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Oil



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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March 11, 1996

VIA FACSIMILE (801) 355-9167

Harold R. Marston
Rio Lobo

ACT/007/007 #2
Bankruptcy

Dear Harold,

I'm writing in response to our telephone conversation last Monday and to your letter of March 4, 1996.

To date, the Division of Oil, Gas and Mining has not objected to the offer of Penta Creeks now under consideration by the bankruptcy trustee. That offer essentially proposes to "substitute" letters of credit for a portion of the collateral now held by the Division to secure its claim. As we discussed, the Utah coal regulatory program allows for the substitution of collateral held to secure reclamation obligations.

At this point, the collateral offered by Penta Creeks for substitution, and the timing and method of the conversion of that collateral into cash, is acceptable to the Division. I understand that Rio Lobo may likewise propose to "substitute" collateral for a portion of that now held by the Division as part of a bid on the property now for sale by the Trustee. If the Trustee accepts Rio Lobo's offer, and if the collateral offered in substitution and the timing and method of conversion of the collateral into cash are acceptable to the Division, the Division will be able to approve the substitution.

With regard to timing, a 12 to 18 month payoff of a \$1,000,000 obligation is comparable to the Penta Creeks proposal. The exact nature of the collateral Rio Lobo might propose is not clear, but the form of collateral must fall within one of the categories approved by the coal regulatory program.

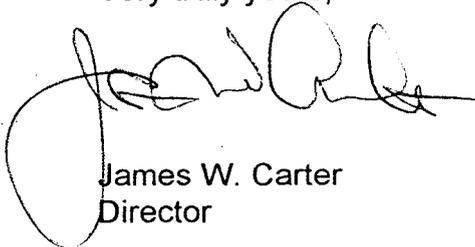
As we discussed, I can see no programmatic problems with an offer by Rio Lobo which would propose "substitution" of collateral. If Rio Lobo is the successful bidder, the Division would retain its right to object to the sale until it was satisfied that the



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Harold R. Marston
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collateral proposed and timing and method of payment to the Division were acceptable to the Division. I trust this is responsive to your inquiry.

Very truly yours,

A handwritten signature in black ink, appearing to read "James W. Carter". The signature is written in a cursive style with a large, prominent initial "J".

James W. Carter
Director

dr
H:MARSTON.LET

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| Post-it® Fax Note | | 7671 | Date | # of pages ▶ 2 |
| To | Harold Marston | | From | James Carter |
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