

State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
P.O. Box 145801
Salt Lake City, Utah 84114-5801
(801) 538-5340

*Supplement of
12/28/2006*

(Federal)

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RECEIVED
DEC 28 2006
DIV. OF OIL, GAS & MINING

Permit Number: C007/019
Date Original Permit Issued: 1/4/87
Effective Date of Agreement: _____
Bond Number: _____

RECLAMATION AGREEMENT

This **RECLAMATION AGREEMENT** (hereafter referred to as "Agreement") is entered into by Andalex REsources, Inc. (hereafter referred to as the "Permittee") and the State of Utah, Department of Natural Resources, Division of Oil, Gas and Mining (hereafter referred to as the "Division").

For the purpose of the **AGREEMENT** the information provided below, shall constitute forms of definition or are for information regarding the Permittee or its operations.

- "ACT":** Title 40-10-1, et. seq., Utah Code Annotated (1953, as amended)
- "BOND":** A bond in compliance with Utah Administrative Rule 645-301-800, et. seq.
- "BOND AMOUNT":** \$3,000.00
- "BONDED AREA":** The area covered by the Performance Bond as provided at R645-301-820.110 of the Utah Administrative Code and any additional areas of subsidence related material damage as identified and required by R645-301-525.550 of the Utah Administrative Code.
- "BOND TYPE":** Reclamation Performance Bond
Bonding Company: Rockwood Casualty Insurance Company
Address: 654 Main Street, Rockwood, PA 15557
Telephone Number: 814-926-5323
- "COMPANY OFFICERS":**
- "COOPERATIVE AGREEMENT":** That certain agreement codified at 30 C. F. R. 944.30
- "DISTURBED AREA":** This term is defined in Utah Administrative Code R645-100-200. The Permittee and the Division contemplate that the Disturbed Area will be as approved and shown in the Permit Application Package, but the Permittee's reclamation obligation and the bond related thereto are governed by applicable law.
- "LIABILITY INSURANCE":** Public liability insurance policy submitted

as part of the permit application and attached as Exhibit "C".

Insurance Company: Federal Insurance Company c/o Reschini Agency, Inc.
Address: 922 Philadelphia St., Indiana, PA 15701 (Reschini Agency, Inc.)
Telephone Number: 724-349-1300 (Reschini Agency, Inc.)
Policy Number: 37104410
Expiration Date: 06/01/2007

Bond Number: —

"MINE": Centennial Project

"OSM": United States Department of the Interior, Office of Surface Mining
Reclamation and Enforcement.

"PERMIT": Utah Mining and Reclamation Permit No. C/007/0019

"PERMITTEE":

Principal Address: Andalex Resources, Inc.
Utah Address: P.O. Box 902, Price UT 84501
Telephone Numbers: 435-637-5385

**"PERMITTEE'S UTAH REGISTERED AGENT
FOR SERVICE OF PROCESS": John S. Kirkham**

"REGULATIONS": The regulations promulgated by the Division
and OSM pertaining to coal mining and reclamation activities.

"SMCRA": The Surface Mining Control and Reclamation Act of 1977, 30 U.S.C. §§
1201, et. seq.

"SURETY": Rockwood Casualty Insurance Company

The following Exhibits are incorporated within and made a part of this Agreement.

EXHIBITS:

"BONDED AREA"	Exhibit "A"
"BONDING AGREEMENT"	Exhibit "B"
"LIABILITY INSURANCE"	Exhibit "C"

WHEREAS, the Permittee is ready and willing to file the Bond in the amount and in a form acceptable to the Division and to perform all obligations imposed by the Division pursuant to applicable laws under the permit; and

NOW, THEREFORE, the Division and the Permittee agree as follows:

