

BMD CASPER



December 27, 1985

Utah International Inc.
550 California Street
San Francisco, California 94104

RE: Utah International Inc.
La Plata Mine Water Supply Well
San Juan County, New Mexico

Attn: Mr. Alan M. Fitzpatrick

Dear Mr. Fitzpatrick,

I have been following the development of the above proposed project and regarding same, Reg Orr has requested that I prepare an informal Letter Agreement, under which BHP Petroleum (Americas) Inc. would undertake the physical task of drilling, completing, and testing the above captioned water supply well on behalf of Utah International Inc.

Paul Bertaglio, Production Engineer in our Casper office, has prepared a Prognosis for Drilling & Completing this water supply well as well as two cost estimates based on two possible casing programs. As I understand you have been the recipient of this preliminary work as has Mr. John Sittner and Mr. Dan Hayhurst of your San Juan Coal Company, Waterflow, New Mexico office. We believe his proposal is basically sound and his cost estimates reasonably accurate.

As you suggested we will have Paul Bertaglio arrange a meeting with your San Juan Coal Company personnel in the near future to review the plan in detail and to make such changes as your personnel may deem necessary.

With that in mind, and assuming the basic plan is acceptable, we offer the following simplified terms under which BHP Petroleum (Americas) Inc. will undertake this project on behalf of Utah International Inc.:

- I. ~~The relationship of Utah International Inc. and BHP Petroleum (Americas) Inc. will be that of "Owner" and "Prime Contractor,"~~ respectively; for the specific purpose of drilling and completing the above captioned water supply well for the account of Utah International Inc.

RECEIVED

DEC 31 1985

INT. DIV.

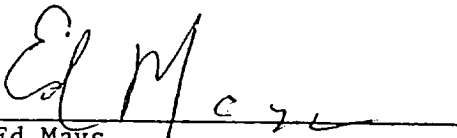
- II. ~~Utah International Coal Company~~ as Owner will obtain the necessary governmental permits and will also obtain access and well site right of way.
- III. BHP Petroleum (Americas) Inc. will make all necessary arrangements and will drill, log, case, complete, and test a Morrison Sand water supply well at an approximate depth of 7500 feet in a manner acceptable to Utah International Inc.
- IV. All costs associated with item III above will be paid by BHP Petroleum (Americas) Inc. and BHP Petroleum (Americas) Inc. will in turn, invoice Utah International Inc. at the end of each calendar month for all third party services, consumables, and equipment utilized during the month. All monthly invoices submitted to Utah International Inc. by BHP Petroleum (Americas) Inc. are to be, as noted above, based on invoices actually received by BHP Petroleum (Americas) Inc. and these invoices will be furnished to Utah International Inc. upon request. In addition to the above noted invoice charges BHP Petroleum (Americas) Inc. will also charge Utah International Inc. for actual time spent and expenses incurred by personnel assigned to this prospect.
- V. BHP Petroleum (Americas) Inc. will call in a daily progress report as well as mail a written daily report to a party and/or parties designated by Utah International Inc. Said daily report will include all pertinent activity information as well as estimated daily and cumulative costs.
- VI. In the event any unexpected and/or unusual circumstances arise that could substantially increase costs and/or cause a major change in proposed project plan, Utah International will be promptly advised of such circumstances. Under said circumstances no change will be made nor action taken without consent of Utah International Inc., other than emergency measures if conditions so dictate.
- VII. Upon completion of the drilling, equipping, treating, and testing - and assuming tests conclusively show that sufficient water productivity exists to meet Utah International's needs - Utah will then assume all future responsibility for installation of submersible pump, and all surface facilities needed to make the project fully operational. However, upon request BHP Petroleum (Americas) Inc. will be available to assist in selection of sub surface pumping and surface facilities.

RECEIVED

VIII. It should be clearly understood by both parties that in a project of this nature there is a degree of risk. Circumstances could arise and natural conditions could exist that could preclude the successful completion of this project. Under such circumstances the only responsibility of one party to the other is the assurance that a maximum professional effort shall have been exerted by each.

I trust that this letter agreement sufficiently sets out the general working arrangement pertaining to this joint project. If so, please so indicate by signing in the space provided below and returning one copy to my attention. If there are any questions please contact either Reg Orr or myself.

Very truly yours,
BHP PETROLEUM (AMERICAS) INC.


Ed Mays
Northern Division Production Manager
EM:pb

Concur as to the above:
Alan M. Fitzpatrick

Utah International, Inc.
Date _____

bc: Reg Orr
Roscoe Gillespie