



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

INSPECTION REPORT

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Partial: XXX Complete: Exploration:

Inspection Date & Time: 11/18/98 / 8:30a.m.-11:00a.m.

Date of Last Inspection: 10/22/98

Mine Name: Soldier Canyon Mine County: Carbon Permit Number: ACT/007/018

Permittee and/or Operator's Name: Canyon Fuel Company

Business Address: P.O. Box 1029, Wellington, Utah 84542

Type of Mining Activity: Underground XXX Surface Prep. Plant Other

Company Official(s): Dave Spillman

State Officials(s): Peter Hess Federal Official(s): None

Weather Conditions: Partly cloudy, Cool, 30's-40's

Existing Acreage: Permitted- 5186.17 Disturbed- 24 Regraded- 0 Seeded- 0 Bonded- 95.2

Increased/Decreased: Permitted- Disturbed- Regraded- Seeded- Bonded-

Status: Exploration/ XXX Active/ Inactive/ Temporary Cessation/ Bond Forfeiture

Reclamation (Phase I/ Phase II/ Final Bond Release/ Liability Year)

REVIEW OF PERMIT, PERFORMANCE STANDARDS & PERMIT CONDITION REQUIREMENTS

Instructions

- 1. Substantiate the elements on this inspection by checking the appropriate performance standard.
a. For complete inspections provide narrative justification for any elements not fully inspected unless element is not appropriate to the site, in which case check N/A.
b. For partial inspections check only the elements evaluated.
2. Document any noncompliance situation by referencing the NOV issued at the appropriate performance standard listed below.
3. Reference any narratives written in conjunction with this inspection at the appropriate performance standard listed below.
4. Provide a brief status report for all pending enforcement actions, permit conditions, Division Orders, and amendments.

Table with 5 columns: EVALUATED, N/A, COMMENTS, NOV/ENF. Rows 1-21 list various permit and performance standards with checkboxes for evaluation.



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(Comments are Numbered to Correspond with Topics Listed Above)

3. TOPSOIL

The topsoil expansion area for storage of the material removed from the Dugout Mine construction has had the vegetation removed and the containment berm established. A large volume of soil has already been stockpiled here from the Dugout operation. The containment berm was hydro-seeded on November 17, 1998, as was the Dugout material which was permitted for storage within the original Soldier Canyon storage area.

The topsoil expansion area has not been developed to the maximum limit permitted, as the permittee is unsure how much additional volume will be necessary to store the remaining Dugout soil. It appears that this first storage volume (Dugout soil) is only approximately half full at this time. A Neilson ten wheel dump truck was observed placing material in the area today.

15. CESSATION OF OPERATIONS

Mr. Spillman informed me that October 3, 1998 was the last regular coal production day at the Soldier Canyon Mine. It is the permittee's intent to keep the remaining one continuous miner section on stand-by, at least through the early months of 1999. As noted in the October inspection report, it is anticipated that at that time, the Soldier Canyon Mine will be sealed and the fan shut down until 2013. All facilities will remain in place until the Soldier Canyon reserves are depleted.

Although active coal mining has been placed on a stand-by basis at Soldier Canyon, the surface facilities (bath house, shop, warehouse, etc.) continue to be utilized as the Dugout Mine gears up to full production capability, and similar facilities can be constructed at that site.

It should be noted that the primary reasoning behind the rapid development of the Dugout property was a problem with the coal quality from the alkali lease at the Soldier Canyon Mine. According to Mr. Spillman (during today's conversation) the quality of the Dugout Canyon product is exceeding the Company's expectations. Based on information received during the October '98 inspection, it is the permittee's current intent to seal the Soldier Canyon Mine until the Dugout reserves have been depleted in 2013. The same quality problem will exist in 2013, as it exists today with the alkali lease coal. It seems that Canyon Fuel would benefit if it were possible to blend the Dugout run-of-mine with the remaining alkali reserves to achieve a product having higher quality than just alkali lease product. Although a blending cost would be added, the additional tonnage available for sale would hopefully enhance mine life at Soldier Canyon. It does not seem likely that the quality problem with the alkali tract coal will just disappear; if it is not blended out to make a saleable product, the remaining reserves may be completely lost for lack of market. This blending would also probably mean that Canyon Fuel would be faced with reclaiming two mines at the same time.

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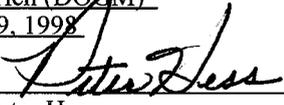
11. CONTEMPORANEOUS RECLAMATION

The REI storage area located south of the mine site sedimentation pond has received extensive cleanup; all of the machinery and drilling paraphernalia have been removed by the owner. The only items remaining are wooden blocks, pallets, and some wood chips, which will also be removed. Mr. Spillman will retain the area for storage.

Note: This inspection report does not constitute an affidavit of compliance with the regulatory program of the Division of Oil, Gas, and Mining.

Copy of this Report:

Mailed to: Dave Spillman (Canyon Fuel) Henry Austin (OSM)
Given to: Joe Helfrich (DOGM) Filed to: Price Field Office
Date: November 19, 1998

Inspector's Signature:  #46
Peter Hess