

LOCATION AND ACREAGE

The subject area is located approximately seven miles due north of Rock Springs, Wyoming. The main mine entry and surface facilities are situated in the NW1/4 of Section 19, T20N, R104W.

The total tract involves about 3,840 acres in eight sections. Of this there are 2,560 acres of railroad fee land and 1,280 acres which are U.S.A. fee held under Federal Coal Lease No. W-12793 which will come up for renewal on June 1, 1990.

HISTORY

The old mine workings adjacent to the outcrops were operated by the Union Pacific Coal Company from 1942 to 1957 with an annual production of one million tons. It was this earlier production which was the last of Union Pacific's mines to close when the railroad converted from coal to diesel-powered locomotives.

The subject area was then reopened in 1976 under a joint-venture agreement with Ideal Basic Industries who acted as operator. However, between 1976 and early 1981 production and operating cost never achieved satisfactory levels because of gross mining errors by the operator. As a result the agreement was dissolved and the mine went on standby.

All the permitting is in place, as are the utilities, plus the mine is in excellent condition. Given these conditions it is anticipated the mine can be in production within about 90 days with mining operation in the 7 and 7.5 Seams. No extraction is planned from the No. 3 Seam which contributed to the mine's closure before it was ever really put into production.

INVENTORY

Acquisition of the project includes the following:

1. A unit-train loadout capable of handling about 120 cars with a loading time of two to three hours; the 7-mile long railroad spur.
2. A covered 13,000 ton capacity storage facility.
3. Complete conveyer systems from the mine to surface facilities.
4. Building complexes of change rooms, offices, warehouse, and utilities. Buildings heated by coal boilers.
5. All utilities in and immediately serviceable.
6. Operational fans and pumps, and assorted pieces of equipment.

In my estimation all of the above have a value in excess of \$20M.

In addition the railroad will transfer the Federal coal lease with a total tonnage for the entire tract of 114,000,000 in-place tons. This would amount to about 68,000,000 recoverable tons by conventional means and 97,000,000 with a long-wall system.

Using 50,000,000 recoverable tons and a conservative estimate of 20¢ per ton, these reserves would have a value of \$10,000,000, or when included with the surface facilities a total value of \$30,000,000. It is emphasized that these estimates are extremely conservative. If taken at replacement value for the surface and mining facilities, and the reserves assessed during a more favorable period, this total figure could easily be much greater.

(When mined the U. S. Government receives 17 1/2¢ per ton as a royalty from the federal lease. The railroad's 8% of the selling price for coal extracted from their fee lands has recently been negotiated at \$1 per ton for all coal handled through the facility until June 1, 1990, thereafter it will revert to the 8% of the selling price for all coal coming from the RR lands.)

All the equipment is practically new, fully operational except for a relocation of the belt lines, and is capable of handling up to 1.2m ton per year.

CAPITAL REQUIREMENTS

To reactivate this mine on a production schedule of about 25,000 tons per month, and operate it at this level until the markets can be expanded will require approximately \$2m. Mining costs are estimated to be \$12.50 per ton when the annual production is a million tons a year or better; the selling price is anticipated to be in the \$24 to \$25 range, and \$28 to \$35 in some select domestic and local industrial markets.

These capital requirements will vary considerably, depending on the equipment employed and its source. For example we have already approached a supplier who has volunteered to make available to us about \$1.2m in credit for new equipment. But there is a large amount of good used machinery still available and in the final plans this approach will have to be weighed against the accessibility and cost of venture capital.

OPERATIONAL BUDGETS

Due to the recent availability of the project, all the costs of equipment and materials have not yet been assembled and evaluated. These are being drawn together as quickly as possible for presentation to the investor and incorporation into the master plan required by the seller.

ADDITIONAL CONSIDERATIONS

Although the mine and surface facilities are designed for an annual production of 1.2 million tons, the No. 5 seam on top is 10 feet thick and has never been opened up. This could be developed in conjunction with the existing operation and thereby greatly enlarge the capacity of the complex. Also, there are some untouched stripping reserves which could be processed through these facilities. With these other sources it is possible to process at this site over 2,000,000 tons per year.

COAL BEDS & RESERVES

In descending order the subject area contains the following seventeen (17) designated coal beds:

<u>Coal Bed Designations</u>	<u>Measured/Indicated In-Place Tons</u>
Upper 5 Seam ¹	
Lower 5 Seam	
3 Seam ²	
Upper 1 Seam	
Lower 1 Seam	
Upper 7.5 Seam	
Middle 7.5 Seam ³	
(Merged 7.5 Seam) ³	39,000,000
7 Seam ⁴	30,000,000
8 Seam ⁵	<u>45,000,000</u>
9 Seam ⁶	
11 Seam	
13 Seam	
15 Seam	
17 Seam	
19 Seam	
21 Seam	
23 Seam	

114,000,000 In-Place Tons
(Mining Thicknesses 6-13 Feet)

- 1 The number 5 Seams crops out west of the surface facilities and have not yet been opened to mining.
- 2 This is the bed which was opened by the joint-venture and caused so much trouble because of poor roof conditions. At a later date these reserves could be considered for extraction with a modified mining plan.
- 3 Reserves in this seam are ready for production and would be included in the initial extractions with the reactivation plans.
- 4 Initial production along with Seam 7.5.
- 5 Future reserves for expanded production.
- 6 No reserves below Seam 8 are considered for extraction within the foreseeable future.

Note: Most of these reserves are projected a half mile or less from the data source which in most cases is either a drill hole or underground workings.

