



Lodestar Energy, Inc.
Mountain Operations
White Oak, Horizon, and Grand Valley Mines
HC35 Box 370
Helper, Utah 84526

January 16, 2001

Ms. Pamela Grubaugh-Littig
 Utah Coal Program
 Utah Division of Oil, Gas and Mining
 1594 West North Temple, Suite 1210
 Salt Lake City, Utah 84114-5801

Dear Ms. Grubaugh-Littig:

This letter is an update on the replacement of the sureties for the White Oak Mines Permit No. C/007/001 and the Horizon Mine Permit No. C/007/020 by December 31, 2000.

We are requesting to extend the date to have the replacement bonds in place. It is difficult to give the exact date that the current financial situation at Lodestar will be rectified. Lodestar is negotiating the restructuring of our Senior Notes, as well as investigating investments from strategic investors. However, the Securities and Exchange Commission rules prohibit us from disclosing any more detail about the efforts to restructure the debt, at this time. As soon as we have more information that we can share, we will provide that to you.

To date, none of our lenders have taken any action to restrict Lodestar from operating in the normal course of business.

However, due to Lodestar's current financial situation, it does not have access to surety markets to satisfy its bonding requirements in the normal course of business, and therefore is required to meet its bonding requirements with cash. Current cash availability is not great enough to replace the Utah bonds with cash or Letters of Credit.

If you know of any alternatives that the State is willing to discuss during this period of waiting, please feel free to contact Eberley Davis – Lodestar (Lexington) (859)255-4006 or myself at (435)448-9454.

Sincerely,

David B. Miller
 Business Manager

Cc: Eberley Davis – Lodestar (Lexington)