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United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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P.O. Box 45155
Salt Lake City, UT 84145-0155
<http://www.blm.gov>

OK



IN REPLY REFER TO:
3480
U-07064-027821
(UT-923)

MAY 22 2009

Certified Mail -- Return Receipt Requested 7008 0150 0001 1073 3633

Mr. Erwin Sass
Canyon Fuel Company, LLC
Soldier/Dugout Canyon Mines
P. O. Box 1029
Wellington, Utah 84542

RECEIVED
MAY 26 2009
DIV. OF OIL, GAS & MINING

Re: Modification to the Resource Recovery and Protection Plan (R2P2) for Federal coal lease U-07064-027821, Dugout Canyon Mine to include horizontal underground exploration drilling within the subject lease and Casual Use horizontal underground exploration beyond the subject lease.

Dear Mr. Sass:

Background: On April 22, 2009, the Bureau of Land Management (BLM) received a request from Canyon Fuel Company (CFC) to conduct underground exploration drilling at the Dugout Canyon Mine to identify outcrop burn within and just beyond Federal lease U-07064-027821. CFC has submitted information to update and supplement the existing R2P2, in order to describe activities and the plan required by 3482 regulations.

The proposed plan and figures indicates CFC's intentions to drill up to 3 holes at each of up to 3 sites, each of which will include angle holes from the same starting collar. The proposed plan addresses all requirements of Subpart 3482 as well as Subpart 3484 as necessary, (performance Standards), including abandonment.

The specific purpose of this drilling project is to identify the extent of the burn in this southern outcrop vicinity of the existing Gil 4 LW panel. Due to the nature of this project and the fact that there will be no surface disturbance or surface heavy equipment or surface explosives used, this action can be approved under the BLM's Exploration plan regulations. It should also be noted that should the drilling prove that the burn will not interfere, that CFC will then be requesting a lease modification in these very small areas to recover additional public resources which would otherwise in all likelihood be bypassed.

Approval: The BLM hereby approves CFC's proposed revisions to the R2P2 plan of operations, as submitted. The BLM concurs with CFC's revised plan only for that drilling on this Federal coal lease, which is included in Enclosure 1 (Approved R2P2 Map, April 20, 2009). This R2P2 modification is for the underground exploration drilling only as shown on the attached map and only for the on-lease horizontal drilling.

Conditions of Approval: This R2P2 modification approval for the subject Federal lease is conditional on the submittal by the mine of the following to the BLM:

1. Any correspondence with MSHA in regards to the approval of underground drilling using the drillsite set-up sites shown on Figure 2.
2. All drilling/geologic data which results from this project and the as drilled locations of the exploration holes.
3. Abandonment of holes (re-plugging) must be continued if holes are encountered during mining.

Inspection: The mine was inspected on March 19, 2009. Mining was proceeding toward the drilling area as planned.

Surface Considerations: No additional surface considerations will be addressed since none will occur. This determination is based on: underground drilling only; no mining.

National Environmental Policy Act (NEPA): No new surface disturbance will occur with this action, and therefore this action is Categorical Excluded (CX) from NEPA analysis under DM 516 chapter 11.5, paragraph F. (8): Approval of minor modifications to, or minor variances from, activities described in an approved underground or surface mine plan for leasable minerals. (e.g., change in mining sequence or timing.).

Recoverable Reserve Base: As this is a drilling project only, there is no change in the recoverable reserve base for Federal lease U-07064-027821. It is important to note, however, that this drilling is critical to CFC in order to plan development and longwall mining in an area which is as yet undefined in terms of the burn extent. An entire new longwall panel may potentially be recovered from this Federal coal lease should the drilling show that the extent of the burn will not interfere.

Maximum Economic Recovery (MER): This drilling will enable MER of Federal coal to be achieved.

This R2P2 modification complies with the Mineral Leasing Act of 1920, as amended, the regulations at CFR 3480, and the lease terms and conditions. A copy of the approved exploration map is enclosed. If you need further information, feel free to contact Mike Glasson of the Price BLM staff at (801) 636-3612.

Sincerely,

/s/J D McKenzie

JD McKenzie
Acting Chief, Solid Minerals Branch

Enclosures:

