work at Miller Creek. If Wexford obtains sufficient access, the escrowed \$777,065 shall be returned to Wexford to be used as necessary, to

perform the required reclamation and to secure complete bond release. If Wexford cannot obtain sufficient access, the \$777,065 shall be paid to the Kentucky Parties and the Wexford Parties shall have no further obligations whatsoever with regard to Miller Creek. Wexford acknowledges that in the event an imminent danger cessation order (as defined by Kentucky surface mining law) is issued on the Miller Creek permit prior to the conclusion of the 120 day period set forth above, that all or a portion of the \$777,065 may be expended to abate the imminent danger.

- (e) The Trustee covenants and agrees that (i) he shall promptly provide to any of the Parties hereto information (and reasonable access to, the Estates' books and records) regarding the Estates, its assets and liabilities, reasonably requested by such parties, from time to time and (ii) he shall provide to the Parties hereto, if requested, all reports which a trustee is ordinarily required to maintain in a Chapter 7 case (collectively, the "Trustee Reports").
- (f) The Trustee and Renco covenant and agree that in order to maximize the value of Residual Assets, Renco (or the Renco Designee, if any) may request that the Trustee perform certain services after the Closing. Renco (or the Renco Designee, if any) agrees to compensate the Trustee at an hourly rate of \$200 for services it requests; however, the Trustee agrees to execute and deliver to Renco all documents, and to perform all similar ministerial acts, reasonably requested by Renco without compensation from Renco.
- (g) The Governmental Units have commenced investigations to determine whether Wexford was an "owner,"

“controller” or “agent” of the Debtors under SMCRA and/or its state-law counterparts; however, as of the Closing, none of the Governmental Units have reached a finding or made the determination whether any of the Wexford Parties are or were an “owner,” “controller” or “agent” of the Debtors. The Governmental Units acknowledge and agree that any such future finding would be moot as a result of the releases granted in this Term Sheet and Settlement Agreement and, therefore, agree that there is no reason to pursue any investigation or make such findings with respect to any of the Wexford Parties. In the event any of the Wexford Parties are ever found to be an “owner,” “controller” or “agent” of the Debtors under SMCRA and/or its state-law counterparts, the releases granted in this Term Sheet and Settlement Agreement shall not be affected by such finding and each of the Governmental Units shall make the AVS Notation on the Applicant/Violator System referenced in paragraph 8 above. The Governmental Units further acknowledge and agree that, notwithstanding any such future finding of “owner,” “controller” or “agent” status with respect to any of the Wexford Parties, as a result of the releases granted in this Term Sheet and Settlement Agreement, there will be no denial or revocation of mining permits or amendments thereto, imposition of liability for reclamation obligations except as expressly assumed by the Wexford Parties in this Term Sheet and Settlement Agreement, or link with unabated or uncorrected violations of the Debtors on the Applicant/Violator System made with respect to or imposed on any of the Wexford Parties. Nothing contained in this Term Sheet and

Settlement Agreement is intended to or shall be construed as an inference or admission of ownership, control or agency status by any of the Wexford Parties. The Parties agree that neither the releases contained herein nor this covenant shall apply to any of the Schedule A Properties unless and until transferred as contemplated under paragraph 6(c)(ii) above.

- (h) The Governmental Units acknowledge and agree that there is no reason to pursue any investigation or make findings with respect to Congress to determine that Congress is or ever was an "owner", "controller", "agent", or "violator" of the Debtors and any such future finding would be moot as a result of the releases granted in this Term Sheet and Settlement Agreement. In the event Congress were ever found to be an "owner," "controller" or "agent" of the Debtors under SMCRA and/or its state-law counterparts, the releases granted in this Term Sheet and Settlement Agreement shall not be affected by such finding and each of the Governmental Units shall make the AVS Notation on the Applicant/Violator System referenced in paragraph 8 above. The Governmental Units further acknowledge and agree that, notwithstanding any such future finding of "owner," "controller" or "agent" status with respect to Congress, as a result of the releases granted in this Term Sheet and Settlement Agreement, there will be no imposition of liability for reclamation obligations except as expressly assumed by Congress in this Term Sheet and Settlement Agreement, or link with unabated or uncorrected violations of the Debtors on the Applicant/Violator System made with respect to or imposed on Congress.

Nothing contained in this Term Sheet and Settlement Agreement is intended to or shall be construed as an inference or admission of ownership, control or agency status by Congress. The Parties agree that neither the releases contained herein nor this covenant shall apply to any of the Schedule A Properties unless and until transferred as contemplated under paragraph 6(c)(ii) above.

- (i) The Governmental Units have determined that some of the Rennert Parties are an "owner," or "controller" of the Debtors under SMCRA and/or its state-law counterparts. The Governmental Units acknowledge and agree that links to violations of the Debtors will be absolved and that there is no reason to pursue a determination of *Dix Fork* agency with regard to the Rennert Parties. To the extent any Rennert Parties are or are ever found to be an "owner," "controller" or "agent" of the Debtors under SMCRA and/or its state-law counterparts, the releases granted in this Term Sheet and Settlement Agreement shall not be affected by such finding and each of the Governmental Units shall make the AVS Notation on the Applicant/Violator System referenced in paragraph 8 above. The Governmental Units further acknowledge and agree that, notwithstanding any such future finding of "owner," "controller" or "agent" status with respect to any of the Rennert Parties, as a result of the releases granted in this Term Sheet and Settlement Agreement, there will be no denial or revocation of mining permits or amendments thereto, imposition of liability for reclamation obligations except as expressly assumed by the Rennert Parties in this Term Sheet and Settlement Agreement, or link with

unabated or uncorrected violations of the Debtors on the Applicant/Violator System made with respect to or imposed on any of the Rennert Parties. Nothing contained in this Term Sheet and Settlement Agreement is intended to or shall be construed as an admission of ownership, control or agency status by any of the Rennert Parties. The Parties agree that neither the releases contained herein nor this covenant shall apply to any of the Schedule A Properties unless and until transferred as contemplated under paragraph 6(c)(ii) above.

13. EXCESS CONTRIBUTIONS
TO KY RECLAMATION FUND

- (a) To the extent that (y) the Reclamation Monies budgeted for the Schedule B Properties exceeds the actual cost of reclaiming or transferring such properties as set forth on the Schedule annexed hereto as Exhibit 2, or (z) the Transfer Monies budgeted for the Schedule A Properties exceeds the actual cost of transferring such property (as set forth on a side letter executed among Renco, Frontier and Wexford with respect to the Schedule A Properties (the "Schedule A Side Letter")), such excess (collectively, the "Excess Funds") shall be distributed as follows:
- (i) Excess Funds up to \$500,000 shall be paid 50% to Renco, and 50% to Wexford, without offset or deduction;
 - (ii) Excess Funds in excess of \$500,000 shall be distributed pro rata to those parties who contributed to the General Reclamation Fund (exclusive of the Cash Bonds) based upon their respective net contributions to such fund (i.e., less any distributions received pursuant to clause (i) above and any amounts received by Renco (or the Renco Designee, if any) on

account of the Residual Assets).

- (b) To the extent that (i) any of the Properties are transferred, and (ii) such transfer results in a net savings as against the budgeted cost of transferring/reclaiming the subject property (as set forth in the Schedule A Side Letter and on Schedule B with respect to the Schedule B Properties), one-third (33 ⅓%) of such net savings shall be paid, upon the transfer of such property, by the Escrow Agent, as Excess Funds in accordance with paragraph 13(a) supra. (It is assumed that the GRM may be entitled to up to a one-third share of such net savings, which shall be paid to the GRM in accordance with the GRM Agreement; the remaining one-third (33 ⅓%) of such net savings⁵ will remain part of the Reclamation Funds (if the Property so transferred was a Schedule B Property) or part of the Transfer Monies (if the Property so transferred was a Schedule A Property). Except as provided in this paragraph, Excess Funds, if any, shall be distributed to the contributing parties only after all Properties have been transferred and/or reclaimed.

14. SHARING OF NET
PROCEEDS OF RESIDUAL
ASSET

- (a) Renco (or the Renco Designee, if any) agrees that it shall pay to the Trustee for the benefit of the Estates: one (1%) percent of the first \$5.55 million of Net Proceeds of non-cash Residual Assets, plus fifty (50%) percent of the Net Proceeds of the non-cash Residual Assets in excess of \$5.55 million. As used herein, "Net Proceeds" shall mean

⁵ To the extent that the GRM Agreement provides that the GRM will receive less than a one third share, more than one third of the net savings resulting from the transfer of a Property would remain in the account for Transfer Monies or account for Reclamation Monies, as the case may be, subject to disbursement of such funds as otherwise provided herein.

all cash proceeds received by Renco (or the Renco Designee, if any) as a result of any liquidation, sale or other disposition of the Residual Assets, after deduction, to the extent actually incurred and paid, of: (i) all reasonable costs and expenses incurred in connection with such liquidation, sale or other disposition, including commissions and reasonable professional fees, and (ii) all post-closing adjustments and liabilities with respect to such transactions.

- (b) Within thirty (30) days of the end of each calendar quarter, Renco (or the Renco Designee, if any) shall deliver to the Trustee a verified statement of all Residual Assets sold, transferred or otherwise disposed of during the calendar quarter just ended, the Estate's share of Net Proceeds realized therefrom and the calculation thereof, together with a check payable to the Trustee drawn in the amount of any payment to which the Trustee is entitled in accordance with paragraph (a) above.
- (c) Notwithstanding the foregoing, the terms upon which the Residual Assets may be sold, transferred or otherwise disposed of shall be solely within the business judgment of Renco (or the Renco Designee, if any) and shall not be subject to review or challenge by the Trustee or any other creditor of the Estates. Neither the Trustee nor the Estates shall have any ownership interest in the Residual Assets; rather the Estates shall have a contractual right to receive their share of the Net Proceeds.

