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**KAISER  
COAL**

KAISER COAL CORPORATION  
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(505) 445-5531

December 14, 1988

Mr. Ken Ball  
Boulder Exploration Group, Inc.  
2033 - 11th Street  
Boulder, Colorado 80203

Dear Ken:

In a follow-up to our discussions on Wednesday, December 7, 1988 in Price, Utah, I would like to further explore with you my concerns regarding the \$1,200,000 stores inventory that is on the books at Sunnyside Mine as well as the use of Kaiser's authorized representative if you were to employ Bill Balaz to manage the Mine for Sunnyside Reclamation and Salvage, Inc. (SR&S).

First, although the book value of the stores inventory is \$1.2 million, the current value of the stores inventory, if Kaiser were to sell it would be about \$660,000 based on conversations with some of the suppliers. I feel certain that the compensation agreed to for the use of the equipment and facilities at the Mine did not comprehend the inventory. Therefore, I would like to recommend that consideration be given to increasing the compensation by \$12,000 per month if the Mellon longwall is not available to you and \$15,000 if it becomes available to you. These figures were determined as follows:

\$660,000	Market value of the inventory
<u>-300,000</u>	Your cost to maintain the Mine for 2 months
\$360,000	or \$15,000 per month for 24 months if Mellon longwall is available
<u>- 72,000</u>	Value of Longwall parts inventory
\$288,000	or \$12,000 per month for 24 months if the Mellon longwall is not available

As you can see I have reimbursed SR&S for the monies expended to maintain the Mine until the License Agreement is approved by all concerned. I feel that this is a fair and equitable approach to this issue.

Second, if you do hire Bill Balaz, you may not have the need for Kaiser to provide "services customarily rendered by a mining engineer and to assist Licensee in the compliance requirements" since you will have the expertise "in house". Kaiser will only have to oversee the operation to be sure its assets are being maintained properly, that

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proper payments are being made, and that SR&S is complying with all Federal, State and local regulations since Kaiser is still ultimately responsible and liable for compliance. This reimbursement could be reduced.

We should also explore further the liability insurance issue as to who obtains the insurance.

Also, the exhibits should be updated to be correct. I would also like a clause which would give Kaiser the rights to sell any equipment or other items that SR&S does not require to operate the Mine during this two year period. This would give Kaiser the opportunity to sell equipment at optimum prices to provide additional funds for final reclamation of the Mine, as well as to pay for other compliance responsibilities.

I would like to discuss these areas with you as soon as possible.

Sincerely,

KAISER COAL CORPORATION



L. Kuchnic, Jr.  
Agent - Kaiser Coal Corp.

LK:mcs  
cc: Hal Morris  
Denise Dragoo