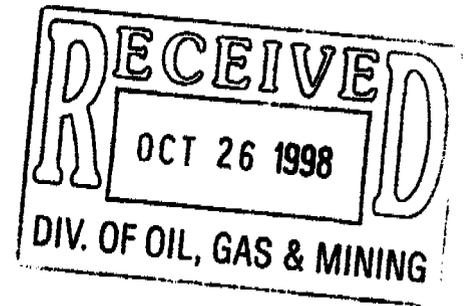




ANDALEX
RESOURCES, INC.
 Tower Division

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October 21, 1998

Mary Ann Wright
 Associate Director of Mining
 Department of Natural Resources
 Division of Oil, Gas and Mining
 1594 West North Temple, Suite 1210
 PO Box 145801
 Salt Lake City, Utah 84114-5801

RE: Wellington Coal Plant site, ACT 007/012:
 industrial post mining land use
 reclamation bond release
 permit boundary adjustment.

Mary Ann
 Dear Ms. ~~Wright~~,

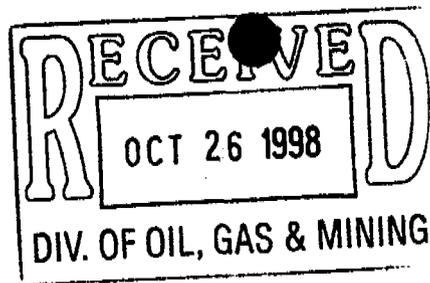
ACT/007/012 #2
Copy Mary Ann,
Daron: Anne;
Paul
(2-sided)

As you are aware ANDALEX Resources, Inc. is interested in acquiring a parcel of land at the old Wellington wash plant in Carbon County. This site is a viable location for a new unit train coal loading facility which will be constructed in association with our new WEST RIDGE coal mine project. This WEST RIDGE project and the new unit train loadout will be jointly owned by ANDALEX Resources and the Intermountain Power Agency (IPA). Recently we signed a 120 day option agreement with Nevada Electric Investment Company (NEICO) and Earthco to purchase a 200 acre area within the Wellington site. This 200 acre area is hereinafter referred to as the "property". The option agreement also includes the right to acquire gravel material from an additional 132 acre area within the site. Collectively, the combined 332 acre area is our "area of interest."

According to the terms of our option agreement, NEICO must do the following as a pre-requisite to our purchase of the property:

- a) Complete the required reclamation within the property to DOGM's satisfaction
- b) Release the SMCRA bonding liability from the property, and
- c) Remove the 332 acre area of interest out of the SMCRA permit area

We are working in close cooperation with NEICO on a plan to accomplish the above objectives. Also, we have had numerous meetings with DOGM officials and technical staff to



determine what steps must be taken to effect bond release and permit area removal. These steps include on-site reclamation items as well as administrative and MRP procedural items. Based on these discussions I would like to summarize these items to the best our understanding.

On-site reclamation items:

- a) **Drainage:** A berm will be constructed to provide a definite boundary for surface runoff, separating the property from the rest of the site. All runoff from the disturbed portion of the area of interest will report to the "dryer pond" located within the property. All other surface runoff from disturbed areas outside the property will bypass the property and will report to an existing pond located near the refuse pile.
- b) **Structure removal:** Remaining structures within the property will be removed, including wooden pole structures and metal structures. Concrete will be removed or buried within the disturbed areas. Structure removal will be done according to the discussions of the on-site meeting held recently with the DOGM's full review staff.
- c) **Grading:** The plant area would be graded to allow positive drainage to the existing sediment pond (dryer pond). Grading would also be done to enhance the overall appearance of the site and to provide for adequate concrete burial.
- d) **Trash removal:** Trash would be removed from the property.
- e) **Track hopper:** The track hopper will be cleaned up and left in place to be used as the primary water sump for the new loadout operation. As part of the option agreement with NEICO, 0.15 cfs of water (under Utah water right 91-254) would be acquired allowing future use of this sump for industrial purposes.
- f) **Topsoil:** Topsoil piles #1 and #2 are both located within the property. Topsoil from these piles would be relocated and combined with the main topsoil pile (#3) located immediately south of the refuse pile.
- g) **Coal material:** For reclamation purposes the coal material located at the old plant site would be graded to accommodate proper drainage and to present a more pleasing appearance. However, during construction of the new loadout facilities ANDALEX would commit to utilize much of this coal material as pad material for the new coal storage piles. For ANDALEX, this coal represents an asset, rather than a liability. When the new facility is constructed there will be two large coal storage pads required, each measuring approximately 5 acres. There will also be two emergency coal storage areas located within the interior of the truck loops, each involving nearly 6 acres. All of these areas will eventually require a coal pad working surface. Assuming an average depth of

6", nearly 18,000 yd³ of coal material may be needed to construct these pad surfaces. This amounts to approximately 12,000 tons. Economically, it is clearly to ANDALEX's benefit to utilize as much of the existing coal material as possible for the new pad surfacing rather than sacrifice salable, high quality coal from the mine for this purpose.