15. CERTAIN WAIVERS OF
RIGHTS TO RECEIVE
DISTRIBUTIONS FROM
ESTATES

- (a) Frontier agrees to waive any and all rights to receive distribution of property from the Estates on account of any claims Frontier has or may have or assert, against the Estates, provided, however, that such waiver shall in no way affect Frontier's entitlement to share in Excess Funds as provided in paragraph 13.
- (b) Congress agrees to waive any and all rights to receive distribution of property from the Estates on account of any claims Congress has or may have or assert against the Estates including, without limitation, the Congress Collection Claims, provided, however, that such waiver shall in no way affect Congress' entitlement to share in Excess Funds as provided in paragraph 13.
- (c) Renco agrees to waive any and all rights to receive distribution of property from the Estates on account of any claims Renco has or may have or assert against the Estates, provided, however, that such waiver shall in no way affect Renco's entitlement to share in Excess Funds as provided in paragraph 13.
- (d) Wexford agrees to waive any and all rights to receive distribution of property from the Estates on account of any claims Wexford has or may have or assert against the Estates, provided, however, that such waiver shall in no way affect Wexford's entitlement to share in Excess Funds as provided in paragraph 13.
- (e) Each of the Governmental Units agrees to waive any and all rights to receive distribution of property from the Estates on account of any reclamation claims it has or may have or assert

against the Estates, including, without limitation, the Schedule A Properties, except that the U.S. Parties do not waive, and expressly reserve, their rights against the Estates to receive distribution on account of any allowed Prepetition AML Fees.

16. CERTAIN RELEASES

(a) In consideration for the respective promises and undertakings of the Parties under this Settlement Agreement, the following releases shall be granted:

- (i) Trustee. At Closing, the Trustee and his advisors and consultants shall be released by Congress, the Rennert Parties, the Wexford Parties, Frontier (and their respective affiliates, officers, directors, agents, successors and assigns) and the Governmental Units from any and all claims and/or obligations which any of the foregoing releasors has or may have based upon any act or omission related to service by the Trustee on behalf of the Debtors or Estates through the Closing;
- (ii) Congress. At Closing, Congress and all of its respective affiliates, officers, directors, agents, advisors, consultants, successors and assigns (collectively, the "Congress Releasees") shall be released by the Rennert Parties, the Wexford Parties, Frontier (and their respective affiliates, officers, directors, agents, successors and assigns), Trustee, Estates, including, without limitation, those

creditors of the Estates whose claims are based upon unpaid wages or wage benefits (collectively, the "Wage Claimants") and the Governmental Units from any and all claims which any of the foregoing releasors has or may have based upon any actions taken or not taken by any of the Congress Releasees through the Closing with respect to the Debtors, as debtors or debtors in possession, the Debtors' operations, business, assets or affairs or arising in connection with the Cases or administration thereof, including, without limitation, claims for lender liability, claims arising under §506(c) of the Bankruptcy Code or under the Bankruptcy Court's bench ruling on December 11, 2002 (the "December 11 Instruction"), any claims for fraudulent transfer, preferences, breach of contract, breach of duty and all claims under any reclamation statute, including releases for individual and corporate civil penalties; criminal penalties (but only to the extent each Governmental Unit has the power to release such claims⁶); AML fees; AVS ownership and control liability; individual liability for reclamation; debarment; and disposition (consistent with the releases contained in this Term Sheet And Settlement Agreement) of all administrative cases relating to Debtors' coal mine ownership or mining and reclamation

⁶ OSM has stated that it does not believe that it has the power to release criminal penalties.

activities, including bond forfeiture actions which are currently pending before the States and the US Parties and other enforcement actions which may be pending at Closing, provided, however, that such release from the Governmental Units as to a particular Schedule A Property shall be conditioned upon and subject to the transfer of such Schedule A Property. In the event that any Schedule A Property is transferred or the bonds are otherwise fully released, the Parties shall dismiss with prejudice the administrative and enforcement actions each has initiated that are currently pending before the States and the US Parties and other enforcement actions which may be pending relating to the Debtors' coal mine ownership or mining and reclamation activities on such Schedule A Properties.

- (iii) Renco. At Closing, the Rennert Parties and their respective affiliates, shareholders, officers, directors, agents, advisors, consultants, successors and assigns (collectively, the "Renco Releasees") shall be released by Congress, the Wexford Parties, Frontier (and their respective affiliates, officers, directors, agents, successors and assigns), Trustee, Estates, Wage Claimants, and the

⁷ See footnote 6.

⁸ See footnote 6.

⁹ See footnote 6.

Governmental Units from any and all claims which any of the foregoing releasors has or may have based upon any actions taken or not taken by any of the Renco Releasees through the Closing with respect to the Debtors, as debtors or debtors in possession, the Debtors' operations, business, assets or affairs or arising in connection with the Cases or administration thereof, including, without limitation, claims based upon any avoidance actions arising under the Bankruptcy Code, claims arising under §506(c) of the Bankruptcy Code or under the December 11 Instruction, any claims for fraudulent transfer, preferences, breach of contract, breach of duty and all claims under any reclamation statute including releases for individual and corporate civil penalties; criminal penalties (but only to the extent each Governmental Unit has the power to release such claim⁷); AML fees; AVS ownership and control liability; individual liability for reclamation; debarment; and disposition (consistent with the releases contained in this Term Sheet And Settlement Agreement) of all administrative cases relating to Debtors' coal mine ownership or mining and reclamation activities, including bond forfeiture actions, which are currently pending before the States and the US Parties and other enforcement actions which may be pending at Closing; provided, however,

that such release from the Governmental Units as to a particular Schedule A Property shall be conditioned upon and subject to the transfer of such Schedule A Property. In the event that any Schedule A Property is transferred or the bonds are otherwise fully released, the Parties shall dismiss with prejudice the administrative and enforcement actions each has initiated that are currently pending before the States and the US Parties and other enforcement actions which may be pending relating to the Debtors' coal mine ownership or mining and reclamation activities on such Schedule A Properties. Notwithstanding the foregoing release, Renco shall remain liable with respect to their obligations as to Eastern Resources, Inc. to the extent set forth in paragraph 12(a);

- (iv) Wexford. At Closing, the Wexford Parties and their respective affiliates, shareholders, agents, directors, officers, advisors, consultants, successors and assigns (collectively, the "Wexford Releasees") shall be released by Congress, the Rennert Parties, Frontier (and their respective affiliates, officers, directors, agents, successors and assigns), Trustee, Estates, Wage Claimants and the Governmental Units from any and all claims which any of the foregoing releasors has or may have based upon any actions taken or not taken by any of the

Wexford Releasees through the Closing with respect to the Debtors, as debtors or debtors in possession, the Debtors' operations, business, assets or affairs or arising in connection with the Cases or administration thereof, including, without limitation, claims under the intercreditor agreement between Wexford and Congress, claims for lender liability, claims arising under §506(c) of the Bankruptcy Code or under the December 11 Instruction, any claims for fraudulent transfer, preferences, breach of contract, breach of duty and all claims under any reclamation statute including releases for individual and corporate civil penalties; criminal penalties (but only to the extent each Governmental Unit has the power to release such claim⁸); AML fees; AVS ownership and control liability; individual liability for reclamation; debarment; and disposition (consistent with the releases contained in this Term Sheet And Settlement Agreement) of all administrative cases relating to Debtors' coal mine ownership or mining and reclamation activities, including bond forfeiture actions, which are currently pending before the States and US Parties and other enforcement actions which may be pending at Closing; provided, however, that such release from the Governmental Units as to a particular Schedule A Property shall be conditioned upon and subject to the transfer

of such Schedule A Property. Notwithstanding the foregoing release, the Wexford Parties shall remain liable with respect to their obligations as to Miller Creek to the extent set forth in paragraph 12(d). In the event that any Schedule A Property is transferred or the bonds are otherwise fully released, the Parties shall dismiss with prejudice the administrative and enforcement actions each has initiated that are currently pending before the States and the US Parties and other enforcement actions which may be pending relating to the Debtors' coal mine ownership or mining and reclamation activities on such Schedule A Properties;

- (v) Frontier. At Closing, Frontier and its affiliates, shareholders, officers, directors, agents, advisors, consultants, successors and assigns (collectively, the "Frontier Releasees") shall be released by Congress, the Rennert Parties, the Wexford Parties, (and their respective affiliates, officers, directors, agents, successors and assigns), Trustee, Estates, Wage Claimants and the Governmental Units (other than the Utah Parties) from any and all claims which any of the foregoing releasors has or may have based upon any actions taken or not taken by any of the Frontier Releasees through the Closing with respect to the Debtors, as debtors or debtors in possession, the Debtors' operations, business, assets or

affairs or arising in connection with the Cases or administration thereof, including, without limitation, claims under the Reclamation Bonds, claims arising under §506(c) of the Bankruptcy Code or under the December 11 Instruction, any claims for fraudulent transfer, preferences, breach of contract, breach of duty and all claims under any reclamation statute including releases for individual and corporate civil penalties criminal penalties (but only to the extent that each Governmental Unit has the power to release such claim⁹); AML fees; AVS ownership and control liability; individual liability for reclamation; debarment; and disposition (consistent with the releases contained in this Term Sheet And Settlement Agreement) of all administrative cases relating to Debtors' coal mine ownership or mining and reclamation activities, including bond forfeiture actions, which are currently pending before the States and US Parties and other enforcement actions which may be pending at Closing; provided, however, that such release from the Governmental Units as to a particular Schedule A Property shall be conditioned upon and subject to the transfer of such Schedule A Property. In the event that any Schedule A Property is transferred or the bonds are otherwise fully released, the Parties shall dismiss with prejudice the administrative and enforcement

actions each has initiated that are currently pending before the States and the US Parties and other enforcement actions which may be pending relating to the Debtors' coal mine ownership or mining and reclamation activities on such Schedule A Properties;

(b) Notwithstanding the foregoing the releases provided for herein shall in no way be construed to release or excuse any party from its obligations under this Settlement Agreement.

(c) The releases to be granted pursuant to this Agreement shall be for the benefit only of the Trustee, Wexford Parties, Rennert Parties, Congress and Frontier and their respective affiliates, agents, shareholders, directors, officers, advisors, consultants, successors and assigns (collectively, the "Releasees"). Each of the Releasees does not release, and expressly retains, any and all claims it has against any parties (other than the Releasees) which are or may be jointly liable with any of the Releasees with respect to such claims.

17. ADMINISTRATIVE CLAIMS

(a) Congress shall assume, administer (including any required tax reporting and remittances) and pay finally allowed or determined wage claims asserted by former employees of the Debtors or Estates earned and due for the period of December 11, 2002 through July 13, 2003, including but not limited to all wage claims arising during such period for which liens exist pursuant to KRS 376.150 et seq. (the "Designated Wage Claims"); provided, however, that in no event shall any commissions be paid or payable to the Trustee by virtue of said payments. For the purposes of this Term Sheet And

Settlement Agreement, including this paragraph 17, Congress shall not be deemed an employer for any federal or state tax related liabilities.

