



March 12, 2019

Mr. Phillip Courtney
Solid Materials Leasing Manager / State Land Board
1127 Sherman Street, Suite 300
Denver, CO 80203

Dear Mr. Courtney:

The City of Craig recognizes the valuable contribution that Trapper Mining Inc. (TMI) makes to the local community of Craig as well as the region. In 2018 they employed 199 miners, many of whom are active members of the community serving on boards, supporting our local schools and service organizations and being a friend and member of our churches and philanthropic organizations. In addition to the \$29 million annually paid to their employees, many of whom live in our community, TMI's taxes support our local governments, first responders and school programs. Higher education is also a key component of their focus as they provide volunteers and dollars to our local Junior College at CNCC.

TMI is an essential part of our economic base in Craig. The mine purchased from the region, \$33.6 million last year in supplies and paid \$10,287,000 in royalties and taxes in 2018. Combining the economic impact with the essential services and benefits that TMI employees bring to the City of Craig and the region, its essential that we do everything possible to support the fiscal viability of this mining operation for several years to come.

For the reasons above, the City of Craig would like to show our support for TMI's request to reduce the State Coal Lease Royalty Rate from 12.5% to an 8.0% royalty rate for Trapper Mining Inc. Moving forward, it has been explained that the difficulty and logistics of mining new reserves will be much more difficult, requiring more resources and capital necessary to retool for this effort. Competitors royalty rates and even federal royalty agreements with TMI have been adjusted to 8% to account for the severe difficulty required to access the coal that remains. The City of Craig is asking that your office put forth a recommendation for the State of Colorado to reduce TMI's royalty rate. This request from the City is further supported by TMI's required need to change their mining process and implement Highwall Mining procedures coupled with the further difficult challenges presented by the formation from which the coal would be extracted.

The City of Craig appreciates your consideration of our support for Trapper Mining Inc. TMI is essential to our region and we believe it is imperative that they remain fiscally viable. If you have any questions regarding this letter of support and TMI's importance to the City of Craig, please contact me at (970) 326-8238.

Respectfully submitted,

Mayor John Ponikvar
City of Craig



TRAPPER MINING INC.

February 13, 2019

Mr. Peter Brixius
City Manager
300 W. 4th Street
Craig, CO 81625
970.826.2023

Dear Peter,

Trapper Mining Inc. (TMI) requests a letter of support from the Craig City Council for "Modifying the State Coal Lease Royalty Rate from 12.5% to 8.0%" so that the State of Colorado coal at Trapper Mine is as economical to mine as the Federal Coal Lease(s).

TMI began mining State of Colorado coal beginning in 1976 and continued to mine on these two leases until 2011, removing over 22 million tons from two State leases and paying over \$40 million dollars in royalties to the State of Colorado. In 2011, TMI finished mining what at the time was determined to be the final surface mineable, economically recoverable coal available from the State of Colorado 206-13 Lease on the eastern portion of the mine. There remained a small tonnage of marginally economical reserve on the west end of Trapper Mine, but with all mining operations, including the three draglines having moved to the eastern portion of the mine, the decision was made to continue to mine there.

Contributing to that decision was that TMI received a Federal Royalty Rate Reduction (RRR) on its Federal Coal Leases in 2006, again in 2009 after our large landslide, and then recently in 2015 we received a RRR for the eastern most lease, where current operations are today. Trappers RRR was based upon geologic and mining conditions that are adverse in nature and will continue to be so into the future. The geologic conditions found all across Trapper Mine are severe and create a situation where resource recovery would be reduced in the absence of an RRR. The adverse geologic and mining conditions found at the mine include high effective ratio's, low quality, thin and weak coal seams, steep grade, overburden instability, iron-rich nodules included in the coal, spontaneous combustion and excess ground water. TMI has made significant efforts to reduce and control costs, including upgrading the coal fleet size, employing larger dozers for overburden stripping, employing consultants, altering capital purchase strategies, employing strike line mining where conditions warrant it and reducing the staffing levels.

TMI, in its diligence to develop reserves to keep the mine operational, began to re-look at mining areas remaining within its permit boundary, exploring into areas with deeper reserves and areas where mining had previously taken place to shallower seams, but the deeper seams remained in place. Multiple areas were looked into but the associated costs were very high. Trapper then looked into Highwall Mining (HWM), a technique that was utilized at Trapper in 2007. Recent gains in that technology have enabled the HWM machine to extract coal from steep grades and recover by different means, coal that could not be mined before. Analyzing HWM mining techniques, in combination with re-opening some reserve areas that by themselves were not economical, appear to have potential for TMI to increase its current reserve base. Millions of dollars can be spent analyzing whether this type of mining at these depths and slopes. A potential of over 14 million tons of additional coal resource has been identified as being possibly mineable utilizing this technique, but are far from a proven reserve.

The areas that have been identified are at very high strip ratio (bcy's/ton) to open a high-wall face so that HWM mining could take place. Even with a State Royalty Rate Reduction this mining technique with these mining conditions is an economically risky venture. Without a RRR the potential that these resources would continue to be looked at for development is nearly zero.

TMI is a captive mine in that all the coal produced at Trapper is sold to its four owners for electrical generation at the Craig Station. TMI does not have a transportation load-out to be able to sell coal outside of Craig Station, so has to compete against local mines such as Colowyo, Twentymile Coal, which also have reduced royalty rates of 8% and 5% respectively. TMI's major competition for sales may not be the local coal mines, but other sources of electrical generation, including base load electrical generation utilizing low natural gas prices, coupled with State driven mandates to move to more robust renewable portfolios of wind and solar power.

TMI has been in operation since 1977 and is an integral part of the community. During the past 42 years, Trapper has made significant economic contributions to the State as well as the local community. We are known for our community involvement and environmental stewardship. TMI is one of the top five largest taxpayers in Moffat County and in 2018 alone employed 199 miners with salaries that total nearly \$29 million. In 2018, Trapper paid \$870,000 in property taxes, \$788,000 in severance taxes, \$1.2 million in Black Lung tax, \$594,000 in Abandoned Mine Tax, \$635,000 in sales taxes and over \$6.2 million in Federal Royalties and purchased \$33.6 million in supplies and services.

TMI's continuing production and sale of coal from the Trapper Mine will only be economically feasible with continued strict cost control, including the requested State royalty reduction. Production from these State lease(s) will provide an ongoing revenue stream to the State for their Education Trust Fund, maximize conservation and recovery of known mineable coal resource and maintain and extend the very significant employment and local and regional economic benefits generated by Trapper Mine operations.

We appreciate the past support from the Craig City Council on our law-suit mandated Environmental Assessment that nearly shut our operation down several years ago, and hope you can again support us in this effort to reduce the State of Colorado royalty rate.

Best Regards,

A handwritten signature in dark ink, appearing to read "Stephen R. Hinkemeyer", written in a cursive style.

Stephen R. Hinkemeyer
Engineer and Business Development Manager
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970.326-5050 mobile