1. The provisions of SMCRA, the Act and the Regulations are incorporated by reference herein and hereby made a part of this Agreement. Provisions of the Act or Regulations and Rules shall supersede conflicting provisions of this Agreement.
2. The Permittee agrees to comply with all terms and provisions of this Agreement, the Permit (which is based upon the approved Permit Application Package), the Act and the Regulations, including the reclamation of all areas disturbed by surface coal mining and reclamation operations, despite the eventuality that the costs of actual reclamation exceeds the Bond Amount.
3. The Permit Application Package includes a legal description of the Bonded Area, including the number of acres approved by the Division to be disturbed by surface mining and reclamation operations during the Permit period. For convenience, a copy of the description of the Bonded Area is attached as Exhibit "A", and is incorporated by reference.
4. The Permittee agrees to provide a Bond to the Division in the form and amount acceptable to the Division ensuring the timely performance of the reclamation obligations in the manner and by the standards set forth in this Agreement, the Permit, (which is based upon the Permit Application Package), the Act and the Regulations. The Bond is attached as Exhibit "B" and is incorporated by reference.
5. The Permittee agrees to maintain in full force and effect the Liability Insurance policy submitted as part of the Permit application and which is described in the attached Exhibit "C". The Division shall be listed as an additional insured on this policy.
6. In the event that the Disturbed Area is increased through expansion of the coal mining and reclamation operations or decreased through partial reclamation, the Division shall adjust the Bond as appropriate in accordance with applicable law. In the event of material damage to the surface lands, or contamination, diminution, or interruption of a protected water supply caused by subsidence from underground coal mining, the Permittee may be required by the Division to increase the bond amount pursuant to the provisions of R645-301-525.550 of the Utah Administrative Code.
7. The Permittee does hereby agree to indemnify and hold harmless the State of Utah and the Division, and their respective employees and agents, from any claim, demand, liability, cost, charge, or suit initiated by a third party as a result of the Permittee or Permittee's agents or employees failure to abide by the terms and conditions of the

approved Permit (which is based upon the approved Permit Application Package), and this Agreement. In the event the Cooperative Agreement is terminated, this paragraph will inure to the benefit of OSM with respect to Federal Lands, and otherwise to the benefit of the Division.

8. The terms and conditions of this Agreement are non-cancelable until such time as the Permittee has satisfactorily, as determined by the Division, reclaimed the Disturbed Area in accordance with this Agreement, the approved Permit (which is based upon the approved Permit Application Package), the Act, and the Regulations. Notwithstanding the above, the Division may direct, or the Permittee may request and the Division may approve a written modification to this Agreement in accordance with applicable law.
9. The Permittee may, at any time, submit a request to the Division to substitute the bonding method. The Division may approve the substitution if the new Bond form meets the requirements of the Act, and the Regulations, but no Bond shall be released until the Division has approved and accepted the replacement Bond.
10. This Agreement shall be governed and construed in accordance with the laws of the state of Utah. The Permittee shall be liable for all reasonable costs incurred by the Division to enforce this Agreement.
11. Any breach of the provisions of this Agreement, the Act, the Regulations, or the Permit (which is based upon the approved Permit Application Package) may, at the discretion of the Division, result in enforcement actions by the Division which include, but are not limited to, an order to cease coal mining and reclamation operations, revocation of the Permittee's Permit and forfeiture of the Bond.
12. In the event of forfeiture of the Bond, the Permittee agrees to be liable for additional costs in excess of the Bond Amount which may be incurred by the Division in order to comply with the Permit (which is based upon the approved Permit Application Package), the Act, and the Regulations. Any excess monies resulting from the forfeiture of the Bond, upon compliance with this Agreement, shall be refunded as directed by the Permittee or, if a dispute arises, as directed by a court of competent jurisdiction by interpleading the funds subject to the dispute.
13. No delay on the part of the Division in exercising any right, power, or privilege, under the Permit, the Bonding Agreement (Exhibit "B") and/or this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege thereof preclude other or further exercise of any right, power or privilege. The provisions of this Agreement are severable, and if any provision of this Agreement, or the application of any provision of this Agreement, to any circumstances is held invalid, the application of such provision to other circumstances, and the remainder of this Agreement, shall not be affected thereby.

14. Each signatory below represents that he/she is authorized to execute this Agreement on behalf of the named party. Proof of such authorization is provided on a form acceptable to the Division and is attached thereto.

SO AGREED this 8th day of January, 2007.

STATE OF UTAH:

Director,
Division of Oil, Gas and Mining

PERMITTEE:

By: P. Bruce Hill
Title: President & CEO

NOTE: An affidavit of Qualification must be completed and attached to this form for each authorized agent or officer. Where one signs by virtue of Power of Attorney for a company, such Power of Attorney must be filed with this Agreement. If the principal is a corporation, the Agreement shall be executed by its duly authorized officer.

EXHIBIT "A"

**Bonded Area
Legal Description**

(Federal Coal)

Exhibit "A"
Legal Description
Federal

Bond Number .

