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March 2, 2009

Dave Carey, Borough Mayor
Kenai Peninsula Borough
144 N. Binkley Street
Soldotna, Alaska 99669

RE: Ordinance 2009-02
Extension of Option to Lease at Ladd Landing

Dear Mayor Carey:

PacRim Coal, LP (PRC) and the predecessor companies have held coal leases covering roughly 20,000 acres in the Beluga area for an excess of 25 years. In 2005, the coal markets showed positive signs of change and PRC began a renewed process of re-applying for the various permits necessary to begin mining operations on a portion of the coal leases it owns in the Beluga Coal Field. To date in this recent effort, PRC has spent in excess of \$20,000,000 to conduct field studies, collect baseline data and update designs necessary to complete the permit applications in compliance with the environmental, clean air and clean water standards in applicable State and Federal regulations. The baseline field work involves cultural, archeological and historic sites; soils, vegetation and wetlands; terrestrial, avian and aquatic wildlife; surface and ground water flow and quality; and climatologically air data. These expenditures are in addition to the annual lease rental payments to maintain our coal leases, ad valorem taxes paid to Kenai Peninsula Borough each year and annual fees paid to Kenai Peninsula Borough since 1987 to maintain the Option to Lease at Ladd Landing. To date, the option payments for the Option to Lease at Ladd Landing alone amount to over \$1,300,000.

When in production, the mining operation will generate significant lease production royalties payable to Mental Health Trust Land Office, ad valorem tax revenues payable to the Kenai Peninsula Borough and will be a source of local and regional employment. Despite the current economic climate and the costs of the permitting effort, PRC remains committed to completing the permit applications. The Option to Lease at Ladd Landing is an integral part of our plans.

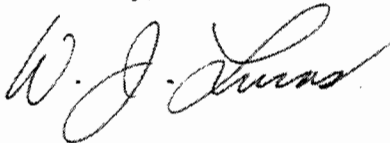
Since the Assembly Meeting on February 17, 2009, we have been considering the comments made by the various Assembly Members in their discussion of Ordinance 2009-02 to extend the Option to Lease. The prevailing view appears to us to be that there is no compelling reason to approve the extension and it is time for PRC to make a decision to either exercise the option to obtain a lease or allow the Option to expire.

At this time, we feel it would be in the best interests of all concerned for PRC to make that decision without further extension of the Option to Lease. We respectfully request Ordinance 2009-02, the extension of the Option to Lease at Ladd Landing, be taken off the Assembly agenda for the upcoming March 3, 2009 Assembly Meeting. Our formal decision regarding exercising the Option to Lease at Ladd Landing will be forthcoming.

As our plans evolve during the permitting process, we anticipate opportunities to work with Kenai Peninsula Borough on substantive issues of interest and benefit to both Kenai Peninsula Borough and PacRim Coal. We do appreciate the support you voiced for approval of the extension and we look forward to discussions on other issues.

If you have any questions or comments, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "W. J. Lucas". The signature is written in a cursive style with a large initial "W" and "J".

Joe Lucas
Vice President

cc: File