

Kimberly Greathouse

From: Leo Gilbride
Sent: Wednesday, May 03, 2006 4:33 PM
To: John Lewis
Cc: Bo Yu
Subject: (2-226-20) GENWAL Main West Pillaring Evaluation Proposal and Cost Estimate
Attachments: 2-226-20 GENWAL Main West Pillaring Proposal.pdf

John,

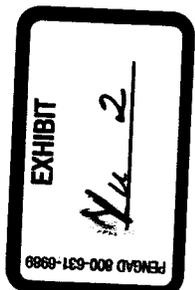
Per our discussion Monday, please find attached a proposed scope of work and cost estimate for the Main West barrier pillaring geotechnical evaluation at the Crandall Canyon Mine (PDF format).

I look forward to hearing from you.

Best regards,

Leo Gilbride
Principal

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May 3, 2006

2-226-20

Mr. John Lewis
Andalex Resources, Inc.
195 North 100 West
Huntington, UT 84520

Re: **GENWAL Crandall Canyon Mine Main West Barrier Mining Evaluation—
Proposal and Cost Estimate**

Dear John,

I have prepared this proposal and cost estimate for evaluating ground conditions and entry stability associated with GENWAL Resources, Inc.'s (GENWAL) plan for room-and-pillar mining in the Main West barriers at the Crandall Canyon Mine.

Current plans include developing four entries in the barriers north and south of the existing mains in the area west of the 1st Right/2nd North submains under cover ranging from about 1,300 ft to 2,200 ft. Barrier mining is also planned to the east between the 1st Right/2nd North and 1st North submains under generally shallower cover. GENWAL is considering recovering pillars on retreat in some locations. Concern exists for potentially high-stress conditions caused by a combination of deep cover and side-abutment loads from the adjacent longwall gobs, and, to a lesser extent, load transferred onto the barriers by time-dependent pillar convergence in Main West.

SCOPE OF WORK

The objective of the proposed evaluation is to determine the adequacy of the proposed pillar design for short-term stability (nominally 6 to 12 months) during barrier mining activities. Agapito Associates, Inc. (AAI), proposes to use the displacement discontinuity code, LAMODEL, to simulate (1) vertical stress, (2) convergence, and (3) pillar yielding during barrier mining. Elastic-only models will be used to calculate peak stresses, similar to the methodology adopted for evaluating pillar recovery at the Pinnacle Mine.¹ Elastic-plastic models will be used to simulate convergence and pillar yielding. The models will incorporate the mining geometry and sequence and variable depth of cover in the areas of interest. Only development (first-pass)

¹ Agapito Associates, Inc. (2001), "DRAFT—Andalex Pinnacle Mine, Pillar Recovery in the Mains," prepared for GENWAL Resources, Inc., March 20

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mining will be analyzed in Main West; pillar recovery (second-pass mining) is not proposed for analysis at this stage.

Computed stress levels in Main West will be compared with back-analyzed stress levels in two nearby areas where stress levels are expected to be comparable to Main West and actual mining conditions are known: (1) the Section 36 "herringbone" panels (historical area) and (2) the South Mains (current retreat area). The risk of pillar and entry instability in Main West will be assessed by comparison with the relative responses from the back-analyzed areas.

The scope of work comprises:

1. Collecting and reviewing detailed information on ground behavior in the back-analysis areas.
2. Constructing the models.
3. Back-analyzing retreat mining in the Section 36 panels and South Mains.
4. Modeling future conditions for the proposed Main West mine plan, and optional pillar layouts as necessary.
5. Producing a summary report containing conclusions and recommendations.

The final deliverable will be a letter report in hard copy and digital PDF format.

SCHEDULE AND COST

Project Schedule

A total of 3 weeks will be needed to complete a draft report from the analysis is started.

Cost Estimate

The estimated total cost to complete the geotechnical evaluation as scoped is \$14,500. Estimated man-hours to complete the project tasks are summarized in the attached estimate. Costs are estimated on a time-and-materials basis. Detailed cost breakdowns by task are attached. Hours are itemized by staff title. Hourly billing rates are per AAI's 2006 Standard Schedule of Fees (attached).

We have prepared this schedule and cost estimate with flexibility in mind, recognizing that the scope of the project depends upon the usefulness of available information, the required level of analysis, and the number of different designs analyzed. We believe that our time and cost estimate is commensurate with the level of effort sought by GENWAL. Actual project man-hours and costs may be more, or less, than estimated depending upon the actual level of effort required.

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Terms and Conditions

Period for Acceptance of Offer

The terms of this proposal will remain in effect until August 31, 2006. AAI reserves the right to alter portions of this proposal should work be awarded subsequent to that date.

Terms of Payment

Progress payments will be required on a monthly basis from the time work is initiated. Invoicing will be conducted on a net-30-days basis for work performed in each billing period.