EXHIBIT "A"

Pursuant to R645-301- 820.110, the surety bond covers an identified increment of land within the permit area upon which the operator will initiate and conduct coal mining and reclamation operations during the initial term of the permit. This area is identified as:

Map(s) showing the BONDED AREA within the approved PERMIT AREA :

Attached (substation)

Legal description of BONDED AREA:

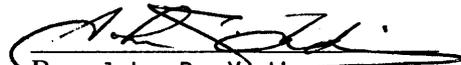
Township.13.South Range.11.East SLBM Section 7: NW/4W/2SW/4NW/4SE/4

The above described area shall be modified as necessary to correspond to an increase in the area disturbed as a result of an expansion of coal mining and reclamation operations. The described area may also be decreased as a result of partial reclamation.

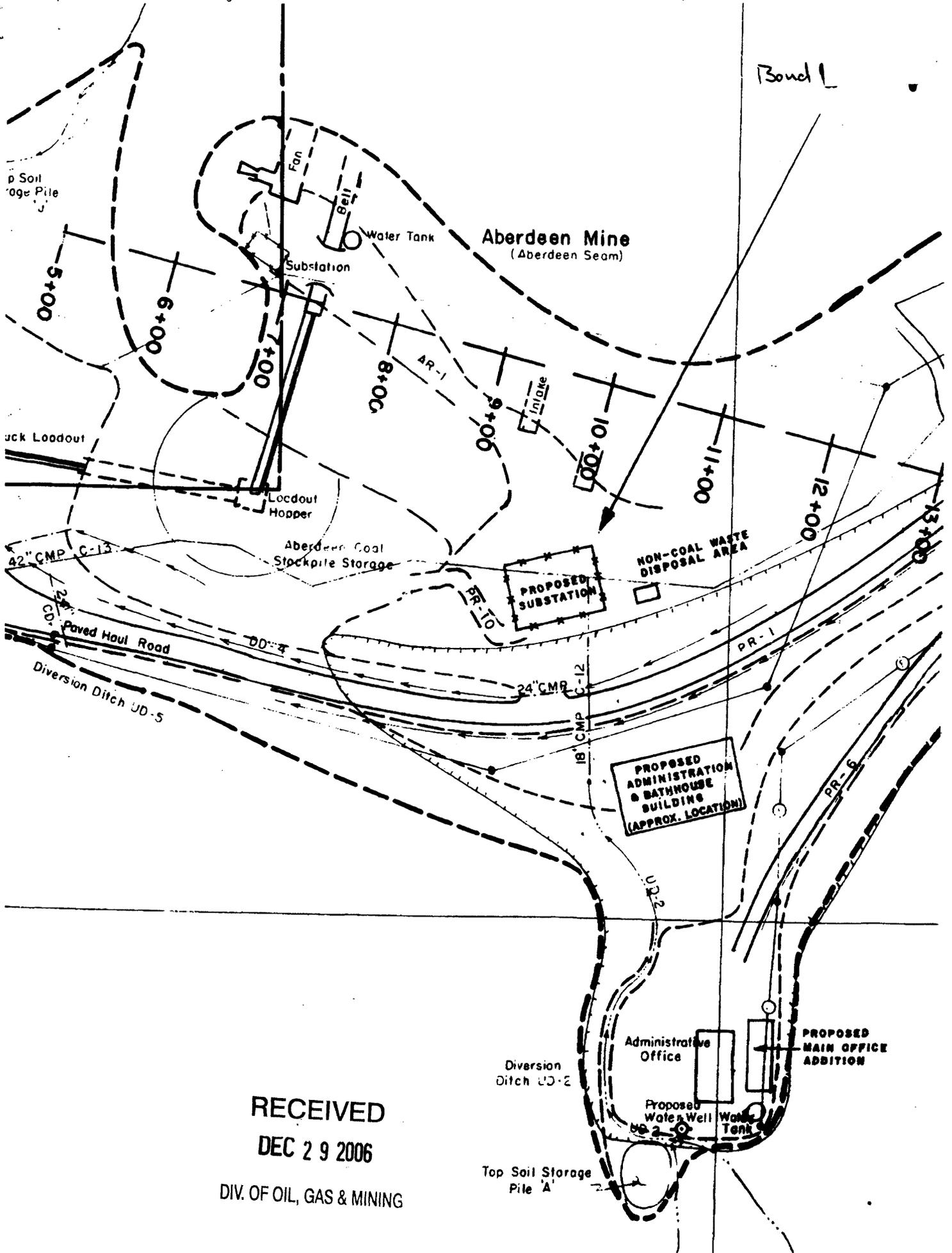
IN WITNESS WHEREOF the **SURETY** has hereunto set its signature and seal this

13th day of December, 2006.