- (b) Congress shall have no liability, obligation or responsibility whatsoever in connection with any claim of a former or current employee of the Debtors or Estates which is not a Designated Wage Claim. It is a condition precedent to Closing that the Bankruptcy Court shall order and determine, in connection with approving this Term Sheet And Settlement Agreement, that the six month period in which Priming Wage Liens pursuant to KRS 376.150 et seq. may have been earned and become due under such statute shall be January 13, 2003 to July 13, 2003. The Parties hereto acknowledge the prior opinions of the Bankruptcy Court for the Eastern District of Kentucky which have determined that wages are due as they are earned and that they are earned when the work is performed which produces the wages; specifically, the unpublished Memorandum Opinion rendered on the issue in *In Re T. & B. C. Coal Mining, Inc.*, U. S. Bankruptcy Court, Eastern District of Kentucky, Pikeville Division, Case No. 90-70414.
- (c) Congress shall have exclusive and absolute authority to settle, (including, without limitation, provide for releases by the Estates in favor of the Designated Wage Claim holders), pay, object to, compromise, litigate and seek court approval with respect to all Designated Wage Claims. The Trustee shall assign to Congress all of his rights (including, without limitation, any rights of offset, recoupment and any other applicable defenses) relating to

the Designated Wage Claims, and Congress and all holders of the Designated Wage Claims shall be bound by a final order of the Bankruptcy Court resolving such claims. Congress' compliance with this section, in conjunction with all of the other agreements and concessions made by Congress, the Wexford Parties and the Rennert Parties hereunder shall finally settle and terminate all of the claims of the Trustee and Estates and those claiming through them against Congress, the Wexford Parties and the Rennert Parties under §506(c) of the Bankruptcy Code, any other Bankruptcy Code provision, and/or under any existing Bankruptcy Court orders, rulings or instructions, including without limitation the Court's December 11, 2002 Instruction.

- (d) Upon Closing of the sale of the Residual Assets to Renco (or the Renco Designee, if any) as provided herein and distribution of the General Reclamation Fund to, or for the benefit of, the States as provided in paragraph 8, the assets of the Estates shall consist only of:
- (i) Vehicle Proceeds;
 - (ii) Preference Claims (other than the Designated Preference Claim as hereinafter defined in subparagraph 18(a) and the proceeds thereof);
 - (iii) The Preference Claim Guarantee (as defined in subparagraph 18(a));
 - (iv) Real Estate (subject to the exercise of the Renco Option);
 - (v) Right to receive payments from

Renco (or the Renco Designee, if any) based upon Net Proceeds of Residual Assets;

- (vi) Indemnification Rights; and
 - (vii) The sum of \$375,000 presently held by the Trustee which is subject to liens, which liens shall be released to allow such funds to be used for administrative expenses.
- (e) The Trustee's commissions, fees and expenses (including the fees and expenses of professional persons retained by the Trustee) as chapter 7 trustee and chapter 11 trustee (the "Trustee Compensation") shall be and remain subject to allowance by the Bankruptcy Court under §330 of the Bankruptcy Code. All Parties waive their rights to challenge, oppose and object to the Trustee Compensation.
- (f) Allowed chapter 7 administrative claims shall be paid in priority pursuant to 11 U.S.C. §726.
- (g) After all allowed chapter 7 administrative claims have been paid or otherwise satisfied, all post December 11, 2002 chapter 11 administrative claims, in amounts as allowed and determined by the Bankruptcy Court or by agreement, will share pro rata in all remaining funds up to a potential of 100% of payment.
- (h) After all allowed post December 11, 2002 chapter 11 administrative claims have been paid or otherwise satisfied, all pre December 11, 2002 chapter 11 administrative claims, in amounts as allowed and determined by the Bankruptcy Court or by agreement, will share pro rata in all remaining funds up

to a potential of 100% of payment.

- (i) After all chapter 7 and chapter 11 allowed administrative claims are paid, up to \$500,000 of excess proceeds shall be designated as additional Transfer Monies and paid to the Escrow Agent.
- (j) After all chapter 7 and chapter 11 allowed administrative claims are paid, and \$500,000 is paid to the Escrow Agent as additional Transfer Monies, any excess proceeds shall be paid to prepetition creditors in the order of statutory priority.

18. PREFERENCE CLAIMS

- (a) Subject to subparagraphs 18(b) and (c), Renco, and Wexford (collectively, the "Preference Guarantors") guarantee to the Trustee (the "Preference Claim Guarantee"), for the benefit of the Estates, that the gross proceeds, in the aggregate, of all collections, recoveries or settlements of the Preference Claims (exclusive of the preference claim asserted in Adversary Proceeding 04-5170 filed with the Bankruptcy Court (the "Designated Preference Claim")) shall be at least \$1.5 million (the "Preference Claim Minimum"). Subject to subparagraphs 18(b), 18(c) and 18(d), in the event the Preference Claim Minimum is not equaled or exceeded, the Preference Guarantors shall pay to the Trustee, for the benefit of the Estates, that amount equal to (i) the Preference Claim Minimum, less (ii) the gross proceeds of the Preference Claims (other than the Designated Preference Claim) actually collected.
- (b) Notwithstanding any other provision of this Agreement to the contrary, the maximum amount the Preference Guarantors shall be liable for on account of the Preference Claim Guarantee is \$450,000 (the "Guarantee

Cap”) in the aggregate; provided, however, that the liability of each Preference Guarantor on account of the Preference Claim Guarantee shall be limited as set forth in subparagraph 18(c).

- (c) The Preference Guarantors shall share the liability, if any, with respect to the Preference Claim Guarantee as follows: Renco 72.22% and Wexford 27.78%. For example, if the gross proceeds of the Preference Claims equals only \$1.0 million, Renco and Wexford would be liable for \$325,000 and \$125,000, respectively.
- (d) Until the Preference Claim Minimum is attained, the Trustee shall regularly provide a report (“Preference Report”) to the Preference Guarantors, no less frequently than monthly (unless otherwise agreed by the Preference Guarantors), which shall identify each Preference Claim and shall indicate the disposition made of each such claim, the proceeds collected on account thereof and such other information as the Preference Guarantors shall reasonably request. When the Trustee has prosecuted each Preference Claim (other than the Designated Preference Claim) to judgment or settlement and has otherwise reasonably determined that he has collected all amounts due with respect to the Preference Claims (other than the Designated Preference Claim), the Trustee shall provide a final Preference Report so indicating (the “Final Preference Report”). The Preference Guarantors shall have thirty (30) days to object to the Final Preference Report (the “Objection Period”). Any such objection shall be resolved by the Bankruptcy Court.

- (e) The Trustee may make a demand upon the Preference Guarantors only after the lapse of the Objection Period if no objections are filed or, if an objection is timely filed, after such objection is finally determined. The Preference Guarantors shall pay their respective shares of the Preference Claim Guarantee within ten (10) days of receiving the Trustee's demand therefor. Each Preference Guarantor shall be responsible only for its pro rata share of the Preference Claim Guarantee. In the event that a Preference Guarantor shall fail to pay on its Preference Claim Guarantee when due, the other Preference Guarantors shall not be liable for such unpaid amounts.
- (f) Except as provided in subparagraph 18(g), all decisions regarding the prosecution, settlement and collection of Preference Claims (other than the Designated Preference Claim upon its transfer to Frontier) shall be controlled by the Preference Guarantors in direct proportion to their respective shares of liability on account of the Preference Claim Guarantee until the Preference Claim Minimum is attained, and thereafter by the Trustee.
- (g) Notwithstanding any other provision of this term sheet to the contrary, at Closing the Trustee shall execute a Stipulation of Dismissal with Prejudice with respect to the following adversary proceedings:
- (i) William D. Bishop, Chapter 7 Trustee for Lodestar Energy, Inc. et al. vs. Pension Benefit Guaranty Corporation, Adv. Pro. No. 04-5264; and
 - (ii) William D. Bishop, Chapter 7

Trustee for Lodestar Energy, Inc.
et al. vs. Principal Financial
Group, Adv. Pro. No. 04-5229).

(h) At Closing or at such other time as Frontier shall request, the Trustee shall assign and transfer to Frontier all of the Estate's right, title and interest in the Designated Preference Claim.

19. MISCELLANEOUS

- (a) A press release shall be issued regarding this settlement in substantially the same form as that annexed hereto as Exhibit 4 (the "Press Release"). The Parties agree that they shall not make any public statement (i) contradicting the Press Release, or (ii) disparaging any other Party with respect to such Party's participation in the operation or ownership of the Debtors' mining properties or in the Debtors' bankruptcy cases. The obligations of the Parties set forth in this paragraph shall in all respects be subject to the provisions of the Commonwealth of Kentucky Open Records Act, the Utah Government Records Access and Management Act, and the West Virginia Freedom of Information Act, the federal Freedom of Information Act, the Bankruptcy Code and Frontier's statutory disclosure obligations.
- (b) All of the provisions of the settlement are interdependent; unless all of the provisions of this Settlement Agreement are approved, this Settlement Agreement shall not be enforceable by or against any Party.
- (c) The compromises and settlements embodied in this Settlement Agreement shall not be deemed to be an admission of liability of any Party and shall not be admissible in any proceeding or action, other than one to enforce the provisions

of this Settlement Agreement.

- (d) The Bankruptcy Court retains jurisdiction to (i) enforce and interpret the provisions of this Settlement Agreement; and (ii) to enable and facilitate the collection and/or liquidation of the Residual Assets.
- (e) In the event this Settlement Agreement is not approved by the Bankruptcy Court, the provisions of such agreement shall be subject to Rule 408 of the Federal Rules of Evidence.
- (f) The Parties intend that this term sheet shall be binding upon and enforceable by and against each of the Parties upon the execution and delivery of this term sheet by all Parties; provided, however; that such term sheet shall cease to be binding and enforceable if:
 - (i) the Bankruptcy Court enters an order disapproving this term sheet or the settlement agreement represented thereby, or
 - (ii) if the Parties fail to execute Definitive Documentation prior to the Approval Hearing so long as such failure is not caused by a Party's failure to honor its obligations hereunder.
- (g) To the extent that, as a condition to closing the transfer of the Smith Assets, the Estates must pay the costs of curing various lease defaults, Renco agrees to pay up to \$40,000 of such costs and the Estates agree to pay from otherwise unencumbered funds, all associated cure costs in excess of \$40,000.
- (h) The provisions of this Settlement Agreement and the performance

hereunder shall be construed in accordance with the laws of the Commonwealth of Kentucky.

