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OCT 30 1985

October 25, 1985

DIVISION OF OIL
GAS & MINING

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

RE: October 8, 1985 Meeting at Utah Division of Oil, Gas and Mining Offices

Dear Lowell:

I want to take this opportunity to thank you and the other Utah Division of Oil Gas and Mining ("DOGM") personnel who took the time to meet with us on October 8, 1985 in your offices. Kaiser Coal Corporation ("Kaiser Coal") is very pleased with the outcome of the meeting and looks forward to a continued good working relationship with the Utah DOGM.

Kaiser Coal requested a meeting with Utah DOGM personnel to discuss the permitting situation in the B and C Canyon areas adjacent to the Sunnyside Mine Permit area. Utah DOGM personnel agreed to meet with Kaiser Coal personnel on October 8, 1985. Participants in that meeting were:

<u>Names</u>	<u>Organization</u>
Diane Nielson	DOGM, Director
Kenneth May	DOGM, Associate Director
Lowell Braxton	DOGM, Administrator
John Whitehead	DOGM, Permit Supervisor
Ron Daniels	DOGM, (part-time) Coordinator of Minerals Research
Clyde Borrell	Kaiser Coal, Vice President - Engineering
Jeff Desautels	Kaiser Coal, Director of External Affairs
Martin Holmes	Kaiser Coal, Manager of Permits and Regulatory Compliance
Alan Czarnowsky	ACZ Inc.
Conrad Parrish	ACZ Inc.

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Kaiser Coal requested this meeting to emphasize the importance of the B and C Canyon permit areas to the continued operation of the Sunnyside Mine; and to discuss with Utah DOGM personnel mechanisms for ensuring continued operation of the Sunnyside Mine in the short-term. Specifically, Kaiser Coal discussed the immediate and urgent need for mining in the B Canyon area as a logical extension of the Sunnyside operations. We emphasized the importance of initiating mining in this area by February of 1986 to maintain Sunnyside production. We also emphasized the fact that continued production from the Sunnyside operation means continued employment for miners in the Price, Utah area, which is especially important given the current poor coal market. Finally, we wanted to discuss with Utah DOGM personnel a mechanism that was logical and technically feasible which would allow us, under the regulations, to begin some mining in the B Canyon area to ensure long-term production from the Sunnyside Mine.

The most important aspect of this meeting was to discuss the possible options and/or concepts which would allow coal production at the Sunnyside Mine to continue uninterrupted with the logical extension of mining operations into the B Canyon area in the very near future.

This meeting was prompted by the importance of the B Canyon area to the Sunnyside operation, and the recognition by Kaiser Coal personnel that the current time frames for approval of the B Canyon permit application through the Utah DOGM and the Office of Surface Mining (OSM) in Denver, Colorado would probably not allow mining in the B Canyon area in the time frame required to maintain Sunnyside Mine production.

On September 6, 1985 a meeting was held between Kaiser Coal personnel and OSM personnel in Denver, Colorado. It was at this meeting that Kaiser Coal personnel first became aware that the current OSM permit approval time frames would not allow for approval of the entire B Canyon application by early 1986 and logical continued operation of the Sunnyside Mine.

In order to convey to Utah DOGM personnel the Kaiser Coal position regarding the B and C permit areas, Kaiser Coal felt it essential for the October 8, 1985 meeting to present the following general items to Utah DOGM.

- Personnel
- History and Background
- Options and Reasons to Select Option 3
- Commitments of Kaiser Coal to Utah DOGM

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PERSONNEL

The Kaiser Coal personnel who will be actively involved in the development of the B and C Canyon mining and permit applications are the personnel who attended the meeting. In addition to the Kaiser Coal personnel, Kaiser Coal has retained ACZ Inc. of Steamboat Springs, Colorado to assist in the preparation of the permit applications and other documents. Alan Czarnowsky and Conrad Parrish of ACZ Inc. were introduced to Utah DOGM. The ACZ Inc. personnel will be working closely with the Kaiser Coal personnel in Colorado Springs, Colorado and at Sunnyside, Utah. ACZ Inc. will also be working closely with Utah DOGM personnel during the preparation of the permit documents.