Warranty

The work to be completed in fulfillment of this proposal carries no expressed or implied warranties. Services provided by AAI (Contractor) under the Statement of Work will be performed in a manner consistent with that degree of care and skill ordinarily exercised by members of the same profession currently practicing under similar circumstances.

Confidentiality

This proposal is submitted with the express understanding that all data and pricing information (including, but not limited to, concepts, ideas, procedures, plans, practices, technical descriptions, or other engineering and/or cost information) is the exclusive property of, and belongs to, AAI and is, therefore, deemed to be proprietary, confidential business information as related to this proposal. Except to the extent that the information contained herein is within the public domain at the time of submission of the proposal, or is received through a third party not a part to this contract and not clearly identified as proprietary and confidential, the recipient should treat the proposal and the entirety of its contents as confidential and proprietary, and shall not release or otherwise make some available to any third party without the express written consent of AAI.

AAI is presently scheduling work for June 2006 and would be first available to begin this study in early June with the objective of completing a draft report by mid to late June.

We can modify the scope of the tasks as necessary to best fit GENWAL's objectives. I look forward to discussing this proposal with you at your convenience. Please contact me with any questions.

Sincerely,

Signature

Leo Gilbride
Principal
gilbride@agapito.com

LG/smvf
Attachments(2): AAI 2006 Standard Schedule of Fees
Cost Estimate

Agapito Associates, Inc.—GENWAL Main West Barrier Mining Evaluation

Task ALL—Data Collection/Review, Analysis, & Report

Labor

<i>Personnel</i>	<i>Hours</i>	<i>Rate</i>	<i>Total</i>
Principal	1.0 hr(s)	\$170.00/hr	\$170.00
Senior Associate	25.0 hr(s)	\$145.00/hr	\$3,625.00
Senior Engineer	80.0 hr(s)	\$105.00/hr	\$8,400.00
Engineering Technician (CAD)	20.0 hr(s)	\$68.00/hr	\$1,360.00
Word Processor	4.0 hr(s)	\$50.00/hr	\$200.00
		<hr/>	
		LABOR TOTAL	\$13,755.00

Expenses

Computer Code		60.0 hr(s)	\$10.00/hr	\$600.00
Vehicle	0 RT	400 miles/RT	\$0.50/mile	
Misc. (telephone, copies, plots, supplies, etc.)			<i>Estimate</i>	\$100.00
Fee on Applicable Expenses			10%	\$10.00
			<hr/>	
			EXPENSES TOTAL	\$710.00

TOTAL \$14,465.00

AAI000008

SCHEDULE OF FEES

(Effective January 1, 2006)

<u>Personnel Charges</u>	<u>Hourly</u>	<u>Personnel Charges</u>	<u>Hourly</u>
Principal	\$170.00	Engineer	\$84.00
Senior Associate	\$145.00	Geologist	\$70.00
Associate	\$125.00	Engineer Technician*	\$68.00
Senior Engineer	\$105.00	Administrative Support	\$64.00
Senior Physicist	\$105.00	Engineering Support Specialist	\$64.00
Project Engineer	\$95.00	Driller's Helper	\$55.00
Senior Engineering Technician	\$88.00	Engineering Intern	\$50.00
Senior Geologist	\$84.00	Word Processor*	\$50.00

Notes: Time under oath billed at 50% premium

* Includes computer charge

Expenses

- Travel expenses, including penalties incurred for airline departure changes
- Living expenses away from the office
- Computer charges (\$10/hour)
- Long distance telephone calls and cell phone charges
- Reproduction of reports, drawings, letters and other documents required in the preparation of a study report. Reports will be delivered in Adobe Acrobat format and hard copy. Other requests are at cost
- Charge for company 4WD pickup at \$100/day
- Any other expenses incurred on the Client's behalf which are not covered by the agreed fee
- 10% handling charge on all expenses listed above
- \$10 per day insurance fee on auto rentals

Billings and Collections

Statements are issued monthly, payable on receipt unless otherwise agreed. Accounts not paid within 30 days will be subject to a 1.5% monthly service charge. If it becomes necessary to initiate collection procedures, Client agrees to pay any and all collection costs, including reasonable attorney fees. Any legal proceedings related to the services provided shall be governed by Colorado law.

Limitation of Liability

To the fullest extent permitted by law, the total liability, in the aggregate, of Agapito Associates, Inc. (AAI), and AAI's officers, directors, partners, employees, agents and AAI's subconsultants, or any of them, for any and all claims, losses, costs or damages whatsoever arising out of, resulting from or in any way related to a project under the contractual agreement to which the Schedule of Fees is an addendum, from any cause or causes, including but not limited to, the negligence, professional errors or omissions, strict liability, statutory liability or breach of contract, or warranty express or implied of AAI or AAI's officers, directors, employees, agents or AAI's subconsultants, or any of them, shall not exceed the total compensation for professional fees received by AAI under the agreement. This provision is specifically incorporated into the contractual agreement.

CONTRACT

AAI000010