- (i) Except as otherwise provided, herein, this Settlement Agreement shall be binding upon and inure to the benefit of the Parties hereto and their heirs, executors, administrators, successors, and assigns. No Party may assign, delegate or otherwise transfer any of its rights or obligations under this Settlement Agreement without the consent of each other Party hereto, and any such assignment, delegation or other transfer in contravention of this Settlement Agreement shall be null and void.
- (j) This term sheet and Settlement Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same agreement. This term sheet and Settlement Agreement may be executed and delivered by any party hereto by facsimile transmission.
- (k) Credit for Individual Settlement Payments. In the event that, prior to Closing, any Party makes a cash payment (i) to the Kentucky Parties, with respect to any Schedule B Properties, (ii) to the Utah Parties or (iii) the West Virginia Parties, in reduction or settlement of any alleged reclamation obligations (an "Outside Settlement Payment"): (a) such Party's respective contribution to the General Reclamation Fund, and (b) such Governmental Unit's respective entitlement from the General Reclamation Fund, shall be reduced by an amount equal to the lesser of (y) the amount of such Outside Settlement Payment and (z) that portion of the

Party's respective contribution to the General Reclamation Fund attributable to such Governmental Unit as reflected on the attached Exhibit 5; provided however, that the risk that any Outside Settlement Payment is not indefeasibly paid shall be borne solely by the Governmental Unit receiving such payment; and provided, further, that should any Outside Settlement Payment be avoided, reversed or recovered, the obligations of the Wexford Parties, Rennert Parties, Frontier and Congress to contribute to the General Reclamation Fund shall not be increased as a consequence thereof. Moreover, wherever in this Term Sheet And Settlement Agreement, payments from, or distributions to, the Rennert Parties, the Wexford Parties, Frontier and Congress (or any two or more of them) are to be made on a pro rata basis, their respective pro rata shares shall be calculated without any reduction whatsoever for such Outside Settlement Payment. (For example, if Wexford makes an Outside Settlement Payment of \$50,000 to the Utah Parties, Wexford's contribution to the General Reclamation Fund shall be reduced by \$50,000, and the Utah Parties' entitlement from the General Reclamation Fund shall be reduced by \$50,000. As a further example, if Wexford makes an Outside Settlement Payment of \$100,000 to the Utah Parties, Wexford's contribution to the General Reclamation Fund shall be reduced by \$90,896.27, Wexford's respective contribution to the General Reclamation Fund attributable to the Utah Parties, and the Utah Parties' entitlement from the General Reclamation Fund shall be reduced by \$90,896.27). Any credit as contemplated in this paragraph with

respect to the Rennert Parties shall not affect the ability of the Trustee to request a statutory commission for the Purchase Price. At Closing, any Party which wants to be credited for any Outside Settlement Payment made before Closing, shall deliver or cause to be delivered a certification by an authorized representative of the recipient stating the amount for which the Party is seeking to be credited and the date received; and

- (1) After Closing, the Rennert Parties and Trustee shall co-operate to cause the dismissal of the Rennert Parties' appeals of certain cash collateral orders entered by the Bankruptcy Court.

(Signatures Begin on Next Page)

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers and/or representatives, have entered into and executed this Agreement effective as of the date and year first above written.

LODESTAR ENERGY INC.

By: _____
William D. Bishop, Trustee

LODESTAR HOLDINGS, INC.

By: _____
William D. Bishop, Trustee

INDUSTRIAL FUELS MINERALS CO.

By: _____
William D. Bishop, Trustee

THE RENCO GROUP INC.

By: _____
An Authorized Officer

IRACOAL, INC.

By: _____
An Authorized Officer

IRA LEON RENNERT

By: _____
Ira Leon Rennert

WILLIAM D. BISHOP

By: _____
William D. Bishop, Trustee

FRONTIER INSURANCE COMPANY IN
REHABILITATION

By: _____
Neal Conolly, Administrator of Frontier
Insurance Company in Rehabilitation

CONGRESS FINANCIAL CORPORATION

By: _____
An Authorized Officer

WEXFORD CAPITAL LLC

By: _____
An Authorized Officer

DEPARTMENT FOR NATURAL RESOURCES
ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

By: _____
Susan C. Bush, Commissioner

KENTUCKY ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

By: _____
LaJuana S. Wilcher, Secretary, by Mark H.
York, Deputy Secretary

KENTUCKY ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

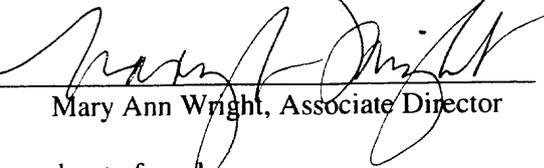
By: _____
C. Michael Haines,
Deputy General Counsel
Office of Legal Services

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION

By: _____

Division of Land Restoration

UTAH DIVISION OF OIL, GAS & MINING

By: 
Mary Ann Wright, Associate Director

approved as to form by

By: 
Steven F. Alder
Assistant Utah Attorney General

U.S. OFFICE OF SURFACE MINING

By: _____
Jeffrey Jarrett, Director, by William Kovacic, Lexington Field Office Director

SCHEDULE A PROPERTIES

PERMIT NO.	PERMITTEE	NAME OF PROPERTY	STATE	REC BOND FRONTIER	REC BOND CASH	SUPP ASSUR FRONTIER	SUPP ASSUR CASH	BOND TOTAL
717-5002	Lodestar Energy, Inc.	Baker-Wheatcroft	KY	586,000	12,800			598,800
913-6000	Lodestar Energy, Inc.	Baker-Wheatcroft	KY	233,200				233,200
917-0028	Lodestar Energy, Inc.	Baker-Wheatcroft	KY	288,900				288,900
036-0014	Lodestar Energy, Inc.	Ash Fill (DWM)	KY	3,582,570				3,582,570
836-9013	Lodestar Energy, Inc.	Ash Fill (DSMRE)	KY	394,000	5,000			399,000
436-0084	Lodestar Energy, Inc.	Ivel Refuse	KY	47,500				47,500
898-0503	Branham & Baker Coal Company, Inc.	Old Ridgetop	KY					*

* This permit has been transferred. However, the money which was to be paid to encourage the transfer has not yet been distributed.

SCHEDULE B PROPERTIES

PERMIT NO.	PERMITEE	NAME OF PROPERTY	DSMRE RECLAMATION COST
498-5149	Lodestar Energy, Inc.	Pace Energy	152,282
498-8024	Lodestar Energy, Inc.	Stone Coal Tipple	300,000
517-8008	Lodestar Energy, Inc.	Pyro Slurry Disposal	409,382
836-0216	Lodestar Energy, Inc.	Ivy Creek	235,604
836-0231	Lodestar Energy, Inc.	Spurlock	237,500
836-0261	Lodestar Energy, Inc.	Spradlin Branch	172,532
836-0273	Lodestar Energy, Inc.	Tram Surface	5,000
836-5047	Lodestar Energy, Inc.	Cedar Grove	254,223
836-5052	Lodestar Energy, Inc.	Amy Branch U/G	12,000
836-5352	Lodestar Energy, Inc.	Tram #4	10,000
854-0135	Lodestar Energy, Inc.	EDRO	52,000
854-0136	Lodestar Energy, Inc.	EDRO Osborne	7,000
854-0137	Eastern Resources, Inc.***	River Venture	**
854-0142	Lodestar Energy, Inc.	EDRO Lamb	55,000
860-0369	Lodestar Energy, Inc.	Knott County	61,000
898-0324	Lodestar Energy, Inc.	Robinson Creek	583,655
898-5060	Lodestar Energy, Inc.	Jet Coal	47,925
898-5093	Lodestar Energy, Inc.	Lick Fork	95,383
898-5535	Lodestar Energy, Inc.	Miller Creek	*
898-5816	Lodestar Energy, Inc.	Joe's Creek	46,725
913-5003	Lodestar Energy, Inc.	Pyro Prep Plant	5,332,922
TOTAL			8,070,133

* Liability for reclamation entirely assumed by Wexford

** This permit is in the process of obtaining Phase I, II and III releases subject only to the planting of trees during the fall planting season.

*** Eastern Resources, Inc. is an affiliated company of the Debtors.

CASH BONDS

PERMIT NO.	PERMITTEE	MINE NAME	STATE	REC BOND CASH	SUPP ASSUR CASH
917-5001	Lodestar Energy, Inc.	Alliance-Smith Pit	KY	163,100	
898-0284	Lodestar Energy, Inc.	Island Creek	KY	5,000	
898-0457	Lodestar Energy, Inc.	Marion Branch	KY		150,000
717-5002	Lodestar Energy, Inc.	Baker-Wheatcroft	KY	12,800*	
836-9013	Lodestar Energy, Inc.	Ash Fill (DSMRE)	KY	5,000*	
898-0556	Branham & Baker Coal Company, Inc.	"New" Ridgetop	KY	779,000	
898-0503	Branham & Baker Coal Company, Inc.	"Old" Ridgetop	KY	2,200	
836-0231	Lodestar Energy, Inc.	Spurlock	KY	10,000	
836-0261	Lodestar Energy, Inc.	Spradlin Branch	KY	28,200	
898-5535	Lodestar Energy, Inc.	Miller Creek	KY	100	
913-5003	Lodestar Energy, Inc.	Pyro Prep Plant	KY	29,500	
0-172-83	Lodestar Energy, Inc.	Carlisle Loadout	WV	10,000**	
898-0555	Lodestar Energy, Inc.	Tug River	KY	443,200	350,000
898-4094	Lodestar Energy, Inc.	Tug River	KY	108,800	
898-4006	Lodestar Energy, Inc.		KY	300	
498-5429	Lodestar Energy, Inc.		KY	7,800	
698-8061	Lodestar Energy, Inc.		KY	53,800	
898-8115	Lodestar Energy, Inc.		KY	500	
TOTAL				1,659,300	500,000

* This sum may or may not be available since it is for a non-orphan site.

** Please note that permit No. 0-172-83 Carlisle Loadout is a West Virginia permit.

EXHIBIT 4

DRAFT PRESS RELEASE

The Kentucky Environmental and Public Protection Cabinet announced today that the Cabinet had reached a settlement with the owners and certain creditors of Lodestar Energy, Inc. and others that will provide the Commonwealth of Kentucky with comfort that adequate resources will be available for the reclamation of those Lodestar coal properties which are not sold for continued operation by new owners.