HISTORY AND BACKGROUND

Kaiser Coal presented to Utah DOGM a brief history of the Sunnyside Mine operation in order to put the urgency of the B and C Canyon permit areas in perspective.

For years, the Sunnyside Mine was operated by the Kaiser Steel Corporation as a captive mine producing metallurgical grade coal for the Kaiser steel mill in Fontana, California. Mine production was tied to the requirements of the steel mill. During the recent recession, the steel mill was idled which subsequently resulted in the slow-down of the operations at the Sunnyside Mine.

Perma Resources, Inc. acquired the Sunnyside Mine during a 1984 purchase of the Kaiser Steel Corporation. The acquisition of the Kaiser Steel Corporation was completed by Perma Resources, Inc. in 1985. Immediately following the acquisition of the Sunnyside Mine and other Kaiser Steel coal properties, Perma Resources Inc., embarked on an aggressive marketing campaign. Over the course of the last 18 months, Perma Resources Inc., has been able to market substantial amounts of coal from the various Kaiser Steel properties in a coal market which is generally in a slump. The ability to market coal in a period of economic downturn in the mining business is a result of the aggressive philosophy of the Perma Resources, management.

In conjunction with the aggressive marketing philosophy, Perma Resources Inc., has submitted to the Utah DOGM an application for a permit on the B Canyon area. It was essential that Kaiser Coal be allowed to mine in the B Canyon area starting early in 1986 in order to prevent a layoff of personnel at the Sunnyside Mine and a loss of a market opportunity for the Sunnyside coal. Kaiser Coal is very concerned that if the production is not allowed to

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be maintained at the Sunnyside operations that a permanent loss in coal production to the State of Utah could result as the coal buyers would acquire coal from other sources and terminate the long-term contracts with the Sunnyside Mine.

As part of the new management philosophy brought by Perma Resources, Inc. to Kaiser Coal, Kaiser Coal has embarked on an aggressive plan to revitalize the Sunnyside property. The Sunnyside Mine has such a long history of production and is such a wide spread and diverse operation, both underground and on the surface, that it is taking Kaiser Coal personnel some time to absorb all the aspects of the operation. Kaiser Coal is dedicated to the revitalization of the Sunnyside Mine which will take place on an on-going basis starting now and continuing over the next few years in order to meet the obligation of the coal sales contracts that Kaiser Coal has negotiated. Revitalization of the Sunnyside property will proceed faster in the near future as Perma Resources, Inc. personnel peak out on the learning curve with respect to the Sunnyside operation.

Efforts by Kaiser coal personnel to obtain a mining permit in the B Canyon area date back to January of 1985 when a meeting was held between Kaiser Coal personnel and Utah DOGM personnel. During that January meeting, Kaiser Coal personnel informed Utah DOGM personnel that the Sunnyside coal sales contracts dictated a need to be mining in the B Canyon area by early 1986 to start development. At this time, Utah DOGM personnel rejected the idea of attaching the B and C Canyon permit application to the Sunnyside permit. The Utah DOGM personnel requested that the B and C Canyon permit applications be submitted as separate, stand-alone permit applications. Also at this meeting, Utah DOGM personnel made a commitment to assist in working with Kaiser Coal to approve the B Canyon permit by the fall of 1985 if at all possible.

During April of 1985 Charlie McGlothlin, General Manager of the Sunnyside operation, telephoned Diane Nielson of Utah DOGM and discussed the hiring of miners for development work at the Sunnyside Mine. During that conversation, Mr. McGlothlin informed Ms. Nielson that miners were being called back to work at the Sunnyside operation from jobs in other States. These miners would be employed at the Sunnyside operation as long as there was adequate room for development at the Sunnyside Mine. Mr. McGlothlin expressed his concern that these miners not be called back to work from paying jobs in other states to work at the Sunnyside operation if new development areas were not going to be opened up in the near future to assure continued employment for these people.

