

Main Identity

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Sent: Monday, November 17, 2008 11:47 AM
Attach: ORCF View to South.pdf; Figure 2 061933_Propose Site Plan.pdf
Subject: Beard Energy Response to Governor's Questions

Linda:

Tracy informed us late Friday that you are scheduled to speak with the Governor's Chief of Staff later today. You asked a few preliminary questions through Tracy (shown in bold, below) and we wish to offer these comments. Thank you very much for taking this initiative on behalf of the Ohio River Clean Fuels project with the Governor's office.

1. **Baard's financial status – ability to pay for project – ODOD said Beard never showed it had finances together.**
 - a. Several months ago, Beard Energy engaged Deutsche Bank Securities, Inc (DBSI), as its financial advisor. DBSI is securing financing for upcoming development expenses as well as for raising construction financing (Q4 2009) and final debt/equity financing for project closing. Full financial close for Phase I (17,500 bpd) is not targeted until the first quarter of 2010. It is important to finish up on the permitting phase for the plant since investors want to be assured that the plant can be permitted and built in the State of Ohio.
 - b. Beard arranged a meeting with ODOD last August to discuss these very questions. We offered to bring Deutsche Bank to this meeting with ODOD as they were already scheduled to meet with us in Columbus. Unfortunately ODOD was unable to schedule any personnel to meet with them. At the subsequent meeting we did have with the Assistant Director of ODOD, we explained our schedule for permitting, financing, as well as our intended plans for sale of the product. ODOD never expressed skepticism nor did they ever ask for any follow-up information from Beard. In fact, there has been very limited interest or any other questions of this nature from ODOD to Beard Energy.
 - c. CCPA's application provided the necessary information for the JRS program as, presumably, other applicants have provided. We know that CCPA continued to follow up with the ODOD to make sure that ODOD obtained the necessary information. ODOD responded to CCPA that it had no further questions and then suggested that they were waiting for clarity on the permit process. In summary and as you will see, below, Beard has already invested significant funds (\$10 million) since our announced intention to build our first plant in Wellsville. The Columbiana County Port Authority has had an application before the ODOD in an attempt to secure JRS funds since the previous administration.
2. **Why this site was chosen – site prep issues – ODOD said it's a difficult/bad site**
 - a. The Company evaluated a number of locations along the Ohio River (Ohio, West Virginia, Kentucky, and Indiana) before deciding on the current location. The site

selection was based upon many factors, the following are some of the key criteria:

1. **Access to high quality coal** which is suitable for the coal gasification process. Pittsburgh #8 Seam coal has been thoroughly tested for gasification, reserves are approximately 45 miles from ORCF.
 2. **Proximity to product end markets.** Strong local diesel demand, with Pittsburgh, Cleveland, and Columbus located within 150 miles of the project. Phase 1 diesel volume is expected to be less than 10% of local demand. It is very likely that the transportation fuels produced at ORCF will not go beyond a 100 mile radius before it is consumed.
 3. **Access to transportation options.** The site is strategically located with access to barge transport on the Ohio River as well as rail access through the Norfolk Southern main lines through the CCPA.
 4. **Efficient and cost-effective constructability** is achievable since the project will have access to the largest river port in Ohio. The Company will be able to complete construction of large modules of the project off-site (nationally and internationally) and ship them pre-assembled to the site. This results in lower labor costs and more accurate testing and refinement of the modules before they leave the manufacturer.
 5. **Opportunity to sell or economically sequester CO₂,** a by-product of the gasification process that can be readily captured. While currently there is no economic cost associated with venting the CO₂, future legislation will likely regulate CO₂ emissions and result in a cost for CO₂ emissions. To avoid future costs and potentially create an additional income stream from the CO₂ produced in the Project, the Company is actively examining options to utilize the CO₂ in enhanced oil recovery ("EOR"). Several depleted oil fields are located near the Project site that the Company believes are well suited for EOR, including the East Canton Oil Field ("ECOF"). ECOF is located 40 miles west of the development site and currently has no commercially available CO₂ sources to exploit remaining reserves in the field. The Company has already initiated CO₂ injection trials into existing oil wells at the ECOF field.
- b. During our initial feasibility studies, Baard also recognized the challenges of the Wellsville site and we instructed our engineers, AMEC Paragon, to carefully study the site preparation costs as it related to constructability as well as the ability to obtain a Streams and Wetlands permit from Ohio EPA and the Army Corp of Engineers. Ohio EPA can explain the very tedious work done in this area last year. From that work, we arrived at a site preparation cost for the project site to be in the area of \$100 million. While not a small number, site preparation costs are only about 1.5% of the total cost of the project.
- c. As a part of our investor due-diligence, Baard contracted several professional independent consultants to provide third-party expert opinion on the suitability of this location in Ohio. Areas studied included suitability of sales and distribution of product, suitability of coal supply (Ohio Coals and longer-term options), biomass availability, as well as high-level transportation logistics for access to markets for both constructability of the plant as well as distribution of refined products. The company also considered availability of skilled construction labor as well as skilled