Lodestar Energy, Inc. and its immediate parent company, Lodestar Holdings, Inc., have been in bankruptcy since March 2001. William D. Bishop, the bankruptcy trustee, has been overseeing the liquidation of both companies since his appointment as Chapter 11 trustee on January 31, 2003 and Chapter 7 trustee on July 15, 2003.

In addition to the Cabinet and the bankruptcy trustee, the parties to the settlement include The Renco Group, Inc., the parent company to both Lodestar Energy and Lodestar Holdings, Frontier Insurance Company in Rehabilitation, an issuer of reclamation bonds to Lodestar Energy, Congress Financial Corporation, a secured lender to Lodestar, Wexford Capital LLC, and U.S. Office of Surface Mining Reclamation and Enforcement.

Collectively, Renco, Frontier, Congress and Wexford agreed to make available approximately \$10 million to fund the settlement. The Cabinet complimented all these parties for their concerted efforts and their constructive approach to the settlement discussions.

Also participating in the settlement are The West Virginia Department of Environmental Protection and The Utah Division of Oil, Gas & Mining which also received comfort that reclamation obligations in West Virginia and Utah would be satisfied.

Pursuant to the terms of the settlement, the parties will be receiving mutual releases from all the other parties regarding reclamation obligations and other claims.

EXHIBIT 5

<u>State</u>	<u>Global Settlement Share</u>	<u>Percentage</u>	<u>Wexford's Share</u>	<u>Frontier's Share**</u>	<u>Congress' Share</u>	<u>Purchase Price Paid by Renco</u>	<u>Totals</u>
Utah Parties	\$1,217,000.00	10.0996%	\$90,896.27	\$0.00	\$10,099.59	\$0.00	\$100,995.85
Kentucky Parties	\$9,416,000.00	78.1411%	\$703,269.71	\$2,935,412.00	\$78,141.08	\$5,091,105.19	\$8,807,927.98
West Virginia Parties	\$1,417,000.00	11.7593%	\$105,834.02	\$264,588.00	\$11,759.34	\$458,894.81	\$841,076.17
Total	\$12,050,000.00	100%	\$900,000.00	\$3,200,000.00	\$100,000.00	\$5,550,000.00	\$9,750,000.00 *

* The difference between this amount and the total contribution to the General Reclamation Fund equals the Cash Bonds plus any Cash Bond Shortfall. To the extent any of the above Parties contribute to the Cash Bond Shortfall, the above numbers may require adjustment.

**The amounts given here for Frontier reflect a previous settlement with Utah DOGM and are otherwise estimates for shares to Kentucky and West Virginia for the sole purpose of calculations under Section 19(k) and do not reflect the percentages of contribution to the state regulatory agencies under the Global Settlement Agreement.

June 10, 2004

Escrow Agent for the General
Reclamation Fund

Re: Agreement of Wexford Capital LLC, for itself and as Agent for Valentis Investors, LLC, Solitair Corp. and Wexford Spectrum Investors, LLC ("Wexford"); The Renco Group, Inc. ("Renco"); and Frontier Insurance Company in Rehabilitation ("Frontier") as to 1) Transfer Monies and 2) Baker-Wheatcroft Escrow ("Schedule A Side Letter")

Dear Sir or Madam:

This Schedule A Side Letter confirms the agreement among Wexford, Renco and Frontier to the Term Sheet and Settlement Agreement ("Agreement") dated as of June 10, 2004, that the following sums constitute the "Transfer Monies" as defined in Paragraph 8(a) of the Agreement:

\$1,000,000 for transfer of the Branham & Baker Permit No. 898-0503 ("Old Ridgetop"); and

\$ 345,867 for transfer of the Stratton Ash Fill, Permit Nos. 036-00014, 836-9013 and Ivel Refuse Permit No. 436-0084

As of the date of this Schedule A Side Letter, the "Old Ridgetop" permit has already transferred, but the \$1,000,000 has not been distributed to the transferee. The \$1,000,000 is to be paid to Appalachian Fuels, LLC upon its presentment of a permit transfer of the Old Ridgetop permit (Permit No. 898-0503). Payment of the Transfer Monies is contingent upon the execution of the Agreement by all mediation parties and a closing pursuant to the terms of the Agreement.

Secondly, this Schedule A Side Letter also confirms that Wexford, Renco and Frontier are in agreement concerning the use of certain funds in the amount of \$250,000 now held in escrow related to the capping of the Baker/Wheatcroft mines. It is our agreement that, once those funds are determined to be property of the Lodestar estates, they will be conveyed to Renco, or a designee of Renco, as part of the assets it purchases from estates. Renco agrees

to contribute an amount necessary to effect the transfer of the permits related to the Baker/Wheatcroft mines (Permit Nos. 717-5002, 913-6000 and 917-0028 collectively, the "Permits"), not to exceed \$250,000 or to provide for limited reclamation of the permits in an amount not to exceed \$250,000, the amount of which is subject to the approval of Frontier and Wexford. Should the cost of transfer or reclamation of the Permits exceed \$250,000, Renco's payment of the first \$250,000 shall in no way affect the parties' rights and obligations under the Agreement. It is further our understanding that the availability of such funds will be strictly confidential and not disclosed to any potential transferee.

Authorized Agent for The Renco Group,
Inc. ("Renco")

Authorized Agent for Frontier Insurance
Company in Rehabilitation ("Frontier")

Authorized Agent for Wexford Capital
LLC, for itself and as Agent for Valentis
Investors, LLC, Solitair Corp. and
Wexford Spectrum Investors, LLC
("Wexford")

June 10, 2004
Page 3

30328919.1¶

Budgeted Transfer Assistance Payments

Permit(s)	Transferor	Transferee	Amount
898-0503 (Old Ridgetop Mine)	Branham & Baker Coal Company, Inc.	Appalachian Fuels, LLC	\$ 1,000,000.00
036-00014; 836-9013; 436-0084 (Ash Fill)	Lodestar Energy, Inc.	*	\$ 345,867.00
717-5002; 913-6000; 917-0028 (Baker – Wheatcroft Mine)	Lodestar Energy, Inc.	**	\$ 0

* As yet, no agreement has been reached with a party, however, Murphy Road Recycling is pursuing a transfer of these permits.

** No party has yet been identified for the transfer of these permits. However, Peabody Energy is pursuing permitting actions for the mineral reserves associated with these permits.

July 21, 2004

BY ELECTRONIC MAIL

Mr. J. Alec Mackenzie
Office of Legal Services
#2 Hudson Hollow Complex
Frankfort, Kentucky 40601

Dear Alec:

You have inquired as to which affiliates of the Rennert Parties will be released pursuant to paragraph 16(a)(iii) of the Term Sheet and Settlement Agreement dated June 10, 2004 (as may be amended from time to time, the "Settlement Agreement"). Without intending to be all inclusive, and using the definition of "affiliates" set forth in section 101(2) of the Bankruptcy Code, the following entities would be included within the release:

Ira Leon Rennert
The Renco Group, Inc.
Iracoal, Inc.
Rencoal, Inc.
Eastern Resources, Inc.
Certain trusts established by Ira Rennert for himself and certain members of his family

You have also inquired as to the role of each of the individuals listed on Exhibit 6 to the Settlement Agreement. This information is set forth below. Please note that most of the titles listed reflect each individual's former position(s) with the identified company.

Marilyn W. Adamson: Controller, Lodestar Energy, Inc.

John A. Binko: Vice President, The Renco Group, Inc.

Dennis W. Bryant: Vice President, Lodestar Energy, Inc.

James N. Chapman: Vice President, The Renco Group, Inc.

Justin W. D'Atri: Secretary, Lodestar Energy, Inc.

Secretary, Eastern Resources, Inc.
Secretary, Industrial Fuels Minerals Company

R. Eberley Davis: Vice President and Assistant Secretary, Lodestar Energy, Inc.
Assistant Secretary, Eastern Resources, Inc.
Assistant Secretary, Industrial Fuels Minerals Company

Pam Dillender: Controller, Lodestar Energy, Inc.

Michael E. Donohue: Vice President and Chief Financial Officer, Lodestar Energy, Inc.

Roger L. Fay: Vice President, Lodestar Energy, Inc.
Vice President, Iracoal, Inc.
Vice President, Industrial Fuels Minerals Company
Vice President, Eastern Resources, Inc.
Vice President, The Renco Group, Inc.

Troy L. Francisco: President, Lodestar Energy, Inc.
Vice President, Eastern Resources, Inc.
Vice President, Industrial Fuels Minerals Company

R. Blake Hall: Vice President, Lodestar Energy, Inc.

Eugene C. Holdaway: Vice President, Lodestar Energy, Inc.

John W. Hughes: President, Lodestar Energy, Inc.

Marvin M. Koenig: Vice President, The Renco Group, Inc.

William M. Potter: Vice President, Lodestar Energy, Inc.

Ira Leon Rennert: Chairman and Sole Director, Lodestar Energy, Inc.
Director, Lodestar Holdings, Inc.
Director, Iracoal, Inc.
President, Iracoal, Inc.
Chairman and Director, Industrial Fuels Minerals Company
Chairman and Sole Director, Eastern Resources, Inc.
President and Chairman, The Renco Group, Inc.

Michael C. Ryan: Assistant Secretary, Lodestar Energy, Inc.
Assistant Secretary, Lodestar Holdings, Inc.
Assistant Secretary, Industrial Fuels Minerals Company
Assistant Secretary, Eastern Resources, Inc.
Assistant Secretary, The Renco Group, Inc.

July 21, 2004

Page 3

Dennis A. Sadlowski: Secretary, Lodestar Energy, Inc.
Assistant Secretary, Lodestar Holdings, Inc.
Secretary, Iracoal, Inc.
Assistant Secretary, Industrial Fuels Minerals Company
Assistant Secretary, Eastern Resources, Inc.
Secretary, The Renco Group, Inc.
Vice President, The Renco Group, Inc.

John A. Siegel, Jr.: Vice President, The Renco Group, Inc.
Vice President, Iracoal, Inc.
Vice President, Industrial Fuels Minerals Company
Vice President, Eastern Resources, Inc.
Vice President, Lodestar Holdings, Inc.
Vice President, Lodestar Energy, Inc.