The existing coal material is located at the old plant area which is the lowest area of the property. It is ANDALEX's intent that this area would ultimately be utilized as the sediment pond for the entire 200 acre industrial site for the life of the new facility. During construction of the loadout facility a substantial earthen impoundment structure would be constructed around the west, north and east sides of the old plant area, effectively turning the area into a large shallow sediment pond. Nearly all of the remaining coal material in this area would then be contained harmlessly within the confines of the pond permanent impoundment.

Administrative items:

- a) **Hydrology:** The maps and text in the MRP will be amended to reflect the new drainage berm and the new disturbed area drainage boundaries.
- b) **Topsoil piles:** The maps and text in the MRP will be amended to show topsoil piles #1 and #2 as being relocated off the property to the main pile (#3) south of the refuse pile.
- c) **Topsoil borrow areas:** Under the present MRP topsoil located on top of several small knolls south of the property has been dedicated to reclamation of the refuse pile and the slurry pond. In order to remove this area from the permit it is necessary to find an alternate topsoil borrow source to replace the knolls. Recent soil tests have shown that an adequate quantity of suitable topsoil material exists on top of the ridge behind (south of) the knolls. The maps and text of the MRP will be amended to include this new ridge topsoil borrow area, and to exclude the knoll tops south of the property.
- d) **Designation of post mining land use:** In accordance with the Utah Coal Regulations, NEICO will apply for approval of an industrial post mining land use for the area of interest and will amend the MRP accordingly. As part of this industrial land use application ANDALEX is willing to provide the following documentation to the DOGM:
 - i. Correspondence with the Union Pacific Railroad and the Burlington Northern Santa Fe Railway informing them of our option to construct a loadout on the property and requesting approval of the industrial loop track which has been designed for the site.

- ii. Air quality permit applications filed with the Utah Department of Environmental Quality.
 - iii. Application for a Conditional Use Permit for a Large-Scale Industrial Project from the Carbon County Commission, in accordance with section 5-3 of the Carbon County development code.
 - iv. Option purchase agreement with NEICO/Earthco, outlining the industrial nature of ANDALEX's intent for the property, including transfer of industrial water from the track hopper sump.
 - v. Detailed engineering design for the facility prepared by Production Industries Inc. (PICOR). This detailed engineering is now being used as the basis for preparing the RFP's which will be used in selecting a contractor to construct the facility.
 - vi. In addition, ANDALEX is willing to provide to DOGM a commitment that during construction of the facilities, the old plant area will become the main sediment pond for the site, and the coal material presently existing at the site will become contained within the new pond, or will be used to construct the new coal pads for the new loadout. This commitment can be provided in whatever form is most acceptable to the division.
- e) Bond release: At the same time that NEICO applies for approval of an industrial post mining land use for the area of interest, it will also apply for phase III release of the reclamation bond for that area. It is possible that the Division may require that ANDALEX commit to exercise its purchase agreement with NEICO as a requirement for bond release. This may be acceptable to ANDALEX so long as there is a structural agreement in place which provides that, at the time of purchase commitment, the bond would then be release simultaneously, assuming all on-site reclamation requirements and MPR amendments had been completed to DOGM's satisfaction at the time. Since reasonable assurance of a bonafide industrial user and industrial use of the property is one of DOGM's requirements for bond release, and since bond release is one of the requirements for ANDALEX's purchase agreement, the two may be done simultaneously in some sort of legal escrow agreement.
- f) Permit boundary modification: Our option agreement with NEICO specifically requires that the area of interest be removed from the SMCRA permit prior to purchase. Based on previous discussions with DOGM, it is our understanding that once the reclamation requirements have been released from the area of interest, the MRP could then be amended to allow the area of interest to be removed from the permit, and that approval of

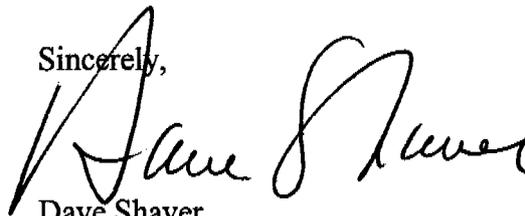
Mary Ann Wright
Division of Oil, Gas and Mining
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such boundary adjustment would be granted expeditiously.

We feel that the Wellington site is particularly well suited for an industrial facility such as we are proposing, and that this plan satisfies the reclamation mandates of the Utah coal program. We wish to express our gratitude to DOGM's administrators and staff for your good faith efforts regarding this matter.

If you have any questions or comments regarding this plan of action please call me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Shaver". The signature is written in a cursive style with a large initial "D".

Dave Shaver
Manager, Technical Services

cc: Dennis Schwehr, NEICO
Patrick Collins, Mt. Nebo Scientific