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In August of 1985, another meeting was held between Utah DOGM personnel and Sunnyside Mine personnel. During this meeting, the Kaiser Coal personnel expressed their concern about the need to keep the Sunnyside work force employed and to meet the commitments of coal production that Kaiser Coal had contracted for. The concern was expressed that if short-term production goals could not be met, that the coal sales contracts could be voided by the customer resulting in a net long-term loss of jobs to the Utah coal mining industry. The urgency of keeping the B Canyon permit approval on schedule was emphasized. During this meeting, Utah DOGM personnel reassured Kaiser Coal personnel that they would work with them to assure early approval of the B Canyon permit. However, doubt was expressed about the ability of OSM to meet the reasonable schedule for Kaiser Coal.

During September of 1985, another telephone conversation was held between Charlie McGlothlin and Diane Nielson. Again, during this conversation, Mr. McGlothlin expressed his concern about continued employment for miners who had been called back to the Sunnyside operation.

In late August of 1985, the Utah DOGM completed the initial completeness review of the Kaiser Coal B Canyon permit application. The large number of questions and the magnitude of the questions in the completeness review was a matter of great concern to Kaiser Coal. In reviewing the completeness questions, Kaiser Coal became very concerned about the ability to meet the early 1986 approval of the B Canyon permit application, especially with respect to OSM and their timing.

These concerns about the ability to enter the B Canyon area for development led Kaiser Coal to re-examine the approach to the B Canyon permit application, and has led Kaiser Coal to initiate a number of changes. The first change initiated was an increased involvement by Colorado Springs personnel in the B Canyon permit application. Primary responsibility for the acquisition of the B Canyon permit has been shifted from Sunnyside Mine personnel to corporate personnel in Colorado Springs, Colorado.

ACZ Inc. of Steamboat Springs, Colorado was retained as a consultant to assist in obtaining the B Canyon permit application. It was felt that a consultant should be retained in this instance to allow more full-time, experience people to be applied to the project.

A commitment from the top levels of management from Kaiser Coal was obtained. The commitment comes from Mr. Charles McNeil, President of Kaiser Coal. Kaiser Coal is committed to doing what

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is necessary and what is right to get into the B Canyon area as quickly as possible to assure continued production for the Sunnyside operation.

Kaiser Coal retained Mr. Dan Guy, a private consultant, to meet briefly with Utah DOGM personnel to gain a fresh insight into the status of relations between Kaiser Coal personnel and Utah DOGM personnel and the status of the various permit applications pending with Utah DOGM.

Finally, the re-examination of the B Canyon permit application led to a questioning of the options available to Kaiser Coal with respect to B Canyon. This meeting is a result of the options that Kaiser Coal feels is available. Kaiser Coal hopes that as a result of this meeting, a solution acceptable to both Utah DOGM and Kaiser Coal can be worked out with regard to access to the B Canyon permit area.

A quick recap was made of the Sunnyside operating conditions that have led to the need for immediate access to the B Canyon area. Present coal sales contracts by Kaiser Coal have resulted in a large increase in employment at the Sunnyside Mine in the last few years. Kaiser Coal wishes to maintain their momentum in coal sales and employment at the Sunnyside operation. Presently, there are physical constraints around the Sunnyside operation that are making continued mining in the current mining areas a questionable proposition. Many of the problems faced by the current Sunnyside operation are a result of the geometry of the coal deposits.