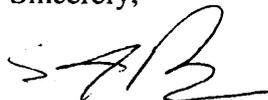
David M. Suchniak: Vice President, Lodestar Energy, Inc.

Gary A. Stoltz: Controller, Eastern Resources, Inc.

Arthur R. Thomas: Vice President, Lodestar Energy, Inc.

Please feel free to contact me if you have any questions with respect to the foregoing. We look forward to receiving your executed copy of the First Amendment to the Settlement Agreement and to working with you towards the closing of the Settlement Agreement.

Sincerely,



Stefanie J. Birbrower

cc: Steve F. Alder, Esq.
John Austin, Esq.
Craig Giffin, Esq.
Michael P. Wood, Esq.

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

IN RE:
LODESTAR ENERGY, INC.
LODESTAR HOLDINGS, INC.
INDUSTRIAL FUELS MINERALS CO.
DEBTORS

CASE NO. 01-50969
CASE NO. 01-50972 and
CASE NO. 03-70015
CHAPTER 7

**ORDER APPROVING SETTLEMENT AGREEMENT AND RELATED SALE OF
ASSETS PURSUANT TO BANKRUPTCY RULE 9019 AND SECTION 363
OF THE BANKRUPTCY CODE**

This matter having come on for hearing before the Court upon the motion (the "Motion") of William D. Bishop, the Chapter 7 Trustee of the Debtors (the "Trustee"), pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and section 363 of title 11 of the United States Code (the "Bankruptcy Code") for approval of the Term Sheet and Settlement Agreement attached to the Motion as Exhibit A (as may be amended from time to time, the "Settlement Agreement"), among the Debtors, by and through the Trustee; the Trustee, individually and in his capacity as Trustee for the estates of the Debtors (the "Estates"); The Renco Group, Inc. ("Renco"), Iracoal, Inc., and Ira Leon Rennert; Frontier Insurance Company in Rehabilitation; Congress Financial Corporation, in its capacity as agent for itself and certain other financial institutions ("Congress"); Wexford Capital LLC, for itself and as agent for Valentis Investors, LLC, Solitair Corp., and Wexford Spectrum Investors, LLC ("Wexford"); The Kentucky Environmental and Public Protection Cabinet and its successors, which now or in the future have responsibility or jurisdiction to enforce Kentucky's laws and regulations with respect to the Debtors' coal mining activities pursuant to K.R.S. Chapter 224, 350 and regulations promulgated in furtherance thereof, as well as any other statutes and regulations the Cabinet has authority to enforce; The West Virginia Department of Environmental Protection and its successors which now or in the future have responsibility or jurisdiction to enforce West Virginia's laws and regulations with respect to the Debtors' coal mining activities pursuant to W.Va. Code 22-3-1 et seq. and Code of State Rules, W. Va.

Code 38-2-1 et seq.; The Utah Division of Oil, Gas & Mining and its successors, which now or in the future have responsibility or jurisdiction to enforce Utah's laws and regulations with respect to the Debtors' coal mining activities pursuant to Utah Code § 40-10 et seq.; and The United States of America on behalf of the Office of Surface Mining Reclamation and Enforcement and its successors which now or in the future have responsibility or jurisdiction to enforce the laws and regulations with respect to the Debtors' coal mining activities pursuant to the Surface Mining Control and Reclamation Act of 1977, Public Law 95-87, 30 U.S.C. § 1201 et seq., and the sale (the "Sale") of certain assets (the "Residual Assets") to Renco in connection therewith pursuant to that certain Asset Purchase Agreement among the Trustee, the Debtors and Renco dated as of July 12, 2004, substantially in the form of Exhibit A attached hereto (the "APA"), all as more fully set forth in the Settlement Agreement, the Motion, and the APA; and the Court having reviewed the Motion and having heard the statements in support of the relief requested therein at a hearing before the Court (the "Hearing"); and the Court having been apprised at the Hearing of certain changes to the Settlement Agreement which are reflected in the First Amendment to the Settlement Agreement dated July ____, 2004, attached hereto as Exhibit B (the "First Amendment"); and the Court having determined that the legal and factual bases set forth in the Motion and at the Hearing establish just cause for the relief granted herein; and it further appearing that the Settlement Agreement is fair, reasonable and in the best interests of the Estates, their creditors, and all parties in interest; and after due deliberation and sufficient cause appearing therefor,

THE COURT HEREBY FINDS, CONCLUDES AND DETERMINES as follows

A. The Court has jurisdiction over the Motion pursuant to 28 U.S.C. §§ 157 and 1334.

Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

B. This is a core proceeding pursuant to 28 U.S.C. § 157(b).

C. Proper, timely, and sufficient notice of the Motion and the Hearing was provided by mail, electronically and by publication pursuant to this Court's Order dated June 17, 2004, and such notice was proper, timely and sufficient to satisfy the requirements of Bankruptcy Rules 2002, 6004, and 9019. No other or further notice of the Motion or entry of this Order is necessary. A reasonable opportunity to

object or to be heard regarding the relief requested in the Motion has been afforded to all interested parties, including, but not limited to (i) all parties who claim interest in or Liens upon the Residual Assets and (ii) all parties in interest and creditors in the Debtors' cases.

D. Timely objections to the Motion were filed by (i) The International Union, United Mine Workers of America, (ii) CRSS, Inc., successor in interest to NaTec Resources, Inc., (iii) AAA Mine Service, Inc., and (iv) Scheer's Incorporated. An objection to the Motion was also filed by Indiantown Cogeneration, L.P. and Cedar Bay Generating Company, L.P., which was not timely. All of the foregoing objections are referred to herein, collectively, as the "Objections".

E. The Settlement Agreement and the APA were negotiated and entered into in good faith after arms'-length bargaining by the parties thereto.

F. The Settlement Agreement and the APA constitute the legal, valid, and binding obligation of each of the parties thereto enforceable against each party in accordance with its terms.

G. The Trustee has advanced reasons and proffered evidence at the Hearing to support his sound and sufficient business justification for entering into the Settlement Agreement, which reasons are incorporated herein in full. It is a reasonable exercise of the Trustee's business judgment to consummate all transactions contemplated by the Settlement Agreement and the APA.

H. Consummation of the transactions contemplated by the Settlement Agreement and the APA is in the best interests of the Debtors, their Estates, creditors and other parties in interest.

I. Based on the reasoning and proffered evidence stated at the Hearing, the Trustee has proven that the Settlement Agreement is fair, equitable and reasonable under the circumstances, considering, among other things, the probability of success in litigation, difficulties to be encountered in collection, and the expense and delay associated with litigation.

J. The Trustee has all requisite power and authority to execute and deliver the Settlement Agreement (including the First Amendment) and the APA on behalf of the Debtors and their Estates and to perform his and their obligations thereunder. Upon the entry of this Order, the Trustee shall be fully

empowered and authorized to perform the Estates' obligations under the Settlement Agreement and the APA without any consents, approvals or further orders of this Court.

K. The provisions of sections 363(b), 363(f), and 363(m) of the Bankruptcy Code have been complied with and are applicable to the sale of the Residual Assets¹ under the Settlement Agreement and the APA.

L. Immediately prior to the sale and transfer of the Residual Assets to Renco (or the Renco Designee, if any), the Residual Assets (or certain of them) and certain of the assets remaining in the Estates were subject to:

- (a) Senior R/E Tax Liens, if any;
- (b) Priming Wage Liens, if any;
- (c) Congress Lien;
- (d) Renco Lien;
- (e) Wexford Lien (the Congress Lien, the Renco Lien and the Wexford Lien being collectively referred to herein as the "Senior Lender Liens);
- (f) Liens, if any, junior to the Liens identified in (a) through (e) above (collectively, the "Junior Liens").

M. Other than the Senior R/E Tax Liens and the Priming Wage Liens, if any, there are no Liens on the Residual Assets, any other assets remaining in the Estates, and the cash bonds, which are senior in priority to the Senior Lender Liens.

N. Except as to the Senior R/E Tax Liens, if any, which shall be unaffected by the transfer of the Residual Assets to Renco (or the Renco Designee, if any), the sale, conveyance and assignment of the Residual Assets pursuant to the Settlement Agreement and the APA shall be free and clear of all liens, claims, encumbrances and other interests held or asserted by any Person (as defined in the Bankruptcy Code), including, without limitation, mortgages, security interests, pledges, liens, judgments, demands, encumbrances, or charges of any kind or nature, if any, including, but not limited to, any restriction on the

¹ Capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Settlement Agreement.

transfer, receipt of income or other exercise of any attributes of ownership (the foregoing collectively referred to as "Liens" herein), and all debts arising in any way in connection with any acts of the Debtors, claims (including but not limited to "claims" as that term is defined in the Bankruptcy Code), obligations, demands, guaranties, interests and matters of any kind and nature, whether arising prior to or subsequent to the commencement of the Debtors' bankruptcy cases, and whether imposed by agreement, understanding, law, equity or otherwise (the foregoing collectively referred to as "Claims" herein), with all such Liens and Claims, and any and all other interests released, terminated and discharged as to the Residual Assets.

O. Subject to paragraph P, all Liens, Claims and encumbrances as to the Residual Assets (other than the Senior R/E Tax Liens) which existed immediately prior to the transfer of such assets to Renco (or the Renco Designee, if any) shall attach to the proceeds of the Sale with the same validity, priority, and effect as such Liens, Claims, and encumbrances were entitled immediately prior to such Sale.

P. The Priming Wage Liens shall not attach to the proceeds of the Sale of the Residual Assets, the cash bonds, or to any assets remaining in the Estates. To assure the payment of the claims secured by the Priming Wage Liens, the Trustee has obtained Congress' agreement to assume such claims, upon the terms and conditions set forth in the Settlement Agreement. Such agreement shall constitute adequate protection, as such term is defined in section 363(b) of the Bankruptcy Code, for the release and relinquishment of the Priming Wage Liens.

Q. The Court finds and concludes that the wages which give rise to Priming Wage Liens pursuant to K.R.S. 376.150 *et. seq.* are wages which are due as they are earned and such wages are only earned when the work is performed which produces the wages. Accordingly, the Court adopts the findings and conclusion underlying the unpublished Memorandum Opinion rendered in *T. & B. C. Coal Mining, Inc.*, U. S. Bankruptcy Court, Eastern District of Kentucky, Pikeville Division, Case No. 90-70414.

