EXCELSIOR ENERGY INC.

BOB EVANS
EXCELSIOR ENERGY
11100 WAYZATA BLVD.
MINNETONKA, MN 55305

Environmental Quality Board
MAR 2005

MARCH 14, 2005

MR. ALAN MITCHELL
MINNESOTA ENVIRONMENTAL QUALITY BOARD
658 CEDAR ST.
ST. PAUL, MN 55155

RE: PRE-APPLICATION COORDINATION COSTS REIMBURSEMENT ACCOUNT

DEAR MR. MITCHELL,

DURING OUR CONFERENCE CALL ON TUESDAY, FEBRUARY 23RD, WE SPOKE ABOUT THE NEED FOR EXCELSIOR ENERGY INC. TO SET UP A REIMBURSEMENT ACCOUNT (THE "ACCOUNT") FROM WHICH STAFF AT THE MINNESOTA ENVIRONMENTAL QUALITY BOARD ("MEQB") CAN DRAW FUNDS TO COVER NECESSARY AND REASONABLE EXPENSES INCURRED IN PROCESSING THE MESABA ENERGY PROJECT'S SITE AND ROUTE PERMIT APPLICATIONS. SUCH EXPENSES INCLUDE, BUT ARE NOT LIMITED TO, STAFF TIME, EXPENSES FOR PUBLIC NOTICE, MEETINGS AND HEARINGS, ENVIRONMENTAL REVIEW, ADMINISTRATIVE OVERHEAD, AND LEGAL EXPENSES. MINN. STAT. §116C.69 SUBD. 2 - 3; MINN. RULES 4400.1050, SUBP. 4.

THE PURPOSE OF MY LETTER IS TO REQUEST THAT MEQB ESTABLISH THE ACCOUNT AND DEPOSIT THEREIN THE ENCLOSED CHECK FOR $10,000 (THE "INITIAL PAYMENT" SPECIFIED IN THE ATTACHED INVOICE DATED MARCH 14, 2005). YOU HAVE EXPLAINED THAT THERE ARE THREE REASONS EXCELSIOR IS REQUIRED TO MAKE PAYMENT IN ADVANCE OF SUBMITTING A PERMIT APPLICATION: (1) AT MY REQUEST, THE STAFF HAS DEVOTED SIGNIFICANT EFFORT TO THIS MATTER ALREADY, (2) I EXPECT TO FURTHER INVOLVE THE STAFF IN COORDINATING FEDERAL AND STATE ENVIRONMENTAL REVIEW PROCESSES PRIOR TO SUBMISSION OF THE SITE AND ROUTE PERMIT APPLICATIONS, AND (3) MEQB WILL ESTABLISH A CITIZEN ADVISORY TASK FORCE AS SOON AS PROJECT DETAILS ARE SUFFICIENTLY DEFINED.

EXCELSIOR UNDERSTANDS THAT CHARGES FOR THE ABOVE SERVICES WILL BE MADE DIRECTLY AGAINST THE ACCOUNT AND AS FUNDS BECOME DEPLETED, MEQB STAFF WILL ADVISE EXCELSIOR VIA INVOICE THAT ANOTHER PAYMENT IS REQUIRED. WE ALSO UNDERSTAND THAT MEQB WILL PROVIDE AT ANY TIME AN ACCOUNTING OF ITS EXPENSES UPON EXCELSIOR'S REQUEST. AT THE END OF THE PROCESS, EXCELSIOR WILL GET A FINAL ACCOUNTING OF ALL COSTS AND CAN ASK THE FULL BOARD TO REVIEW COSTS INCURRED IF THERE IS ANY DISAGREEMENT REGARDING THEIR REASONABLENESS. MINN. RULES PART 4400.1050, SUBP. 4.

AS YOU KNOW, WE ARE ANXIOUS TO GET STARTED WITH THE LICENSING PROCESS AND KNOW THE FUNDS PLACED IN THE ACCOUNT WILL HELP IN THAT REGARD. WE LOOK FORWARD TO WORKING IN PARTNERSHIP WITH MEQB ON THIS IMPORTANT AND CHALLENGING PROJECT.

SINCERELY,

Robert S. Evans II

ROBERT S. EVANS II

CC THOMAS MICHELETTI, PRINCIPAL, EXCELSIOR ENERGY INC.