The Sunnyside operation is a very old operation and has proceeded far past the outcrop in mining activities. The deeper the operations go, the greater the cover becomes in the Sunnyside Mine. At present, the Sunnyside Mine is approaching 3,000 feet of cover. At these depths of cover, safety problems and operational problems become almost unendurable. Safety problems come in the form of rock bursts and increasing amount of gas that is found with increasing depth at the Sunnyside coal deposit. These safety problems, in turn, lead to operational problems with maintaining production from the mine.

Development time for a longwall panel is extensive involving a year or more for an average panel. This long lead time for development of a permit area so that longwall mining may begin there in the second quarter of 1987. The need for immediate entry into the B Canyon permit area leads back to the options facing Kaiser Coal with respect to B Canyon.

OPTIONS AND REASONS TO SELECT OPTION 3

Kaiser Coal has basically three (3) options with respect to the B Canyon permit area.

1. Cease to Work on B Canyon
2. Push Ahead With the Current B Canyon Permit Application
3. Obtain a Permit Revision to Allow Immediate Mining in the B Canyon area.

1. Cease to Work on B Canyon. To cease work at this time on the B Canyon permit application is not a viable option for Kaiser Coal. This option would result in the loss of long-term coal sales contracts which would hurt the company's overall marketing position and undoubtedly result in the long-term loss of coal production in the State of Utah.
2. Push Ahead With the Current B Canyon Permit Application. It would be possible for Kaiser Coal to push ahead with the current B Canyon permit application. The advantage of this would be that Kaiser Coal already has submitted an application for the B Canyon permit area and all that remains is to complete the permit through the regulatory review.

The disadvantage of this approach is that the current completeness review indicates that there is yet a lot of work to be done by Kaiser Coal on this permit application. It will take some time to pass the completeness and adequacy hurdles; the upcoming holiday season will undoubtedly result in personnel problems for reviewing this application, both at Utah DOGM, the OSM, and for Kaiser Coal personnel in making responses to the agencies.

The current OSM schedule may not allow timely approval of this application regardless of the amount of time required by Kaiser Coal to respond to the questions. Immediately following the completion of the B Canyon permit application, a C Canyon permit application will have to be filed. The filing of a C Canyon permit application will result in the same amount of work for Kaiser Coal personnel as well as Utah DOGM and OSM personnel. Based on Kaiser Coal internal discussions, we are very skeptical that option number 2 is to our benefit or Utah DOGM's benefit. We are also very unsure that OSM can meet the February, 1986 critical date for approval of this permit application.

3. Obtain a Permit Revision to Allow Immediate Mining in the B Canyon Area. Kaiser Coal's third option is really a two-phase program. The first phase of the program involves attaining a permit revision to allow Kaiser Coal enough land for development of a longwall panel. The development of one longwall panel will allow approximately 14 to 18 months of development mining in the B Canyon permit area. This would ensure continued operation of the longwall system at the Sunnyside operation. The second phase of this two-phase program would be to withdraw the current B Canyon permit application. A new permit application would then be prepared to encompass both the B and C Canyon areas. The combined B/C Canyon permit application would be a comprehensive document which would include the current Sunnyside surface facilities that will be affected by mining in the B and C Canyon areas. This combined B/C Canyon permit application would be submitted in June of 1986 for approval in the first quarter of 1987.

The advantages to the Utah DOGM in approving this approach to the B Canyon permit application are extensive. Some of the advantages to the Utah DOGM, as seen by Kaiser Coal, are as follows:

- Less Utah DOGM staff time spent dealing with Kaiser Coal in the next year to 18 months.
- Kaiser Coal would submit a more complete and comprehensive document of the B and C Canyon areas in Sunnyside surface facilities for review by the Utah DOGM.
- There would be no cross-reference between the B/C Canyon permit application and the Sunnyside permit.
- The comprehensive B/C Canyon document would present a compilation of over five (5) years of past information, correspondence, updates, etc. to the Sunnyside permit application.
- The B/C Canyon permit application will provide a more useful, enforceable tool for Utah DOGM.
- Utah DOGM would be able to better plan the 1986 staff time for review of the B and C Canyon permit application.
- Utah DOGM would have the ability to observe on-the-ground compliance at the Kaiser Sunnyside operation, given Kaiser's new commitment to environmental compliance.