ANALYSES

The coal ranks as a Subbituminous A with extremely low ash and low sulfur. Shown below is an in-place quality summary:

Item	Seam Average As-Received			Overall Averages	
	#7.5	#7	#8	As Received	Air Dried
Btu/lb	10,990	11,000	11,560	11,284	12,686
K. Cal/kg	6,110	6,120	6,430	6,277	7,040
Total Sulfur	0.64	0.71	0.69	0.68	0.76
Ash	4.30	2.40	2.60	2.97	3.33
Moisture	13.39	15.42	13.39	13.89	3.42
Volatile Matter (%)	34.91	35.39	35.97	35.57	39.81
Fixed Carbon (%)	47.40	46.79	48.04	47.58	53.36
Fuel Ratio (FC/VM)	1.36	1.32	1.34	1.34	1.34
Carbon (%)	62.77	62.58	62.53	62.60	70.02
Hydrogen (%)	4.44	4.31	4.35	4.36	4.90
Nitrogen (%)	1.34	1.41	1.22	1.30	1.46
Chlorine (%)	0.00	0.02	0.02	0.02	0.02
Oxygen	12.59	12.68	12.16	12.39	13.90
Air Dry Loss	-	-	-	10.47	-
<u>Ash Minerals (%)</u>					
Silica(SiO ₂)	39.05	40.66	35.02	37.38	
Alumina(Al ₂ O ₃)	21.05	19.45	14.31	17.20	
Iron(Fe ₂ O ₃)	8.52	10.32	10.33	9.89	
Lime(CaO)	14.31	12.34	20.82	17.17	
Titania(TiO ₂)	0.52	0.90	0.50	0.60	
Magnesia(MgO)	2.21	2.72	2.02	2.24	
Sulfur(SO ₃)	10.74	9.58	13.89	12.07	
Phosphorus(P ₂ O ₅)	0.65	0.61	0.48	0.55	
Sodium(Na ₂ O)	0.31	0.40	0.34	0.34	
Potassium(K ₂ O)	0.43	1.00	1.15	0.94	
Undetermined	2.21	2.02	1.14	1.62	
Base/Acid Ratio	0.43	0.49	0.77	0.62	
<u>Ash Fusion (°F)*</u>					
Reducing					
Initial Deformation	2250	2148	2103	2150	
Softening	2312	2231	2112	2190	
Hemispherical	2363	2288	2126	2223	
Fluid	2414	2382	2178	2285	
Oxidizing					
Initial Deformation	2260	2245	2144	2197	
Softening	2360	2314	2155	2244	
Hemispherical	2392	2350	2170	2268	
Fluid	2528	2426	2270	2371	
T ₂₅₀ (°F)	2378	2488	2380	2406	
<u>Forms of Sulfur (%)</u>					
Pyritic	0.21	0.19	0.24	0.22	
Sulfate	0.00	0.00	0.00	0.00	
Organic	0.39	0.55	0.65	0.56	
Total Sulfur	0.60	0.74	0.89	0.78	
<u>Water Soluble Alkalies (%)</u>					
Potash(K ₂ O)	0.001	0.006	0.001	0.002	
Sodium(Na ₂ O)	0.003	0.010	0.003	0.005	
Equilibrium Moisture(%)	9.52	14.43	12.70	12.35	
Hardgrove Grindability*	50.89	49.65	47.90	49.05	
Moisture (%)	13.23	13.13	11.55	12.34	

*Note: Values are based on weighted averages. Actual test on blended un-of-mine coal would be required to obtain accurate values.

CONCLUSIONS

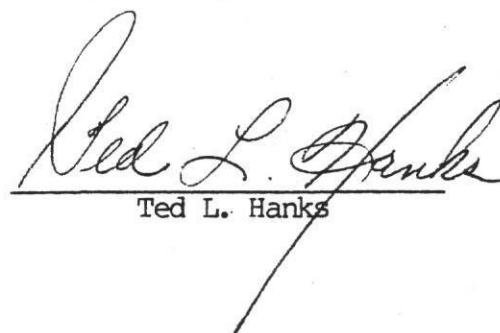
This mine with its large reserves of high Btu, low ash and 0.7 sulfur coal, is situated on a main east-west railroad artery, and is the best and closest reserves to the northwestern states. With reserves and elaborate surface facilities capable of being reactivated within about 90 days and with a capacity of eventually producing 1.2M tons per year this project represents the most attractive venture I've seen in over 30 years of working with western coals. And although we are currently experiencing a down market in the basic energy fuels, I believe that if this mine were acquired and made to operate at a reduced scale of about 300,000 tons per year until the exclusive markets available to it have been developed that within a short period of time its conservative value of \$30M can be readily restored.

Furthermore, it is a project which has never been marketed. And for its full potential to be realized, the acquisition and development have to be initiated within the next few weeks in order to take advantage of the markets which have been opened, and to realize the conditions in the contractual terms.

We have already initiated some of these sales inquires and pursued them as far as they can be taken without giving fixed delivery dates and tonnage availability.

In addition to the existing mine, there are other untouched reserves easily available to the processing facilities from the No. 5 Seam, plus undeveloped strip reserves which means the loadout system could handle up to 3 million tons per year totally from the three areas.

It is my recommendation that the mine be purchased outright or through the 5-year payment plan proposed by the railroad, that it be placed into production as soon as is practical, and that when the acquisition has been consummated efforts be concentrated toward obtaining a long-term utility contract for sales to the larger industrial users in proximity to the project.


Ted L. Hanks