



Lodestar Energy, Inc.
Mountain Operations
White Oak Mines, Horizon Mine and Grand Valley Mines
HC 35 Box 370
Helper, Utah 84526

December 27, 1999

Ms. Sharon Falvey
State of Utah
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Box 145801
Salt Lake City, UT 84114-5801

Copy Sharon
for Bill to PFO
for Mary Ann
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DIVISION OF OIL, GAS & MINING
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Dear Ms. Falvey:

This letter is to keep you informed of our current status with the Stamatakis' on the water monitoring and drilling the water monitoring wells for the permit extension into the adjacent Federal Lease.

Our first meeting on October 1, 1999 was cordial and we discussed Steve's concerns about access to take water samples and other studies for the permit. We discussed and showed Steve the possible locations of water monitoring wells. The discussion then proceeded to his requiring an apology from both Vicky Miller – Earthfax and DOGM on the timbering problem that arose with the Corp. of Engineers and his belief that access was obtained under false pretenses. He led us to believe that once apologies were received that water-monitoring access would be granted. He was going to discuss the well drilling with his brother Pete and get back with me.

We then had our meeting to discuss the number of wells and their locations with DOGM on October 18th. We contacted the Stamatakis' to let them know that we would need to drill at least two water-monitoring wells on their property on October 21st. Steve said that he would be meeting with Vicky Miller – Earthfax and you on Monday the 25th and would let me know about the holes after that meeting. During this period we were working on the exploration permit and contacting drilling contractors to bid on the holes.

We contacted the Stamatakis' for access to take drilling representatives to the sites so they could provide bids for drilling the water monitoring wells. The Stamatakis' had no problem in providing access for that visit.

The exploration permit was ready for submittal and BLM requested a letter from the surface landowners granting access to the sites. The Stamatakis' were contacted and a meeting was set up in Price to get a letter of access signed to submit with the exploration permit application. The meeting on November 11, 1999 started poorly. Both Steve and Pete were present. They said that they would not sign a consent to allow us to access until they were paid considerations to allow that access and to agree to pay a fee for each water monitoring hole drilled along with a fee per truck load of water used in the drilling

process. They also requested that the road to the sites be upgraded and additional drainage structures be installed at our expense. Lodestar told them that fair considerations would be acceptable. However, the Stamatakis' did not offer what considerations would be necessary to obtain access. They said that they would check around to see what other land owners were being paid and get back to me.

The Stamatakis' were told at this meeting that we were upset with the timing of their request and stated that if these issues were brought forth at our first meeting we could have had all these issues resolved. Now we will be wasting valuable time that we should be drilling the wells and gathering data. I asked if there was any way we could get the access document for the BLM signed so the permit could proceed, even if I gave my word that the consideration documents would proceed. They refused flatly stating that they would sign both at the same time. Steve stated that when I got something prepared to review that I should fax the document to his lawyer / son-in-law George Harmond in Price.

The documents were prepared and reviewed by Lodestar's council and faxed to Steve's lawyer on November 17th. Having heard nothing, I left a message on Steve's telephone answering machine December 2, 1999 asking him to get back with me on the agreement. He returned my call the next day and said that he had not seen the agreement. He would go by his lawyer's office and pick up a copy and talk with his brother. He said that he would get back with me the next week.

Steve called Monday December 6, 1999 and said that he didn't have any real problems but his brother did on a few things. Pete may call me later that week to discuss them. Pete called Wednesday December 8, 1999 and we discussed his concerns with notification time frames and brief periods of no access in the event of vandalism. We worked out some wording and I sent it to Lodestar's council. I talked with Steve on Friday and he said that he was going to take the agreement to another lawyer in Price to review the agreement and he will call me back with the amount they want for consideration.

Steve called back on December 16, 1999 and said that the lawyer he showed the agreement said that he should not sign this agreement without changes being made. I asked Steve for a draft of the changes. He said that he did not have them, but his big concern was the consideration per water monitoring hole was to be paid upon the completion of each hole. He said that he would like the money up front. I discussed concerns that I had on unsuccessful holes and being charged for each attempt rather than for successful holes. We ended our conversation with his being upset and my trying to figure out how this issue could be resolved.

This negotiation does not look like it will be resolved before spring. We will continue to work on its resolution. My fear is that since we have lost two quarters of monitoring because of the landowners that our ability to get the entire federal lease permitted on the first attempt is severely hampered. For just that reason, I asked Earthfax to look at a permit boundary that encompasses the existing water monitoring wells. This permit boundary would allow at least two years of mining and time to get the two new water

monitoring wells installed in the spring and have two years of data to submit with a permit extension.

If you have any suggestions or alternatives to that approach that would allow the opening of the mine by mid to late 2000 and not have our hands tied by outside influences, please give me a call at (435) 637-9200.

Sincerely,

A handwritten signature in black ink that reads "David B. Miller". The signature is written in a cursive style with a large initial 'D' and 'M'.

David B. Miller
Business Manager

Cc: Vicky Miller – Earthfax
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File:\My Documents\DOGMHorizonWMH.doc