R. Congress, Wexford, and Renco have consented to the Sale of the Residual Assets, subject to the Closing of the Settlement Agreement and the APA, and have agreed to waive their respective Liens on (1) the proceeds of sale of the Residual Assets to permit the Trustee to contribute such proceeds to the General Reclamation Fund, as more particularly set forth in the Settlement Agreement; (2) the proceeds of assets remaining in the Estates; and (3) the cash bonds being contributed to the General Reclamation Fund.

S. Given the magnitude of the Claims of Congress, Renco, and Wexford (and the Priming Wage Liens, if any) the Junior Liens, if any, have no economic value, are not entitled to any form of adequate protection, and are determined to be unsecured claims pursuant to 11 U.S.C. § 506.

T. The proceeds of the Sale of the Residual Assets, the cash bonds, and other asset proceeds remaining in the Estates, shall be free and clear of all Liens and Claims, with all such Liens and Claims, and any and all other interests released, terminated and discharged as to such Residual Assets proceeds, cash bonds, and other asset proceeds, upon payment of such proceeds as provided in the Settlement Agreement.

U. Renco is a good faith purchaser under section 363(m) of the Bankruptcy Code and is entitled to the protections thereunder.

V. Based upon the record, it appears that neither the Trustee, Renco nor any of the other parties to the Settlement Agreement or the APA have engaged in any conduct that would cause or permit the Settlement Agreement or the APA or any transfer, assignment or conveyance thereunder to be avoided under section 363(n) of the Bankruptcy Code.

W. Renco is not a successor in interest to the Debtors and shall not have any successor or transferee liability for liabilities of the Debtors (whether under federal or state law or otherwise) as a result of the purchase and sale of the Residual Assets, except to the extent set forth in the Settlement Agreement and the APA. By entering into the Settlement Agreement and the APA, Renco has not assumed or otherwise become obligated for any of the Debtors' liabilities, except as otherwise set forth therein.

X. The Residual Assets constitute property of the Estates within the meaning of section 541(a) of the Bankruptcy Code. The Trustee may sell and transfer the Residual Assets to Renco free and clear of any and all interests in or Liens, Claims or encumbrances because all creditors claiming an interest in the Residual Assets (i) have consented to the Sale or are deemed to have consented to the Sale by failing to object to the relief granted herein; (ii) could be compelled in a legal or equitable proceeding to accept a monetary satisfaction of such interests, Liens, Claims or encumbrances; or (iii) otherwise fall within the provisions of section 363(f) of the Bankruptcy Code.

Y. All findings of the Court read into the record at the Hearing are hereby incorporated in full by reference.

NOW THEREFORE, IT IS HEREBY ADJUDGED, DECREED AND ORDERED that:

1. The findings of fact set forth above and the conclusions of law stated herein and on the record at the Hearing shall constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any finding of fact later shall be determined to be a conclusion of law, it shall be so deemed, and to the extent any conclusion of law later shall be determined to be a finding of fact, it shall be so deemed.

2. The Motion is hereby granted.

3. The compromise and settlement of claims as set forth in the Settlement Agreement is hereby approved pursuant to Bankruptcy Rule 9019.

4. The sale of Residual Assets to Renco pursuant to the APA is hereby approved pursuant to section 363 of the Bankruptcy Code.

5. All parties in interest have had the opportunity to object to the relief granted by this Order. To the extent that any of the Objections have not been withdrawn or resolved by this Order or by separate Order of the Court, all such Objections are hereby overruled.

6. If the First Amendment is not executed by the Parties prior to July 30, 2004, this Order shall be of no force and effect with respect to any of the Parties or any other party in interest in the Debtors' chapter 7 cases.

7. Pursuant to Bankruptcy Rule 9019, the Trustee is authorized and directed to (i) execute, negotiate, deliver, implement and fully perform any and all obligations, instruments, documents and papers and to take any and all actions reasonably necessary or appropriate to consummate the Settlement Agreement and the APA and perform any and all obligations contemplated therein and (ii) otherwise consummate all of the transactions contemplated hereby and thereby.

8. The execution of the Settlement Agreement (including the First Amendment), the APA and any related documents, or the taking of any action shall be, and hereby is, deemed conclusive evidence of the authority of such the Trustee to so act. Without limiting the generality of the foregoing, this Order shall constitute all approvals and consents, if any, required as to the Trustee by all applicable business corporation, limited liability company, trust or other laws of the applicable governmental units, with respect to the implementation and consummation of the Settlement Agreement, the APA, this Order, and the transactions contemplated hereby and thereby.

9. All entities in possession of any of the Residual Assets at the Closing are hereby directed to surrender possession of such Residual Assets to Renco at such Closing.

10. The transfers of the Residual Assets by the Trustee to Renco (i) are or will be legal, valid and effective transfers of the Residual Assets; and (ii) pursuant to section 363(f) of the Bankruptcy Code, upon the Closing, vest or will vest Renco with all right, title and interest (including common law rights) of the Debtors in and to the Residual Assets free and clear of all Liens, Claims, encumbrances and any and all other interests of any kind or nature, with all such Liens, Claims, encumbrances and any and all other interests released, terminated and discharged as to the Residual Assets, except the Senior R/E Tax Liens.

11. Except as may be expressly permitted by the Settlement Agreement and APA, all Persons holding any Liens, Claims, encumbrances or interest of any kind and nature with respect to the Residual Assets shall not have the right to assert such Liens, Claims, encumbrances or interest against Renco, its affiliates or designees, officers, directors, employees, agents, successors or assigns or their respective properties, including, without limitation, the Residual Assets.

12. After the Closing, upon presentation of a copy of this Order, all filing and recording officers are hereby authorized and directed to remove or expunge of record any and all Liens, Claims, encumbrances or other interests that were of record immediately prior to the Closing with respect to any of the Residual Assets, except the Senior R/E Tax Liens. The Debtors' creditors and the Settling Parties are directed to execute such documents and take all other actions as may be necessary to release their Liens, Claims, encumbrances or other interests on or against the Residual Assets, except as otherwise provided in the Settlement Agreement. If any Person that has filed financing statements or other documents or agreements evidencing Liens on the Residual Assets shall not have delivered to Renco on or before five (5) days after the Closing, in proper form for filing and executed by the proper parties, termination statements, instruments of satisfaction, releases of all Liens or other interests which the Person has with respect to the Residual Assets, then after ten (10) days prior written notice to such Person, the Trustee and/or Renco are authorized to execute and file all such statements, instruments, releases and other documents on behalf of such Person with respect to the Residual Assets.

13. Renco is hereby determined to be a good faith purchaser under section 363(m) of the Bankruptcy Code, and is entitled to the protections afforded to a good faith purchaser thereunder.

14. The assumption of Designated Wage Claims by Congress in accordance with paragraph 17 of the Settlement Agreement shall be adequate protection for the holders of the Priming Wage Liens.

15. The six-month period pursuant to KRS 376.150 et seq. with regard to Priming Wage Liens is the period only from December 11, 2002 through July 13, 2003.

21. The release of Renco as provided in the Settlement Agreement shall in no way release, or be construed as releasing, Renco from any and all obligations it assumed when it assumed the Pyro Pension Plan.

22. The failure specifically to include any particular provisions of the Settlement Agreement, the APA, or any related agreement in this Order shall not diminish or impair the effectiveness or such provisions or the ability of the parties to fulfill their obligations thereunder, it being the intent of the Bankruptcy Court that the Settlement Agreement, the APA, and all transactions contemplated thereby be authorized and approved in their entirety.

23. All provisions of this Order are non-severable and mutually dependent.

24. The Settlement Agreement and any related agreements, including the APA, may be modified, amended or supplemented by agreement of the Parties thereto without further action of the Bankruptcy Court; provided that any such modification, amendment or supplement is not material and substantially conforms to and effectuates the Settlement Agreement.

25. The Court shall retain jurisdiction over all matters arising from or related to the Residual Assets, the Motion, the Settlement Agreement, the APA, the implementation thereof and this Order and to resolve any disputes arising under or related to the foregoing.

26. All conclusions of law made by the Court at the hearing and read into the record of the Hearing are hereby incorporated in full by reference.

Tendered by:

WISE DELCOTTO PLLC

/s/ Laura Day DelCotto, Esq.
219 North Upper Street
Lexington, KY 40507
Tel. No. (859) 231-5800
Fax No. (859) 281-1179
Email: ldelcotto@wwwatty.com
COUNSEL FOR TRUSTEE

Pursuant to Local Rule 9022-1(c) Laura Day DelCotto shall cause a copy of this Order to be served upon DeAnn Owen, Esq., Rocky Mountain Region, 755 Parfet St., Ste 151, Lakewood CO 80215 and upon each of the parties designated in Electronic Master Service No. 2 to receive this Order and Service List attached 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.

Z:\DEL COTTO\Clients\Lodestar Trustee\Pleadings\2004 June 18 Prop Order Appr SA.DOC

FIRST AMENDMENT TO TERM SHEET AND SETTLEMENT AGREEMENT

This FIRST AMENDMENT TO TERM SHEET AND SETTLEMENT AGREEMENT dated as of August __, 2004 is made by and among each of the undersigned parties (collectively, the "Parties") to that certain TERM SHEET AND SETTLEMENT AGREEMENT dated June 10, 2004 (the "Settlement Agreement") by and among each of the Parties.

PRELIMINARY STATEMENT

To more completely reflect their intent and fulfill the purposes of the Settlement Agreement, the Parties have agreed to amend the Settlement Agreement on the terms and conditions set forth herein.

Section 1. Definitions. Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Settlement Agreement.