operators capable of operating a plant of this nature. The site is recognized as a challenge with respect to site preparation costs; however, when these site preparation costs are integrated into the overall evaluation of the best site for the long-term viability of the project, the benefits far outweigh the perceived negatives of the site.

- d. We would be very interested in economic, engineering, and other market reports (refined products, coal supply, carbon sequestration potential, etc) or other expert evaluations performed by ODOD to reach their conclusions.

3. Permit Status

- a. Baard Energy signed and returned the final 404 permit terms and conditions to the Army Corp of Engineers (Pittsburgh District) on Wednesday, November 14, 2008. The Army Corp of Engineers is expected to sign and issue the 404 permit during the week of November 16, 2008. As you already know, the State of Ohio already issued their companion 401 permit months ago, and this will complete the streams/wetlands permitting necessary for the project.
- b. Ohio EPA already issued the necessary NPDES permit several months ago (National Pollution Discharge Elimination System). This permits the company to commence final detailed engineering of the plant water systems and proceed with site preparation and preliminary construction.
- c. The Ohio EPA is expected to conclude their internal review and issue a final Air Permit-to-Install during the week of November 16, 2008. Ohio EPA attempted to contact ODOD to inform them of the impending issuance early last week. As of this writing, I am not aware that ODOD returned the call from the Assistant Chief of Permitting, Ohio EPA. We have heard statements recently where some have claimed that the "permitting process is in trouble". This is not true, and certainly not a conclusion one could reach if one took the time to discuss the permit status with the Ohio EPA.
- d. Except for the Ohio Power Siting application for a certificate of need (which is not considered "critical path"; meaning it will not affect our development or our preliminary site development schedule), all other permits are issued and in place. With the Air Permit, we would be allowed to proceed with site preparations and early construction.

4. Project Status

- a. **Progress to date:** Full FEED and engineering to commence Q1, 2009. Limited site preparations and construction may commence as early as first-half 2009. Full construction targeted to commence Q1 2010. Phase I (17,500 bpd) targeted to commence 2013.
- b. **Coal usage**
 - 1. Approximately 3,000,000 tons per phase (9,000,000 tons per year when fully constructed). Please remember we fully intend to substitute up to 30% of the coal feedstock with biomass.
 - 2. Baard has already executed an option agreement for a long-term coal supply agreement covering Phase I (3MM tons coal per year) with an existing Ohio coal producer.
- c. **Investment in Ohio:**
 - 1. Baard has already invested approximately \$10 MM in the development of

ORCF project including site evaluations, feasibility engineering, market studies, coal studies, engineering, and other work related to plant permitting, as well as CO2 sequestration and enhanced oil recovery feasibility studies.

2. Spending for the next phase of development is budgeted to be just under \$100 million through 2009 (detailed engineering, early construction, and development of EPC contracts: Engineering, Construction, and Procurement with the technology providers and general contractor).
3. Complete construction of Phase I will be \$2.4B. Phases II and III will each cost approximately \$2.2B.

d. **Diagram/picture-plant layout**

1. Attached is a computer rendering and facility layout which I believe you have seen before in our various public meetings.

We believe we have performed significant work and have provided substantial evidence to support our view that the Columbiana County location is an excellent location for a large, modern, and environmentally clean alternative fuels plant. Through months of due-diligence, Deutsche Bank confirmed these findings and it is no small thing for one of the world's largest securities firms to have offered to take us through financing and join us in the effort to get this plant built. It would be important for potential investors to clearly understand that the State of Ohio shares this view.

Linda, if you have any further questions or want to discuss these points in more detail, please feel free to call me on my cell phone; 734-904-2471.

Regards,

Steve Dopuch

Stephan M. Dopuch

Vice President, Business Development

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Sent: Monday, November 17, 2008 11:48 AM
Attach: Baard CCPA Release Nov 17, 2008.pdf

Dave:

As you requested, attached is the version of the talking points from last week mentioning Congressman Ryan's office.

Regards, SMD

11/17/2008