- ° Utah DOGM would be able to observe first-hand the sincerity of Kaiser Coal's new approach to compliance and permitting.
- ° The combined document would allow Utah DOGM to review more complete and well-organized data with reference to:
 - Hydrology
 - Coarse refuse disposal
 - Fine refuse disposal
 - Preparation plant water balance
 - Mine plans
- ° Utah DOGM would spend less money reviewing Kaiser Coal applications in the next year.

Some of the advantages to Kaiser Coal in the adoption of this approach to the B and C Canyon areas are as follows:

- ° Operations of the Sunnyside Mine would be allowed to proceed in an efficient manner.
- ° Kaiser Coal would be able to ensure continued employment for the miners who have been called back from jobs in other states.
- ° The threat of a temporary cessation of operations of the Sunnyside operation would be eliminated.
- ° A cost savings would accrue to Kaiser Coal from having to pursue only one permit application rather than two.

This rather extensive list of advantages for all parties concerned leads Kaiser Coal to the conclusion that option number 3 is the most viable option which we can pursue at this time.

COMMITMENTS OF KAISER COAL TO UTAH DOGM

In order to promote to the greatest extent possible the adoption of option number 3 by Utah DOGM, Kaiser Coal is committed to the following items.

1. Kaiser Coal will work with the Utah DOGM to the greatest extent possible to find an appropriate mechanism within the regulations which would allow this course of action to be pursued.
2. The B/C Canyon permit application submitted by Kaiser Coal will be a comprehensive stand-alone document.

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There would be no cross-referencing between the B/C Canyon permit application and the Sunnyside permit application.

3. Kaiser Coal will hold frequent meetings with the Utah DOGM staff to discuss all components of the permit application. This should result in a permit document more acceptable to DOGM than any document which would be written without consultation with Utah DOGM staff.
4. Kaiser Coal will make no more short-term request for mining areas in the B and C Canyon permit area if the Utah DOGM staff will work with Kaiser Coal personnel to establish a schedule for completion of the B/C Canyon permit application and work to meet that schedule.
5. Kaiser Coal will meet with Utah DOGM staff and OSM staff personnel to agree on a workable timetable for the permit revision and the B and C Canyon permit application.
6. Kaiser Coal is committed to improve their record of on-the-ground compliance at the Sunnyside Mine operation.

It has been our impression that Utah DOGM personnel were very receptive to the Kaiser proposal. A commitment was made by Utah DOGM personnel to work diligently over the next few days to outline a mechanism by which the Kaiser Coal proposal could be adopted.

Kaiser Coal, lastly, informed Utah DOGM personnel that Kaiser Coal personnel as well as ACZ Inc. personnel were available as resource people should the Utah DOGM so desire in the next few days.

This letter conveys the understanding that the Kaiser Coal personnel have, of our meeting with Utah DOGM personnel. If you have any questions about this letter, please feel free to contact me at (303) 475-7005. Kaiser Coal welcomes any questions or comments regarding the contents of this confirmation letter. If we have misunderstood any aspects of the October 8, 1985 meeting, please let me know within two (2) weeks of the receipt of this letter. Otherwise, we will assume that both Kaiser Coal and Utah DOGM agree on the urgency and other aspects of the situation.

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Thank you again for your time. We look forward to a continued productive working relationship with Utah DOGM.

Sincerely,

KAISER COAL CORPORATION

A handwritten signature in cursive script that reads "Martin P. Holmes". The signature is written in dark ink and has a long, sweeping underline that extends to the right.

Martin P. Holmes
Manager Permits and
Regulatory Compliance

MPH/klk

cc: C. Borrell, Kaiser Coal
A. Czarnowsky, ACZ