Section 2. Amendments to Settlement Agreement. Subject to the satisfaction of the condition precedent set forth in Section 3 hereof, the Settlement Agreement is hereby amended as follows:

(a) Paragraph 16(a)(iii) of the Settlement Agreement is amended to read, in its entirety, as follows:

Renco. At Closing, the Rennert Parties and all of their affiliates, and all of their respective shareholders, officers, directors, agents, advisors, consultants, successors and assigns (collectively, the "Renco Releasees") shall be released by Congress, the Wexford Parties, Frontier (and their respective affiliates, officers, directors, agents, successors and assigns), Trustee, Estates, Wage Claimants, and the Governmental Units from any and all claims which any of the foregoing releasors has or may have based upon any actions taken or not taken by any of the Renco Releasees through the Closing with respect to the Debtors, as debtors or debtors in possession, the Debtors' operations, business, assets or affairs or arising in connection with the Cases or administration thereof, including, without limitation, claims based upon any avoidance actions arising under the Bankruptcy Code, claims arising under § 506(c) of the Bankruptcy Code or under the December 11 Instruction, any claims for fraudulent transfer, preferences, breach of contract, breach of duty and all claims under any reclamation statute including releases for individual and corporate civil penalties; criminal penalties (but only to the extent each Governmental Unit has the power to release such claim¹); AML fees; AVS ownership and control liability; individual liability for reclamation; debarment; and disposition (consistent with the releases contained in this Term Sheet And Settlement Agreement) of all administrative cases relating to Debtors' coal mine ownership or mining and reclamation activities, including bond forfeiture actions, which are currently pending before the States and the US Parties and other enforcement actions which may be pending at Closing; provided, however, that such release from the Governmental Units as to a particular Schedule A Property shall be conditioned upon and subject to the

transfer of such Schedule A Property. In the event that any Schedule A Property is transferred or the bonds are otherwise fully released, the Parties shall dismiss with prejudice the administrative and enforcement actions each has initiated that are currently pending before the States and the US Parties and other enforcement actions which may be pending relating to the Debtors' coal mine ownership or mining and reclamation activities on such Schedule A Properties. Notwithstanding the foregoing release, Renco shall remain liable with respect to their obligations as to Eastern Resources, Inc. to the extent set forth in paragraph 12(a). The Renco Releasees shall include, but are not limited to, the Persons (as such term is defined in section 101(41) of the Bankruptcy Code) listed on Exhibit 6 hereto;

¹ See footnote 6.

(b) Paragraph 16(a)(iv) of the Settlement Agreement is amended to read, in its entirety, as follows:

At Closing, the **Wexford Parties** and all of their affiliates, and all of their respective shareholders, agents, directors, officers, advisors, consultants, successors and assigns, including but not limited to, CAM Holdings, LLC and its affiliates (collectively, the "Wexford Releasees") shall be released by Congress, the Rennert Parties, Frontier (and their respective affiliates, officers, directors, agents, successors and assigns), Trustee, Estates, Wage Claimants and the Governmental Units from any and all claims which any of the foregoing releasors has or may have based upon any actions taken or not taken by any of the Wexford Releasees through the Closing with respect to the Debtors, as debtors or debtors in possession, the Debtors' operations, business, assets or affairs or arising in connection with the Cases or administration thereof, including, without limitation, claims under the intercreditor agreement between Wexford and Congress, claims for lender liability, claims arising under §506(c) of the Bankruptcy Code or under the December 11 Instruction, any claims for fraudulent transfer, preferences, breach of contract, breach of duty and all claims under any reclamation statute including releases for individual and corporate civil penalties; criminal penalties (but only to the extent each Governmental Unit has the power to release such claim¹); AML fees; AVS ownership and control liability; individual liability for reclamation; debarment; and disposition (consistent with the releases contained in this Term Sheet And Settlement Agreement) of all administrative cases relating to Debtors' coal mine ownership or mining and reclamation activities, including bond forfeiture actions, which are currently pending before the States and US Parties and other enforcement actions which may be pending at Closing; provided, however, that such release from the Governmental Units as to a particular Schedule A Property shall be conditioned upon and subject to the transfer of such Schedule A Property. Notwithstanding the foregoing release, the

¹ See footnote 6.

Wexford Parties shall remain liable with respect to their obligations as to Miller Creek to the extent set forth in paragraph 12(d). In the event that any Schedule A Property is transferred or the bonds are otherwise fully released, the Parties shall dismiss with prejudice the administrative and enforcement actions each has initiated that are currently pending before the States and the US Parties and other enforcement actions which may be pending relating to the Debtors' coal mine ownership or mining and reclamation activities on such Schedule A Properties;

(c) Paragraph 17(d) of the Settlement Agreement is amended to read in its entirety:

(a) Upon Closing of the sale of the Residual Assets to Renco (or the Renco Designee, if any) as provided herein and distribution of the General Reclamation Fund to, or for the benefit of, the States as provided in paragraph 8, the assets of the Estates shall consist only of:

- (i) Vehicle Proceeds;
- (ii) Preference Claims;
- (iii) The Preference Claim Guarantee (as defined in subparagraph 18(a));
- (iv) Real Estate (subject to the exercise of the Renco Option);
- (v) Right to receive payments from Renco (or the Renco Designee, if any) based upon Net Proceeds of Residual Assets;
- (vi) Indemnification Rights; and
- (vii) The sum of \$375,000 presently held by the Trustee which is subject to liens, which liens shall be released to allow such funds to be used for administrative expenses.

(d) Paragraph 17(e) of the Settlement Agreement is amended to read in its entirety:

The Trustee's commissions, fees and expenses as chapter 7 trustee and chapter 11 trustee (the "Trustee Compensation") shall be and remain subject to allowance by the Bankruptcy Court under §330 of the Bankruptcy Code. All Parties waive their rights to challenge, oppose and object to the Trustee Compensation.

(e) Paragraph 18(f) of the Settlement Agreement is amended to read in its entirety:

Except as provided in subparagraph 18(g), all decisions regarding the prosecution, settlement and collection of Preference Claims (other than the Designated Preference Claim) shall be controlled by the Preference Guarantors in direct proportion to their respective shares of liability on account of the Preference Claim Guarantee until the Preference Claim

Minimum is attained, and thereafter by the Trustee. The Trustee shall not take any action with respect to the Designated Preference Claim without the consent of Frontier, which consent shall not be unreasonably withheld.

- (f) Paragraph 18(h) of the Settlement Agreement is amended to read in its entirety:

This Settlement Agreement is without prejudice to the rights of the Parties to seek approval of a later agreement with respect to the Designated Preference Claim.

- (g) Paragraph 19(i) of the Settlement Agreement is amended to read in its entirety:

Except as otherwise provided, herein, this Settlement Agreement shall be binding upon and inure to the benefit of the Parties hereto and their heirs, executors, administrators, successors, and assigns. Except as to any assignment of the Renco Option and Renco's other rights to acquire the Residual Assets, no Party may assign, delegate or otherwise transfer any of its rights or obligations under this Settlement Agreement without the consent of each other Party hereto, and any such assignment, delegation or other transfer in contravention of this Settlement Agreement shall be null and void.

- (h) Paragraph 19(m) shall be added to the Settlement Agreement and shall read in its entirety:

Notwithstanding any provision to the contrary herein, West Virginia shall have the option to retain the \$10,000 Cash Bond previously posted by Lodestar pursuant to the West Virginia Surface Coal Mining and Reclamation Act (Permit No. 0-172-83). If West Virginia retains such Cash Bond (i) West Virginia will not be required to deliver such Cash Bond to the Reclamation Fund in accordance with paragraph 7(b)(vi) and (ii) the WVA Settlement Payment shall be reduced by \$10,000.

- (i) The Settlement Agreement is amended by adding Exhibit 6, in the form attached hereto.

Section 3. Conditions to Effectiveness. This Amendment shall be effective at such time as each of the Parties shall have executed and delivered a counterpart of this Amendment to Wyatt, Tarrant & Combs, LLP. Promptly upon receipt of all executed counterparts of this Amendment, Renco shall, or shall cause Wyatt, Tarrant & Combs, LLP to, notify all Parties that the Amendment has become effective. The effectiveness of the Settlement Agreement (as amended and modified by this Amendment) shall remain subject to the fulfillment or waiver of the conditions as set forth therein.

Section 4. Effect on the Settlement Agreement. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, constitute a waiver or amendment of any provision of the Settlement Agreement or any other related document.

Section 5. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

Section 6. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Kentucky.

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers and/or representatives, have entered into and executed this Amendment effective as of the date and year first above written.

[Signature pages to follow]

LODESTAR ENERGY INC.

By: _____

William D. Bishop, Trustee

LODESTAR HOLDINGS, INC.

By: _____

William D. Bishop, Trustee

INDUSTRIAL FUELS MINERALS CO.

By: _____

William D. Bishop, Trustee

THE RENCO GROUP INC.

By: _____

An Authorized Officer

IRACOAL, INC.

By: _____

An Authorized Officer

IRA LEON RENNERT

By: _____

Ira Leon Rennert

WILLIAM D. BISHOP

By: _____

William D. Bishop, Trustee

FRONTIER INSURANCE COMPANY IN REHABILITATION

By: _____

Neal Conolly, Administrator of Frontier Insurance Company in Rehabilitation

CONGRESS FINANCIAL CORPORATION

By: _____

An Authorized Officer

WEXFORD CAPITAL LLC

By: _____

An Authorized Officer

DEPARTMENT FOR NATURAL RESOURCES
ENVIRONMENTAL AND PUBLIC PROTECTION CABINET

By: _____

Susan C. Bush, Commissioner

KENTUCKY ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

By: _____

LaJuana S. Wilcher, Secretary, by Mark H. York, Deputy
Secretary

KENTUCKY ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

By: _____

C. Michael Haines,
Deputy General Counsel

Office of Legal Services

WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION

By: _____

Division of Land Restoration

UTAH DIVISION OF OIL, GAS & MINING

By: Lowell P. Braugh

~~Lowell P. Braugh~~
Mary Ann Wright, Associate Director

approved as to form by

By: Steven F. Alder

Steven F. Alder
Assistant Utah Attorney General

U.S. OFFICE OF SURFACE MINING

By: _____

Jeffrey Jarrett, Director, by William Kovacic, Lexington Field Office Director

Exhibit 6

The Renco Group, Inc.
Iracoal, Inc.
Cadwalader, Wickersham & Taft LLP
Credit Suisse First Boston LLC, as successor to
Donaldson, Lufkin & Jenrette Securities Corporation
Houlihan Lokey Howard & Zuckin
KPMG International and its members
Rencoal, Inc. n/k/a Lodestar Holdings, Inc.
Marilyn W. Adamson
John A. Binko
Dennis W. Bryant
James N. Chapman
Justin W. D'Atri
R. Eberley Davis
Pam Dillender
Michael E. Donohue
Roger L. Fay
Troy L. Francisco
R. Blake Hall
Eugene C. Holdaway
John W. Hughes
Marvin M. Koenig
William M. Potter
Ira Leon Rennert
Michael C. Ryan
Dennis A. Sadlowski
John A. Siegel, Jr.
Gary Stoltz
David M. Suchniak
Arthur R. Thomas

30334644.4