Rockwood Casualty Insurance Company
SURETY


By: John P. Yediny

President & Atty-in-Fact
Title:

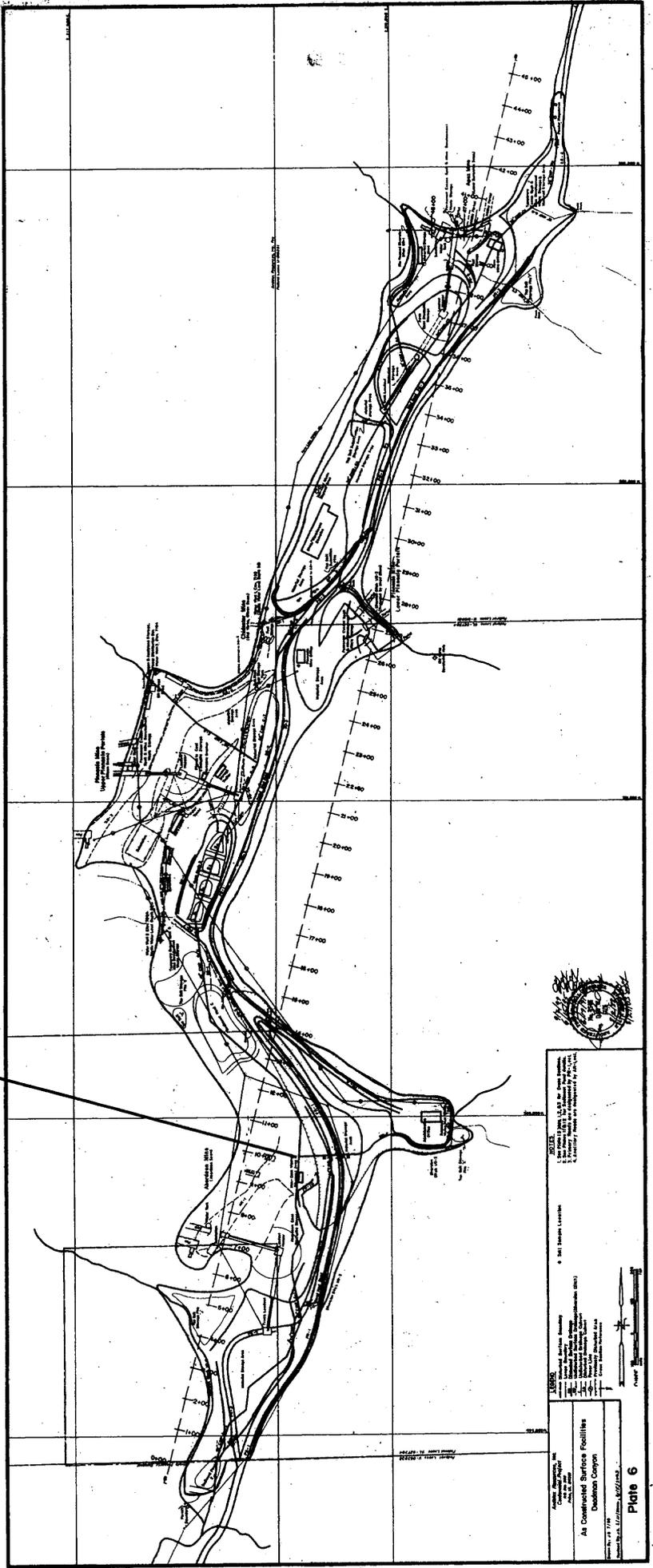


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DIV. OF OIL, GAS & MINING

SUBSTATION
(0.073 ACRES)



LEGEND

- Substation Boundary
- Substation Area
- Substation Building
- Substation Equipment
- Substation Access
- Substation Elevation
- Substation Contour
- Substation Grid
- Substation Detail

Scale

1" = 100'

Notes

- 1. All elevations are in feet above sea level.
- 2. All contours are at 5-foot intervals.
- 3. All grid lines are in feet.
- 4. All dimensions are in feet.
- 5. All areas are in acres.
- 6. All volumes are in cubic feet.
- 7. All weights are in pounds.
- 8. All forces are in pounds.
- 9. All moments are in foot-pounds.
- 10. All stresses are in pounds per square inch.