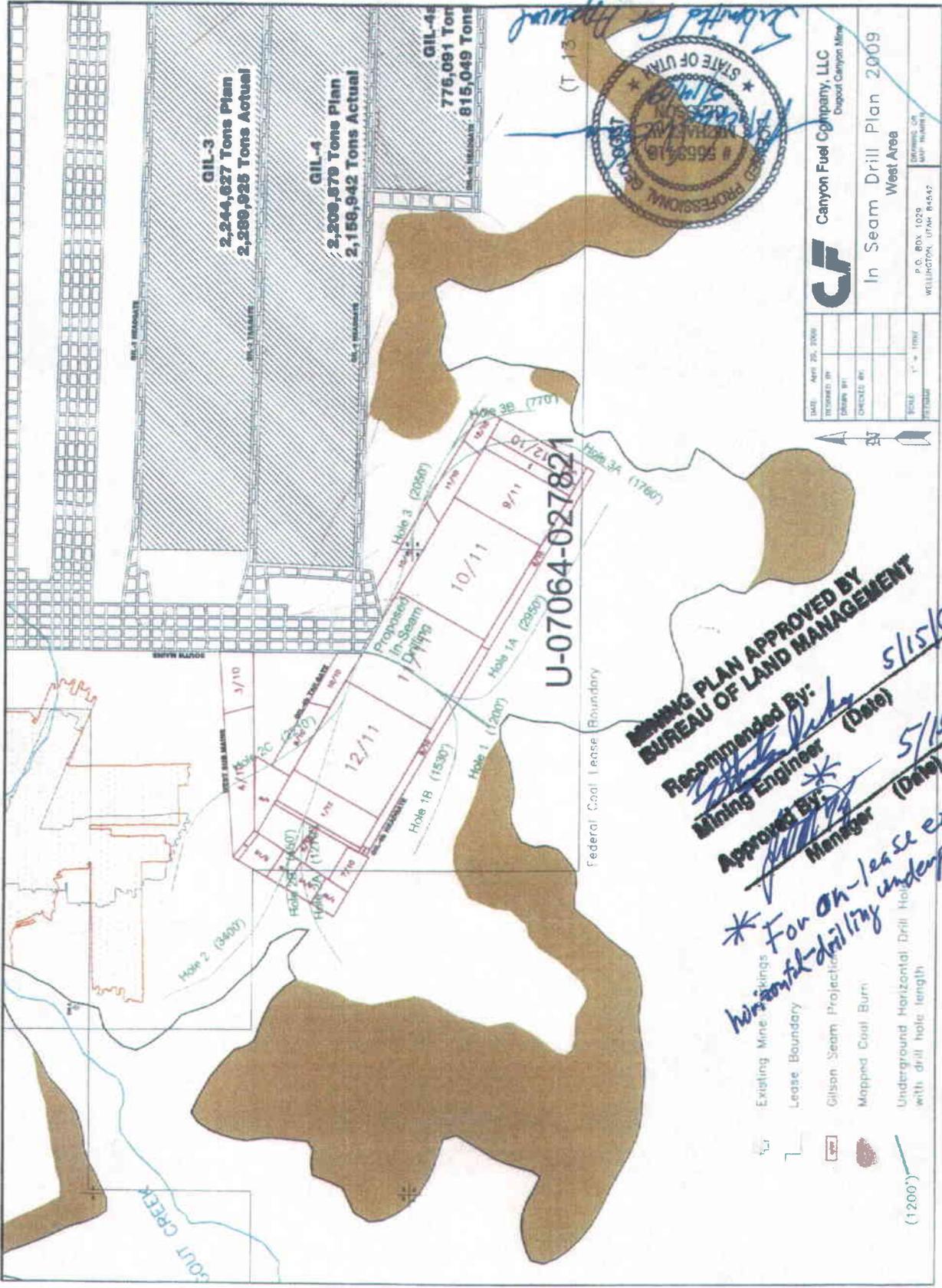
- 1) Approved R2P2 Exploration Map (of April 20, 2009)
- 2) Approved Typical Drillsite Setup Figure

cc: BLM UT-070, Price UT (w/both enclosures)
Attn: Steve Rigby

Tom Faddies (w/both enclosures)
School and Institutional Trust Lands Administration (SITLA)
675 East 500 South, Suite 500
Salt Lake City, Utah 84102-2818

Daron Haddock (w/both enclosures)
Division of Oil Gas and Mining, State of Utah
1594 West North Temple Street, Suite 1210
Salt Lake City, Utah 84114-5801

Dugout R2P2 Mod (5-13-09) - Underground Drilling - chgs accepted.docJM-SA



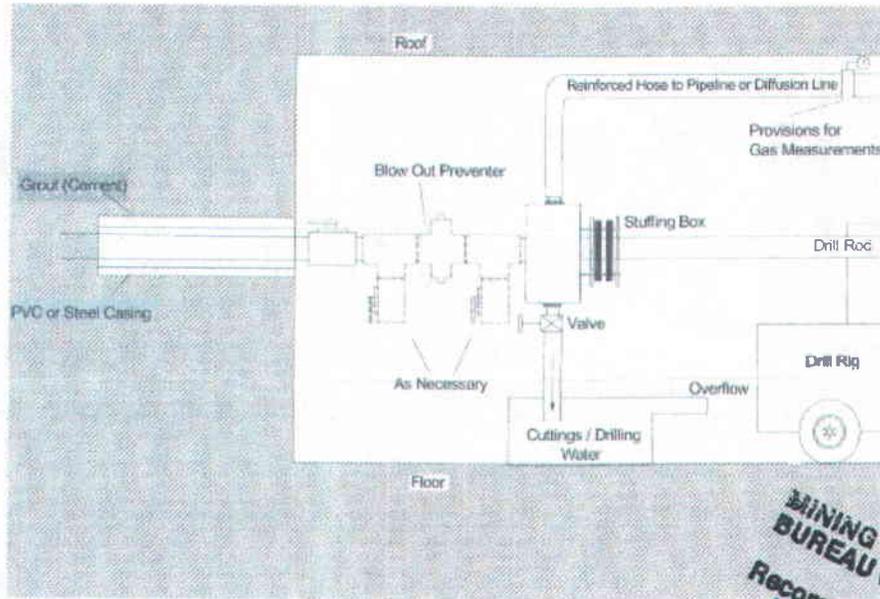


Figure 2: Typical horizontal drillsite setup

**MINING PLAN APPROVED BY
BUREAU OF LAND MANAGEMENT**

Recommended By: *[Signature]*
Mining Engineer (Date) 5/15/09

Approved By: *[Signature]*
Manager (Date) 5/15/09