Plate 6

EXHIBIT "B"

**Bonding Agreement
Surety Bond**

(Federal Coal)

Surety Bond Number_

EXHIBIT "B"
SURETY BOND
(FEDERAL COAL)
--ooOOoo--

This **SURETY BOND** entered into and by and between the undersigned **PERMITTEE/PRINCIPAL** Andalex Resources, Inc., and **SURETY** Rockwood Casualty Insurance Co. hereby jointly and severally bind ourselves, our heirs, administrators, executors, successors and assigns unto the State of Utah, Division of Oil, Gas and Mining (hereafter referred to as the "**DIVISION**"), and the U.S. Department of the Interior, Office of Surface Mining Reclamation and Enforcement (hereafter referred to as "**OSM**") in the penal sum of \$3,000.00 (\$) (Surety Bond Amount) for the timely performance of reclamation responsibilities of the Permittee in the Bonded Area described in Exhibit "A" of that certain **RECLAMATION AGREEMENT**, dated the 13th day of December, 2006 by and between the **DIVISION** and the **PERMITTEE/PRINCIPAL**.

This **SURETY BOND** shall remain in effect until all of the **PERMITTEE'S/PRINCIPAL'S** reclamation obligations have been met and released by the **DIVISION** with the concurrence of **OSM** and is conditioned upon faithful performance of all of the requirements of the Utah Coal Mining Reclamation Act, Utah Code Ad. §40-12-2 et. seq. (the **ACT**), the Surface Mine Control and Reclamation Act ("**SMCRA**"), and all lawful regulation adopted under the authority of those statutes, and the approved Permit (which is based upon the approved Permit Application Package).

The **SURETY** will not cancel this bond at any time for any reason, including non-payment of premium or bankruptcy of the **PERMITTEE/PRINCIPAL** during the period of liability.

The **SURETY** and their successors and assigns, agree to guarantee the obligation and to indemnify, defend, and hold harmless the **DIVISION** and **OSM** from any and all expenses which the **DIVISION** may sustain as a result of the **PERMITTEE'S/PRINCIPAL'S** failure to comply with the condition(s) of the reclamation obligation.

The **SURETY** will give prompt notice to the **PERMITTEE/PRINCIPAL**, the **DIVISION** and **OSM** of any notice received or action alleging the insolvency or bankruptcy of the **SURETY**, or alleging any violations or regulatory requirements which could result in suspension or revocation of the **SURETY'S** license.

Upon incapacity of the **SURETY** by reason of bankruptcy, or suspension or revocation of license, the **PERMITTEE/PRINCIPAL** shall be deemed to be without Bond coverage in violation of state and federal law and subject to enforcement in accordance with **SMCRA**, the **ACT**, and the applicable regulations.

Surety Bond Number 1
Mine Name/Number Tower Mine C007/019 (sub station)

The terms for release of this **BOND** are as written and agreed to by the **DIVISION** and the **PERMITTEE/PRINCIPAL** in the **RECLAMATION AGREEMENT**, incorporated by reference herein, to which this **SURETY AGREEMENT** has been attached as Exhibit "B".

In the event the Utah Cooperative Agreement is terminated, this **SURETY BOND** shall be payable only to the OSM to the extent that lands covered by the Federal Lands Program are involved and otherwise to the **DIVISION**.

IN WITNESS WHEREOF, the **PERMITTEE/PRINCIPAL** has hereunto set its signature and seal this 27th day of December, 2006.

Andalex Resources
PERMITTEE/PRINCIPAL
By: P. Bruce Hill
Title: President & CEO

IN WITNESS WHEREOF, the **SURETY** has hereunto set its signature and seal this 13th day of December, 2006.

Rockwood Casualty Insurance Company
SURETY
By: [Signature]
John P. Yediny
Title: President & Atty-in-Fact

SURETY BONDING AGREEMENT ACCEPTED BY THE STATE OF UTAH:

[Signature]
Director
Division of Oil, Gas and Mining

NOTE: An **Affidavit of Qualification** must be completed and attached to this form for each authorized agent/or officer. Where one signs by virtue of Power of Attorney for a company, such Power of Attorney must be filed with the Agreement. If the **PERMITTEE** is a corporation, the Agreement shall be executed by its duly authorized officer.

**AFFIDAVITS
OF
QUALIFICATION**

Bond Number _____

**AFFIDAVIT OF QUALIFICATION
PERMITTEE/OPERATOR**

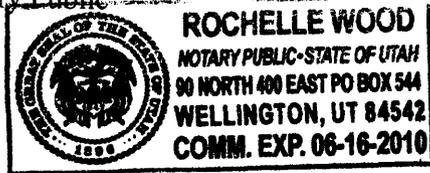
--ooOoo--

P. Bruce Hill, being first duly sworn under oath, deposes and says that he/she is the (officer or agent) OFFICER of Andaleo Resources; and that he/she is duly authorized to execute and deliver the foregoing obligations; and that said PERMITTEE/OPERATOR is authorized to execute the same and has complied in all respects with the laws of Utah in reference to commitments, undertakings and obligations herein.

P. Bruce Hill
(Signed) PRESIDENT & CEO
Name - Position

Subscribed and sworn to before me this 28 day of December, 2006.

Rochelle Wood
Notary Public



My Commission Expires:

June 16, 2006.

Attest:

STATE OF Utah)

COUNTY OF Carbon) ss:

Bond Number _____

POWER OF ATTORNEY

ROCKWOOD CASUALTY INSURANCE COMPANY

654 Main Street
Rockwood, PA 15557

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS: That the ROCKWOOD CASUALTY INSURANCE COMPANY, a Corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania and having its principal office in the Borough of Rockwood, PA does hereby nominate, constitute and appoint:

John P. Yediny

its true and lawful agent and attorney-in-fact, to make, execute, seal and deliver for and on its behalf as surety, and as its act and deed any and all bonds, contracts, agreements of indemnity and other undertakings in suretyship (NOT INCLUDING bonds without a fixed penalty or financial guarantee) provided, however, that the penal sum of any one such instrument executed hereunder shall not exceed the sum of:

Five hundred thousand and 00/100 ----- (\$500,000.00)

This Power of Attorney is granted and is signed and sealed under and by the authority of the following Resolution adopted by the Board of Directors of ROCKWOOD CASUALTY INSURANCE COMPANY:

"RESOLVED, That the President, Senior Vice President, Vice President, Assistant Vice President, Secretary, Treasurer and each of them hereby is authorized to execute powers of attorney, and such authority can be executed by use of facsimile signature, which may be attested or acknowledged by any officer or attorney, of the Company, qualifying the attorney or attorneys named in the given power of attorney, to execute in behalf of, and acknowledge as the act and deed of the ROCKWOOD CASUALTY INSURANCE COMPANY, all bond undertakings and contracts of suretyship, and to affix the corporate seal thereto."

IN WITNESS WHEREOF, ROCKWOOD CASUALTY INSURANCE COMPANY has caused its official seal to be hereunto affixed and these presents to be signed by its duly authorized officer the 6th day of March, 2003.

ROCKWOOD CASUALTY INSURANCE COMPANY

By *Philip S. Kirt*
Philip S. Kirt, Vice President

STATE OF PENNSYLVANIA
COUNTY OF SOMERSET SS:

On this 6th day of March A.D. 2003, before me, a Notary Public of the Commonwealth of Pennsylvania, in and for the County of Somerset, duly commissioned and qualified, came THE ABOVE OFFICER OF THE COMPANY, to me personally known to be the individual and officer described in, and who executed the preceding instrument, and he acknowledged the execution of same, and being by me duly sworn, deposed and said that he is the officer of the said Company aforesaid, and that the seal affixed to the preceding instrument is the Corporate Seal of said Company, and the said Corporate Seal and his signature as officer were duly affixed and subscribed to the said instrument by the authority and direction of the said corporation, and that Resolution adopted by the Board of Directors of said Company, referred to in the preceding instrument is now in force.

IN TESTIMONY WHEREOF, I have hereunto set my hand, and affixed my Official Seal at the Borough of Rockwood, the day and year first above written.

Notarial Seal
Kelly J. Geary, Notary Public
Rockwood Boro, Somerset County
My Commission Expires Mar. 6, 2007
Member, Pennsylvania Association of Notaries

Kelly J. Geary
(Notary Public)

I, the undersigned Officer of the ROCKWOOD CASUALTY INSURANCE COMPANY, a Pennsylvania Corporation of Rockwood, PA, do hereby certify that the original POWER OF ATTORNEY of which the foregoing is a full, true and correct copy is still in full force and effect and has not been revoked.

IN WITNESS WHEREOF, I have hereunto set my hand, and affixed the Seal of said Company, on the 13th day of December, 2006.

Kurt D. Tipton
Kurt D. Tipton, Sr. Vice President